

Subprime Auto Finance is Booming: What's Ahead!

Presentation By Kenneth Shilson, CPA

President, NABD

www.bhphinfo.com

President, Subprime Analytics

www.subanalytics.com

Booth #100



Understanding The Subprime Auto Finance Market

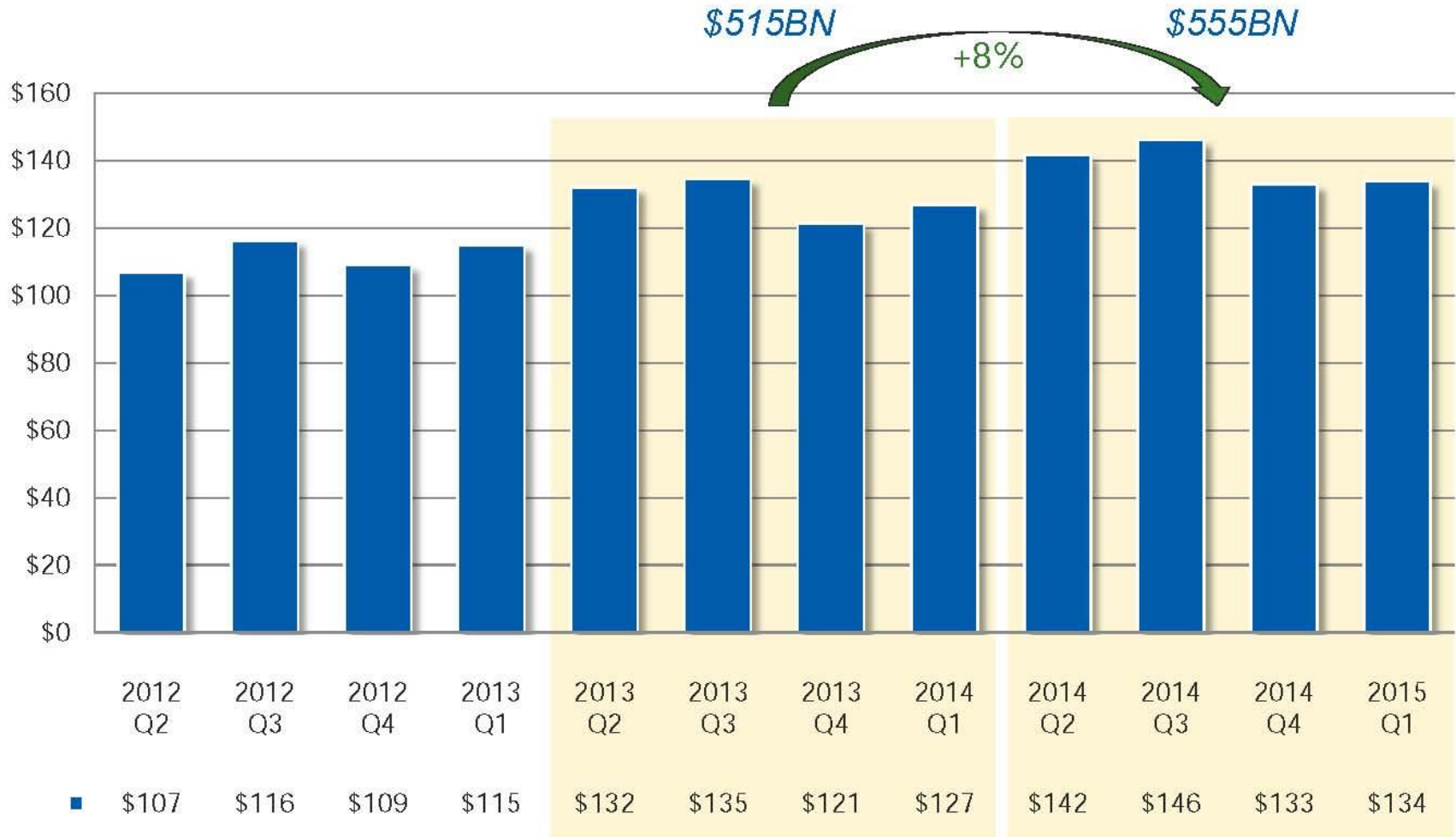




Experian-Oliver Wyman Market Intelligence Reports

Q1 2015 Origination Trends | Auto Loans

Auto origination volume (in \$BNs)

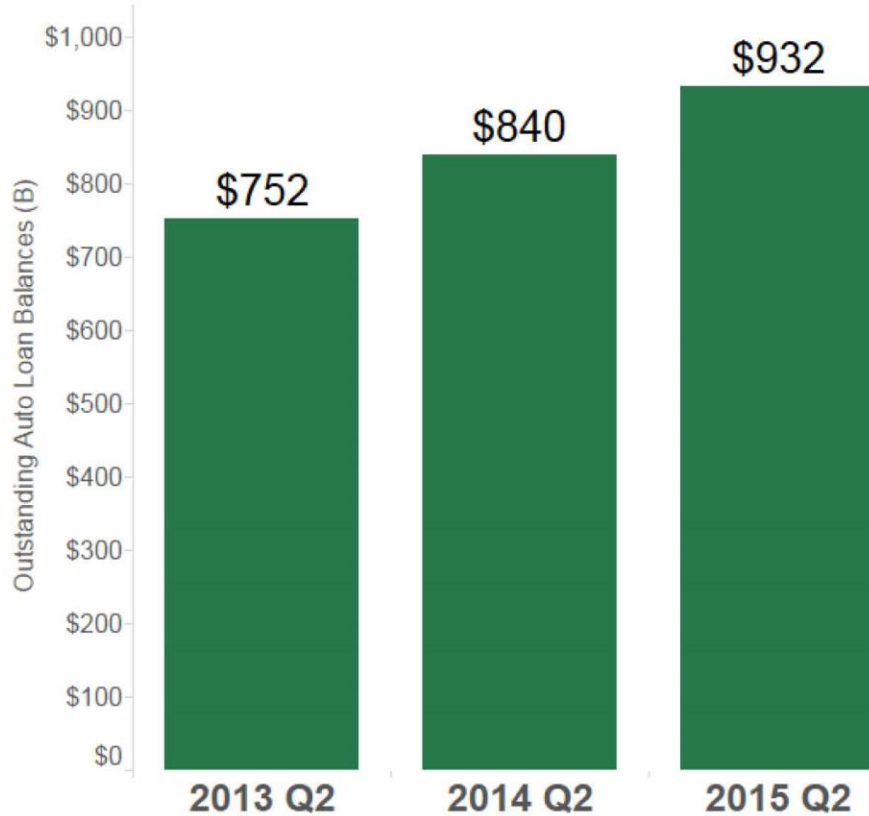




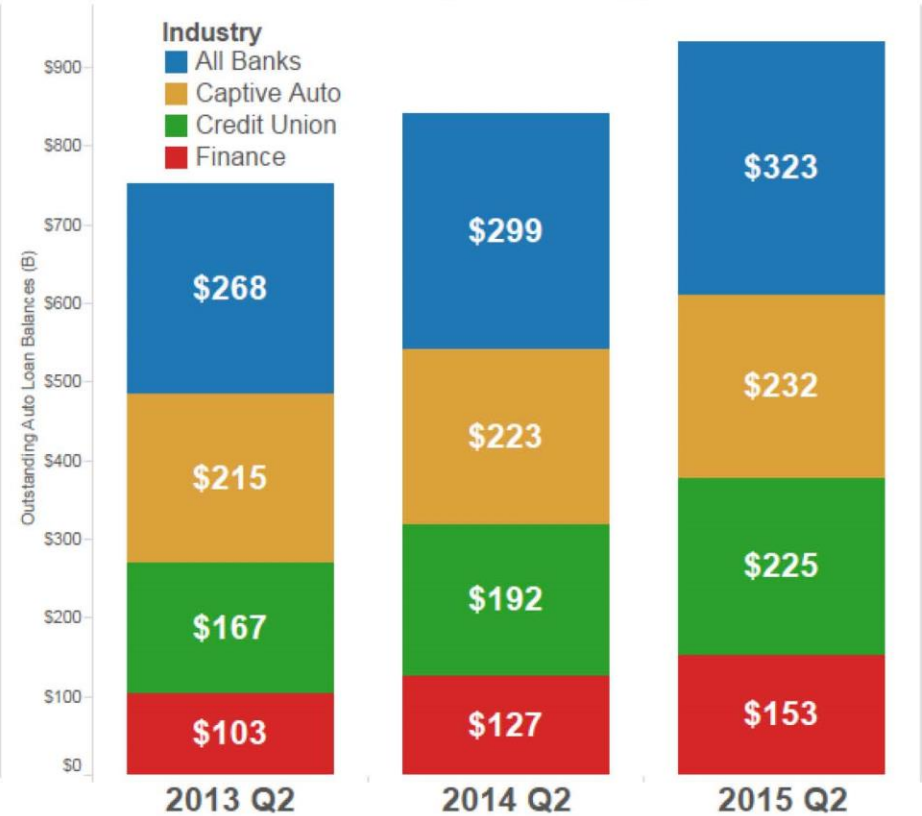
A look at automotive loan balances

Outstanding automotive loan balances

Total open balances



Balances by lender type



Source: Experian-Oliver Wyman Market Intelligence Reports



VantageScore 3.0 ranges

Score ranges

Category	VantageScore [®] 3.0
Super prime	781 – 850
Prime	661 – 780
Nonprime	601 – 660
Subprime	501 – 600
Deep subprime	300 – 500



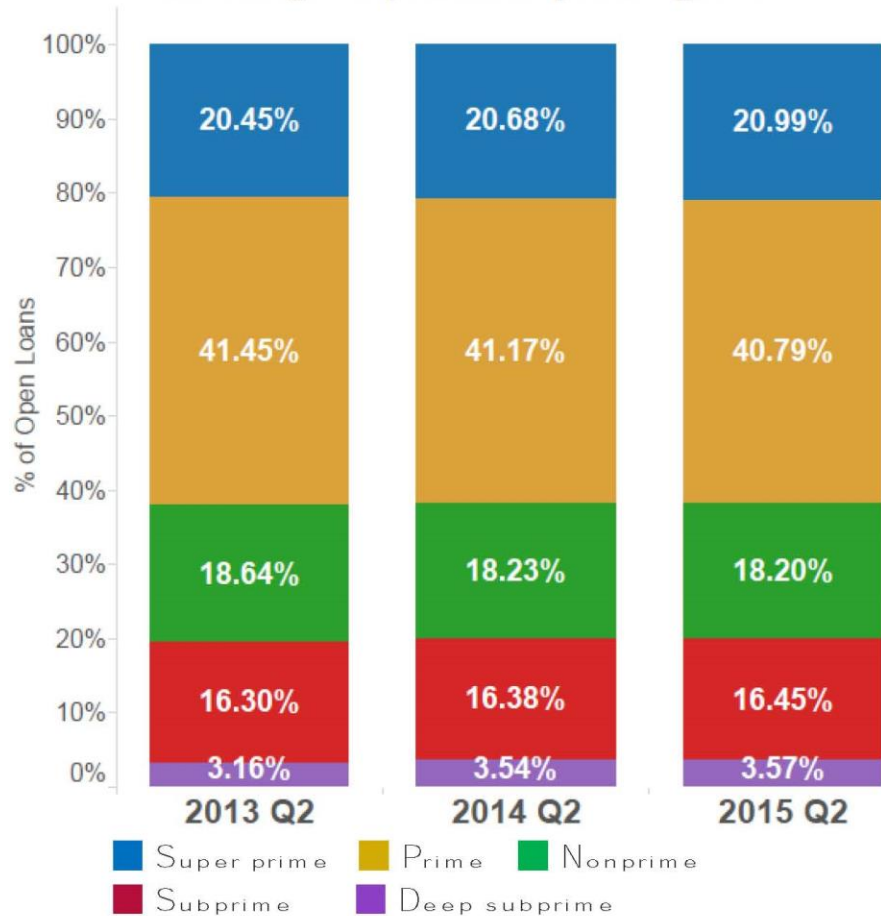
VantageScore
a higher level of confidence



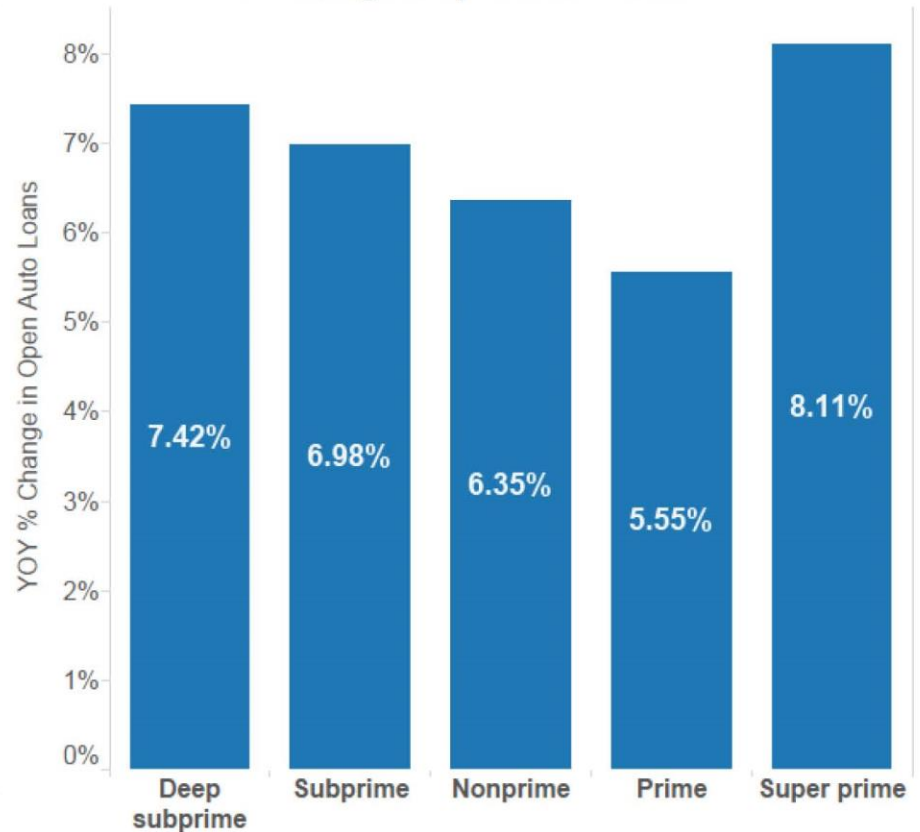
Open loan overview

Risk distribution of open loans

Percentage of Open Loans by Risk Segment



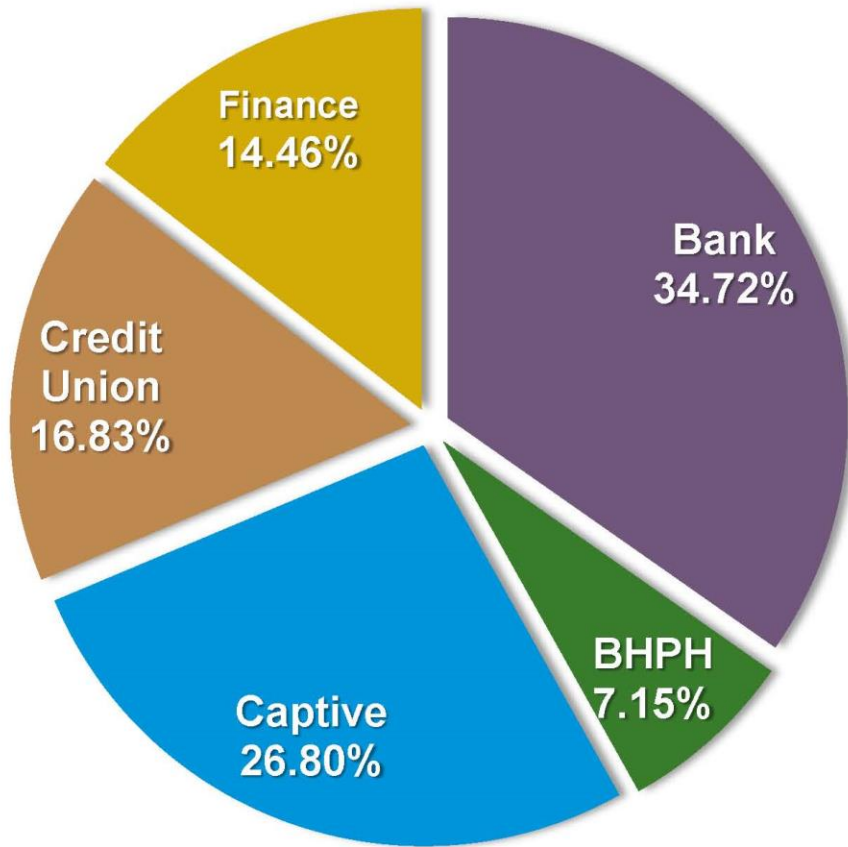
YOY Change in Open Loan Volume



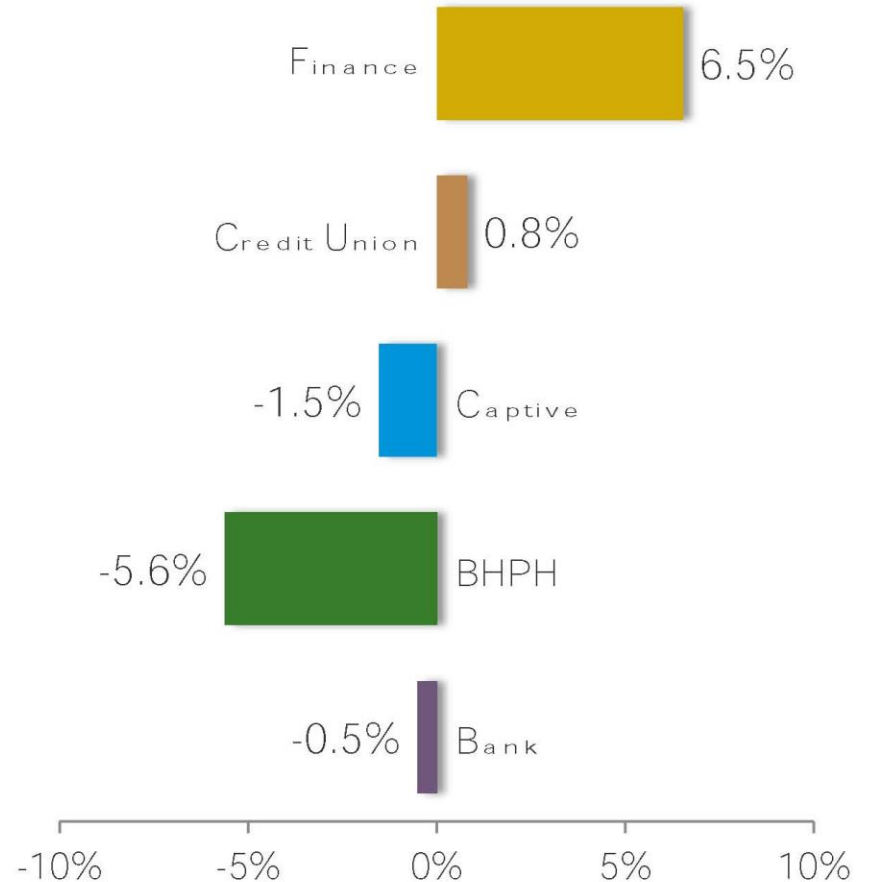


Automotive finance by lender type

Q2 2015 total loan market share



YOY change in market share



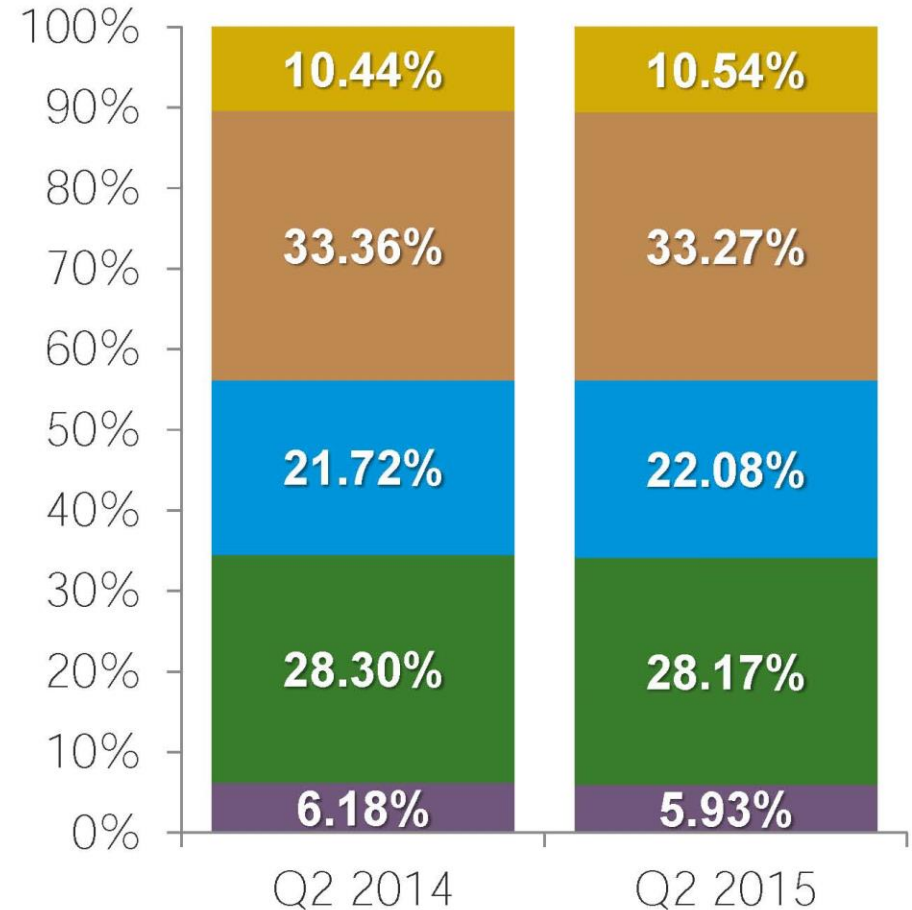


Automotive loans by risk segment

New loans



Used loans



Super prime Prime Nonprime Subprime Deep subprime

Source: Experian Automotive

Why Is The Subprime Auto Bonds Market Growing?

“Investor appetite for the long-term returns provided by high-risk subprime borrowers – who often have to stretch out payments for longer periods – has fueled the growth in subprime auto lending to near pre-recession levels!”

Competition From Securitizations In 2015 Remains Strong!

“The market for subprime auto bonds expanded to \$36 billion on March 31, 2015 from \$13 billion in 2010. New issuers include Skopos Financial, Exeter Finance, Flagship Credit, and Go Financial.

“Of the subprime vehicle loans bundled into securities, 73% now exceed 5 years. Loans as long as 7 years are being put on these bonds as Wall Street banks and auto finance companies sell these securities at the fastest pace since 2007.

Competition From Securitizations In 2015 Remains Strong!

“Many of these securitizations are tied to borrowers with credit ratings under 500 or with no credit score at all. Some of the deals are charging consumers 27% and 28% interest rates. While cars are lasting longer than in the past, regulators are concerned the value of the vehicles will fall faster than borrowers can pay off debt.

Competition From Securitizations In 2015 Remains Strong!

“The riskiest auto bonds offer compensation to investors of up to four times the coupon of comparably dated treasuries.

Demand for automobile debt in the U.S. is enabling lenders to make longer loans to people with spotty credit.”

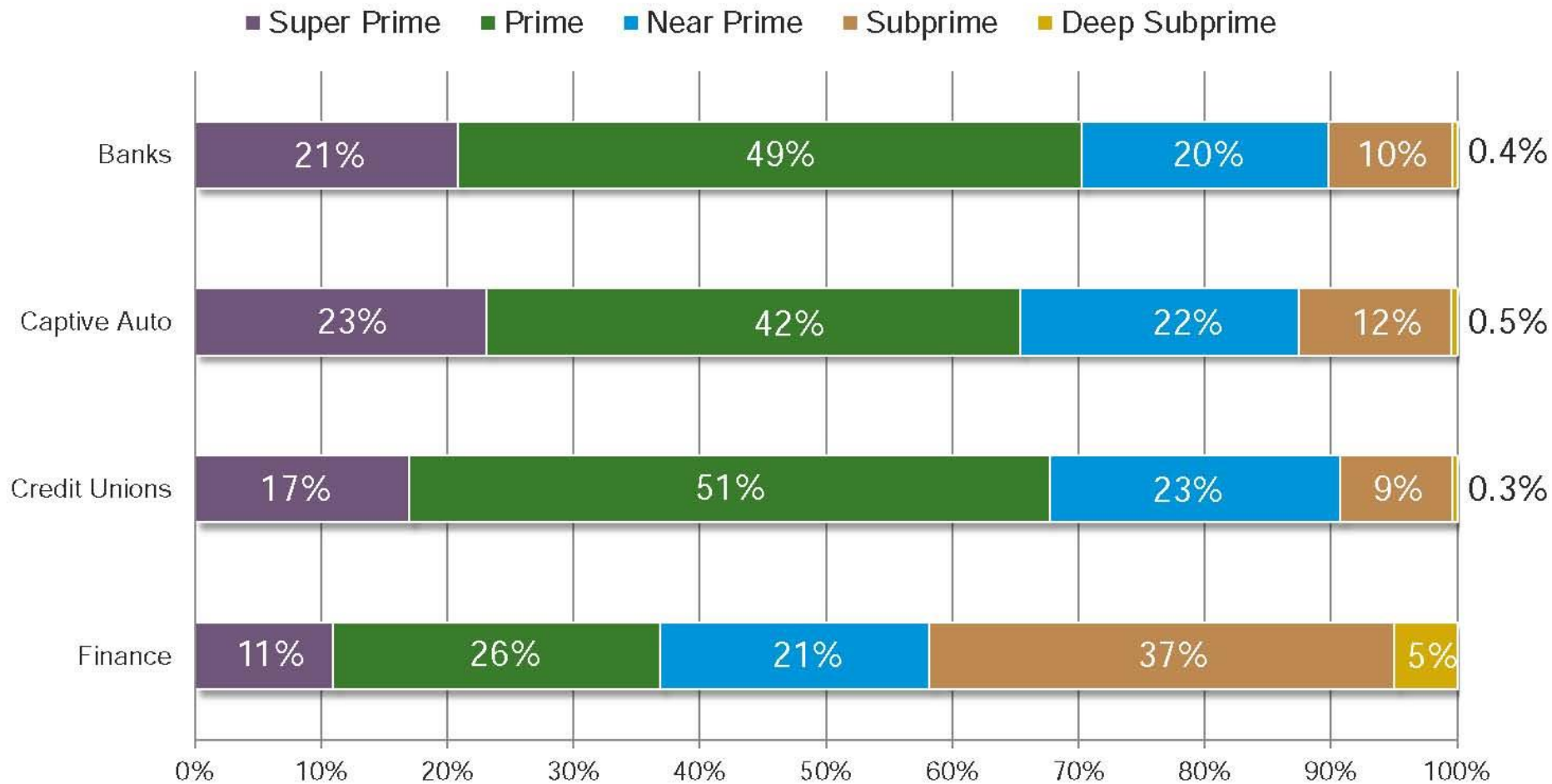
Americans are borrowing more to buy a car over longer periods to make it “affordable”.



Experian-Oliver Wyman Market Intelligence Reports

Q1 2015 Origination Trends | Auto Loans

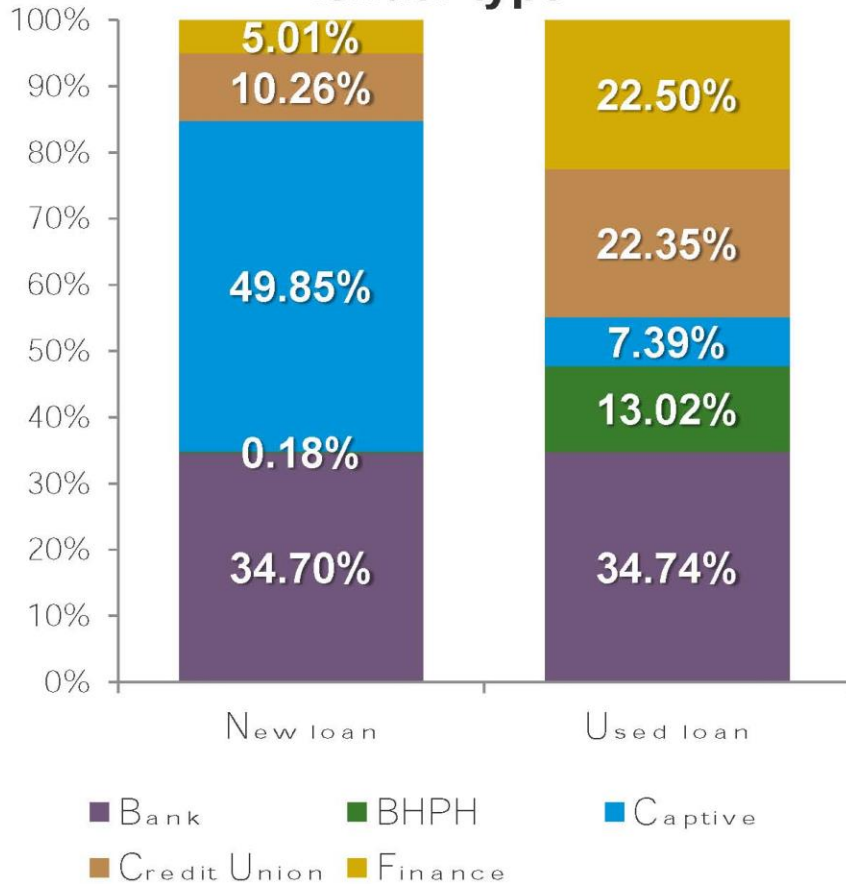
VantageScore distribution of origination volume by financial institution (latest quarter)



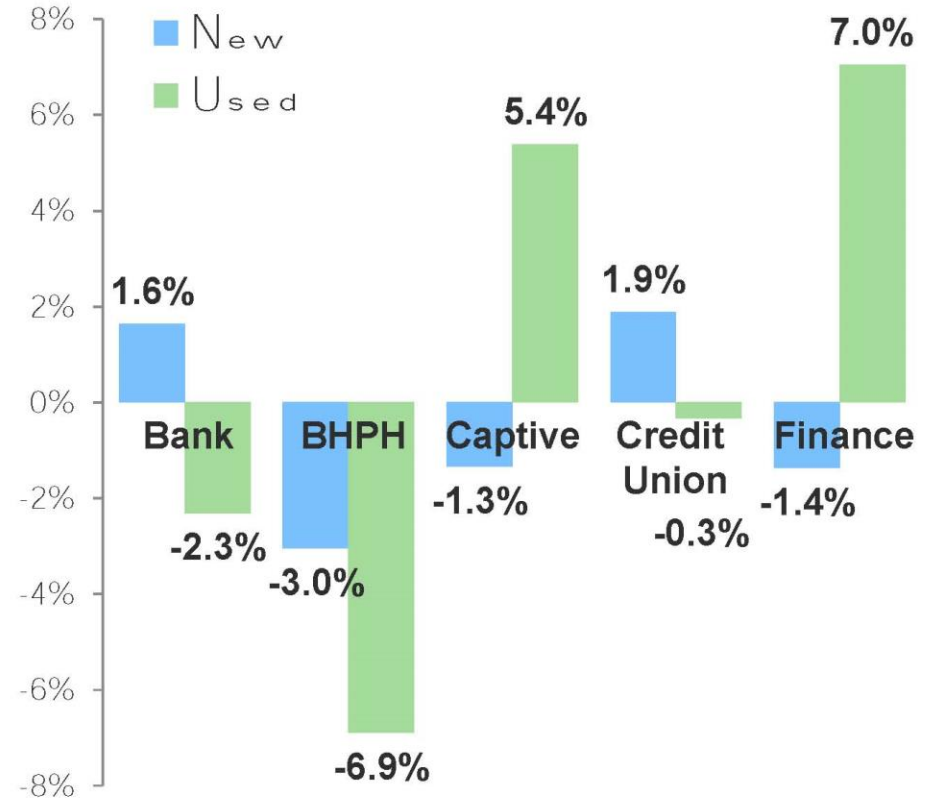


Automotive finance by lender type

Q2 2015 market share by lender type



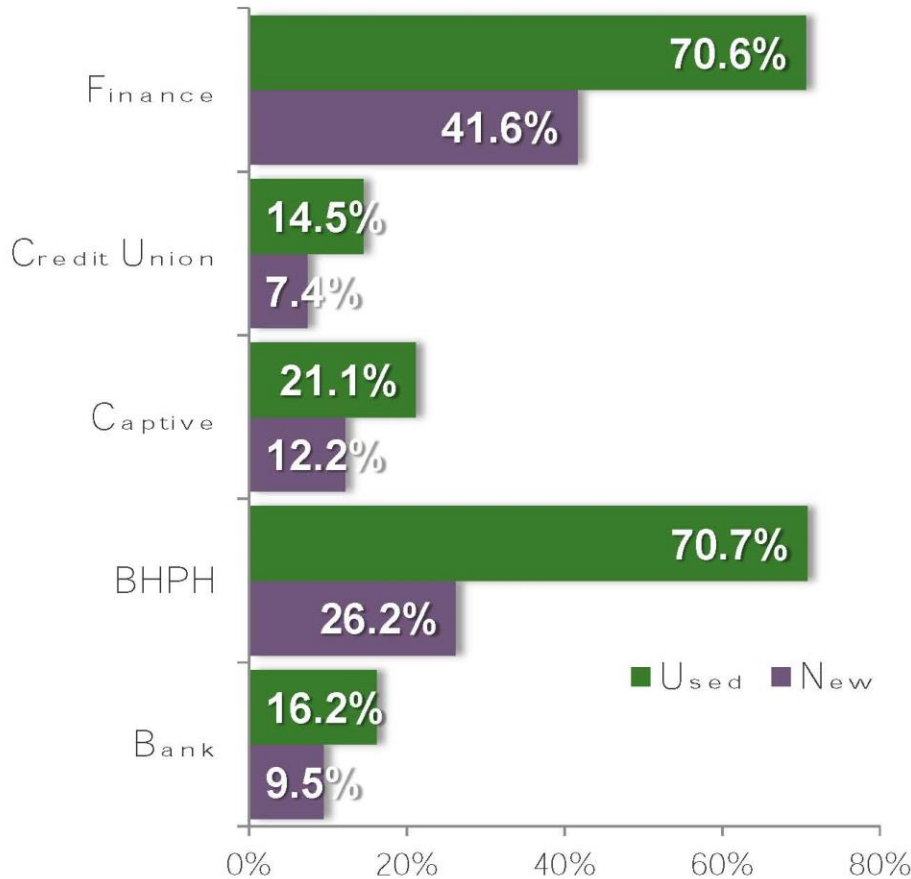
YOY Change in market share



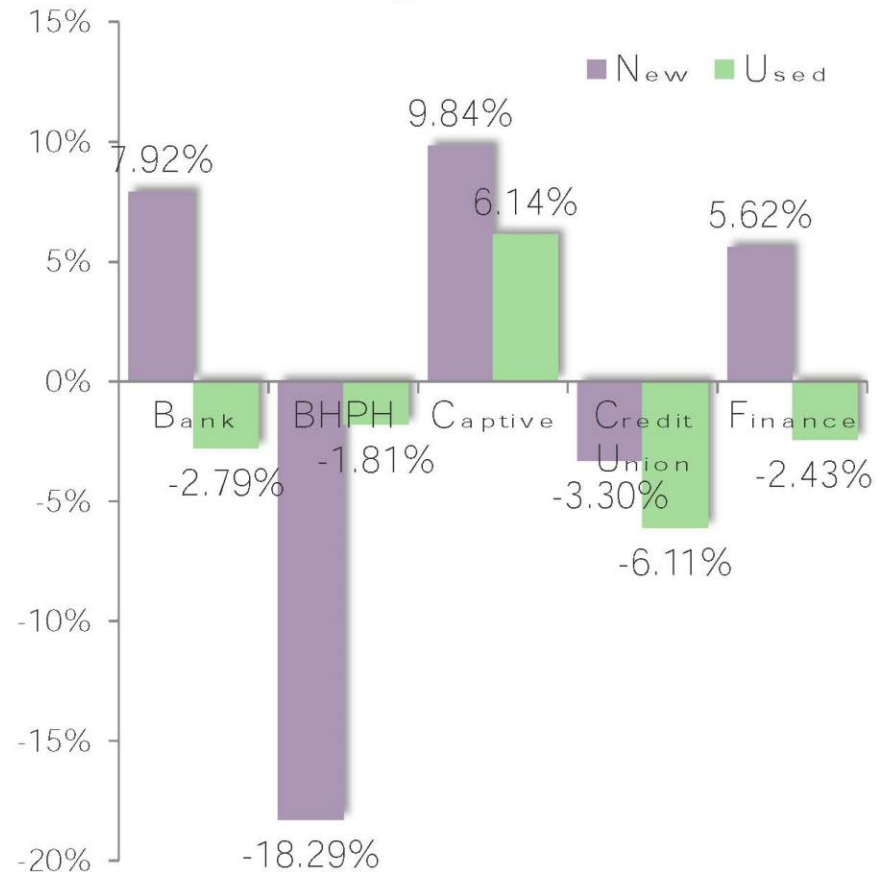


Risk distribution by lender type

Percentage of financing in highest risk segments (<600)



YOY change in highest risk segments



What's Ahead For Subprime Auto Securitizations?

“Subprime auto performance has been artificially inflated by sharp rises in used auto values. This rise has been pushed by a supply imbalance (shortage of used vehicles) due to the Great Recession impact on auto sales from 2008-2010. Dramatically fewer vehicles were produced and sold in this period. Performance has also been enhanced by consumers recovery since the Great Recession. The performance of Auto loan pools originated in 2010 and 2011 benefited from this environment.”

continued...

What's Ahead?

continued...

“When the economy softens again, defaults, especially by the borrowers of weaker credit quality will rise. With these factors, and the continuing decline in credit standards in subprime auto loans, the performance of those currently being originated is likely to be much worse than in 2010 and 2011.”

Opportunity Knocks?

Auto securities sold in 2014 have registered the highest loss rate of any period since 2008!

According to Moody's about 8.4% of Subprime borrowers who took out loans in the first quarter 2014 missed car payments by November 2014. That's the highest level since 2008!

Opportunity Knocks?

Although total loan delinquency rates have been hovering around 0.5% to 0.6%, these figures measure all auto loans outstanding including those to borrowers with higher credit scores.

A recent study by the National Bureau of Economic Research (NBER) that looked at loans just to subprime borrowers with credit scores less than 500 from 2001 to 2004 showed more than 50% defaulted!

Opportunity Knocks?

NBER estimates, all else equal, extending a given buyer an additional \$1,000 in credit increases the default rate by 15%! At the same time, a buyer who chooses to finance an extra \$1,000 at a purchase has around a 24% higher default rate than a buyer who pays the \$1,000 upfront.

Source: Bloomberg News

What Successful Subprime Operators Do Today

Success In
Subprime Auto Finance
Is Best Achieved By
“Keeping It Sold”

Subprime Analytics

BHPH Loss Metrics compiled from approximately 1,700,000 loans with an aggregate amount financed of more than \$15 billion to identify loss patterns and trends.



NABD BHPH Loss Statistics: 2013-2015

	2015 Mid Year	2014	2013
<u>Average Dollar Losses (Dollars)</u>			
Average Gross Dollar Loss	\$8,323	\$8,408	\$8,381
Average Net Dollar Loss	\$5,947	\$5,749	\$5,410
Average Recovery Percent	28.60%	31.60%	35.40%
<u>Average Dollar Loss Rates (%)</u>			
Average Gross Dollar Loss Rate	38.08%	38.57%	37.75%
Average Net Dollar Loss Rate	27.20%	26.37%	24.37%

NABD BHPH Default Rates and Frequency of Defaults

	2015 Mid Year	2014	2013
Average Default Rate (%)	31.31%	31.16%	31.41%
Highest Cumulative Default Month After Origination	18th Month	18th Month	19th Month
Highest Frequency of Default (Month After Origination)	7 th Month	7 th Month	5 th Month
Worst Periodic Loss Month After Origination	February	February	February

Important BHPH Underwriting Fundamentals

The definition of good underwriting is properly “matching the customer with the vehicle they can afford and not necessarily the one the customer picks out.”

Important BHPH Underwriting Fundamentals

Attend the session tomorrow morning,
“Keeping Them Sold – Underwriting
Tips”,

From 11:15 am – 12:15 am!

Now Dustin Kerr from NCM 20 Groups!

Thank You!
Booth #100





NABD East 2015 National Conference

Nov. 4 2015

Benchmarks & Top 5 Industry Trends

ncm^{*}
ASSOCIATES

NABD 2015 – TOP 5

- NCM Buy Here Pay Here 20 Group Data
 - 20 Group meetings
 - Monthly data reporting
 - Dealer client industry specific surveys
 - Over \$500M in outstanding receivables
 - Over 47,000 units sold
 - Individual Dealer consulting

A black and white photograph of a desk setup. A hand is holding a mouse on the right side. A keyboard is in the foreground. A cup is on the left. A red semi-transparent box is overlaid on the left side of the image, containing text.

3 YEAR TREND

- ACV of Sold Units is up
- Cash down has decreased
- AVG Term is up
- Recon is down

1. COMPLIANCE



- Compliance officer
- CRMS
- Advertising
- Training
- Where is the opportunity?



2. SUBPRIME



- Ride it out/Harvest Cash
- Dip down
- Take it on

3. PORTFOLIO PERFORMANCE

- Underwriting
- CRR/LLR
- Repo/charge off analysis
- Renewed focus on Collector training/Culture



4. WEB PRESENCE



- BHPH specific website
- Leads
- SEO/SEM
- Social Networking

5. INVENTORY



- Purchasing
- Re-wholesaling
- Reconditioning
- Mix

ABOUT NCM[®] ASSOCIATES

- Pioneered the automotive 20 Group in 1947
- Provides
 - 20 Groups
 - Education
 - Consulting
 - Benchmark[®] Tools
 - Data Management Solutions
- 100% employee-owned and headquartered in Overland Park, KS

THANK YOU

For more information:

Visit us at booth #108

ncmassociates.com/bhph

dkerr@ncmassociates.com

913.827.6677