

“Keeping Them Sold” – The Key To Subprime Auto Finance Success

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Booth #105



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Understanding The Subprime Auto Finance Market

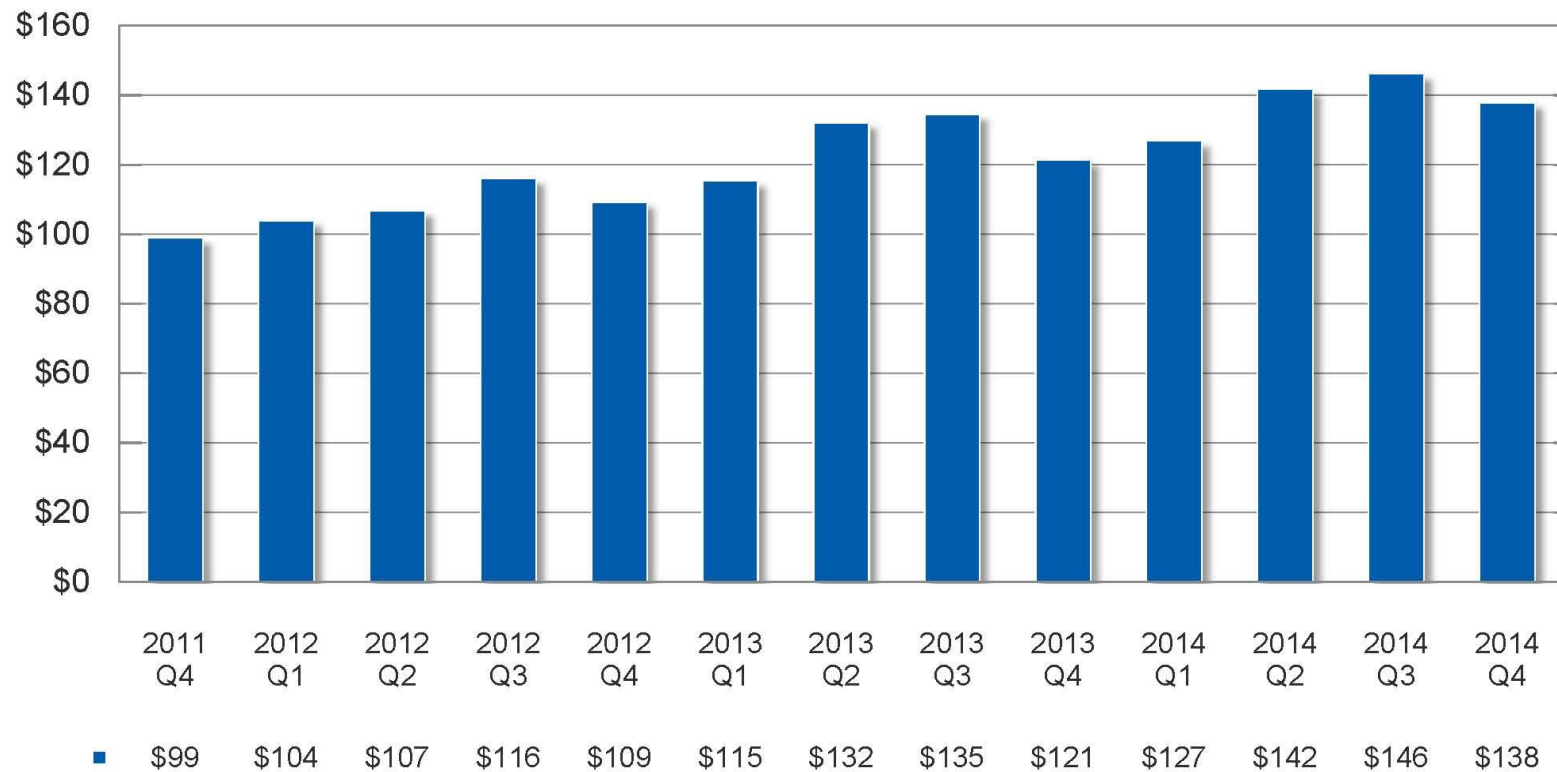




Experian-Oliver Wyman Market Intelligence Reports

Q4 2014 Origination Trends | Auto Loans

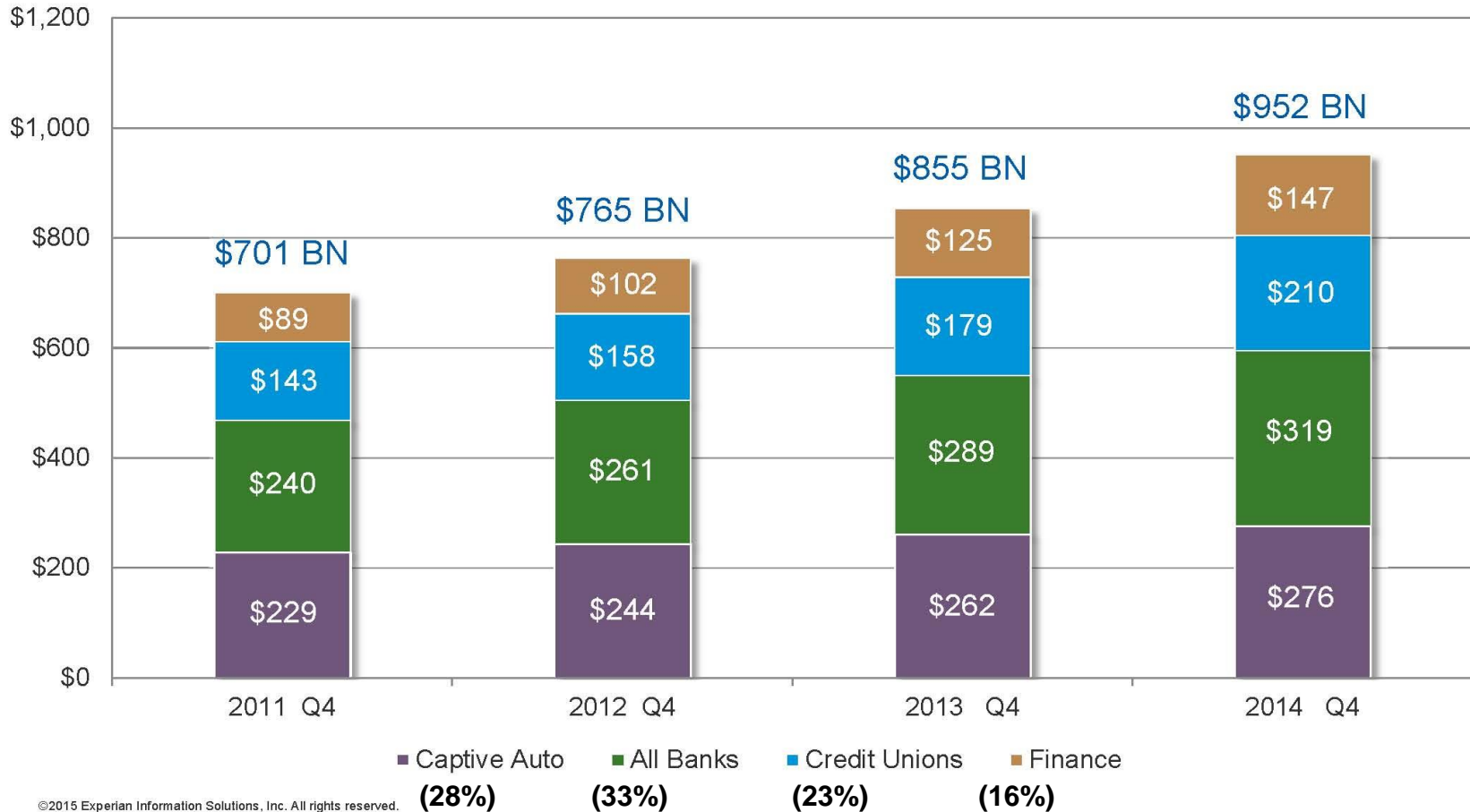
Auto origination volume (in \$BNs)





Experian-Oliver Wyman Market Intelligence Reports Q4 2014 Outstanding Trends | Auto Loans

Outstanding balance \$ volume by financial institution (in \$BNs)



Composition of Recent Auto Securitization (Actual)

Credit Bureau Score	Outstanding Principal	Percent of Principal	Percent Cumulative	Number of Contracts
No Score	\$26,162,682	14.36%	14.36%	1,794
351-500	\$34,719,493	19.06%	33.42%	2,293
501-550	\$54,660,594	30.01%	63.43%	3,555
551 and Above	\$66,625,664	36.57%	100.00%	4,254
	<u>\$182,168,433</u>	<u>100.00%</u>		<u>11,896</u>

Amount Funded	<u>\$149 Million</u> (82% Advance)	Loan Term	<u>Up To 72 Months</u>
Yield	<u>7.80%</u>	Average Balance (Principal)	<u>\$15,314</u>

About Subprime Auto Securitizations

Moody's Investor Service and Fitch Ratings analysts said "the grades assigned to a crop of new issuers – most of which are backed by private-equity firms – are too high. The lenders lack a track record in the bond market proving their underwriting acumen and ability to handle the specialized task of collecting on soured debt during a downturn.

Half the issuers tracked by Standard & Poor's hadn't sold bonds before 2010, and concern is mounting that growth in the market for securities backed by car loans to people with poor credit poses a risk to the whole auto industry. Wall Street banks have arranged \$20.6 billion of the deals this year, up from \$8.6 billion in 2010, according to Barclays Plc."

Bloomberg Business
November 2014



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About Subprime Auto Securitizations

Fitch sees not only an easing of overall credit terms (inclusive of loan term, pricing and down payments), but also a decline in average FICO scores. These factors have led to increases in subprime lending and a rise in subprime auto ABS issuance over the past year.

We see the eased standards being driven by smaller, less capitalized market participants, some backed by private equity capital. These lenders are competing to win market share and capture increased loan yields. We see loosened standards likely to affect the performance of the 2014 and 2015 loan vintages.

Fitch Ratings
March 2015



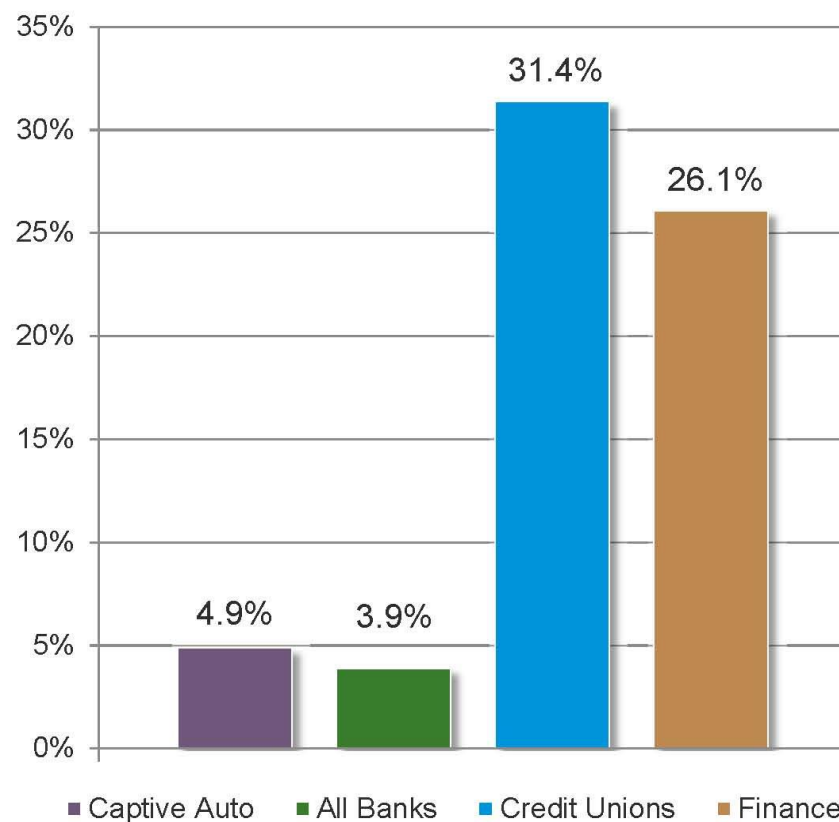
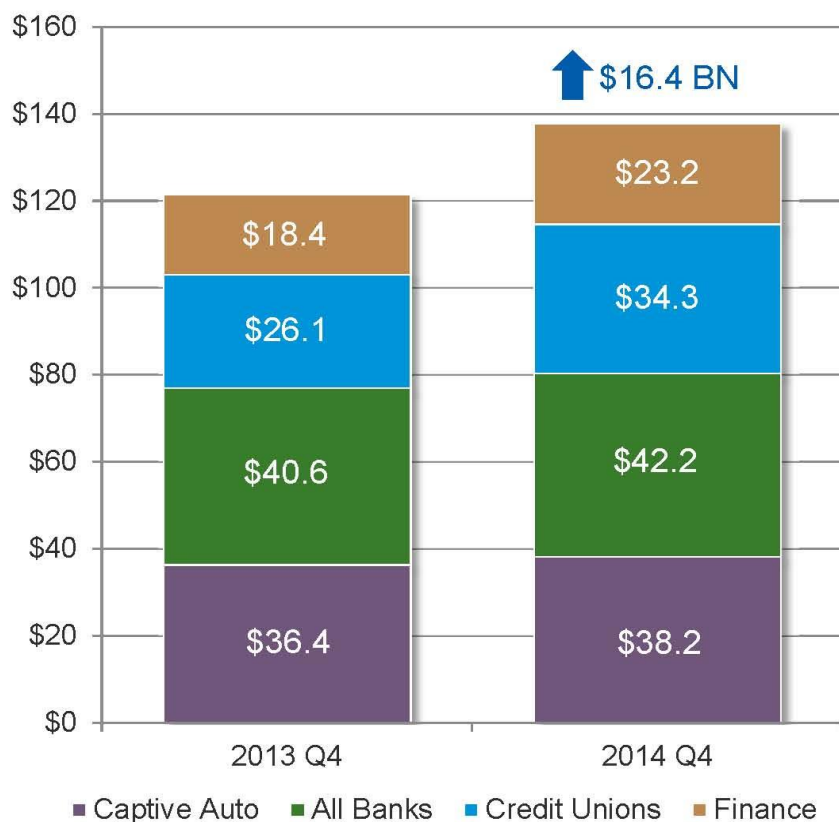
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Origination \$ volume by financial institution (in \$BNs)

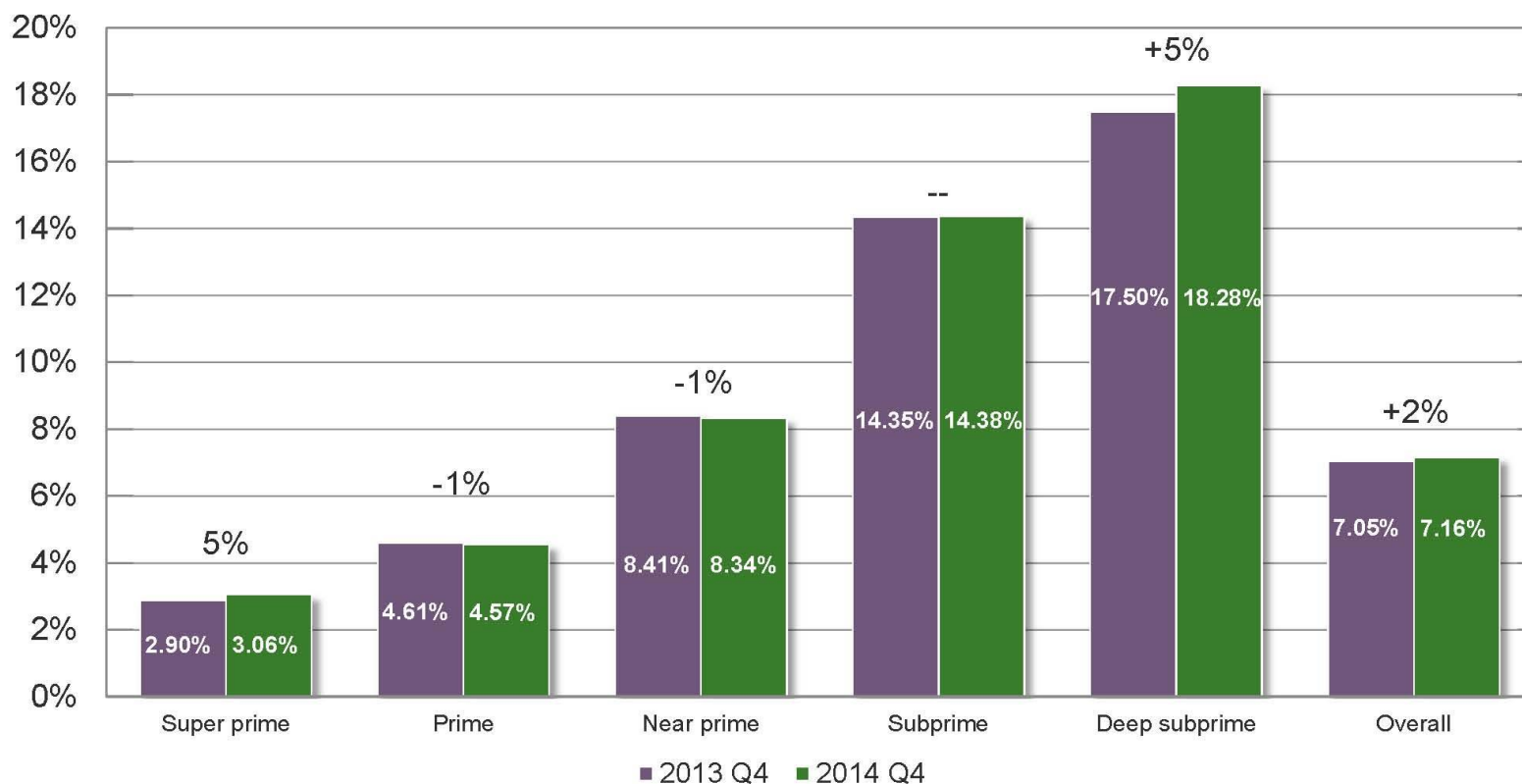
YoY % change in origination \$ volume





Experian-Oliver Wyman Market Intelligence Reports Q4 2014 Origination Trends | Auto Loans

Average APR by VantageScore

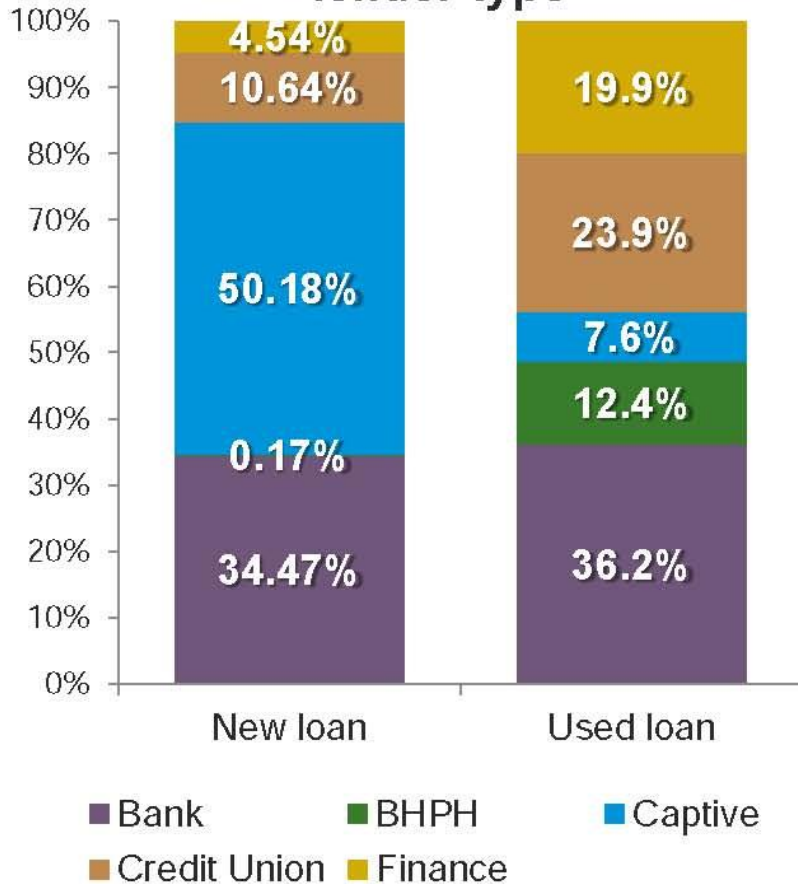


Subprime (including deep) is 33%!

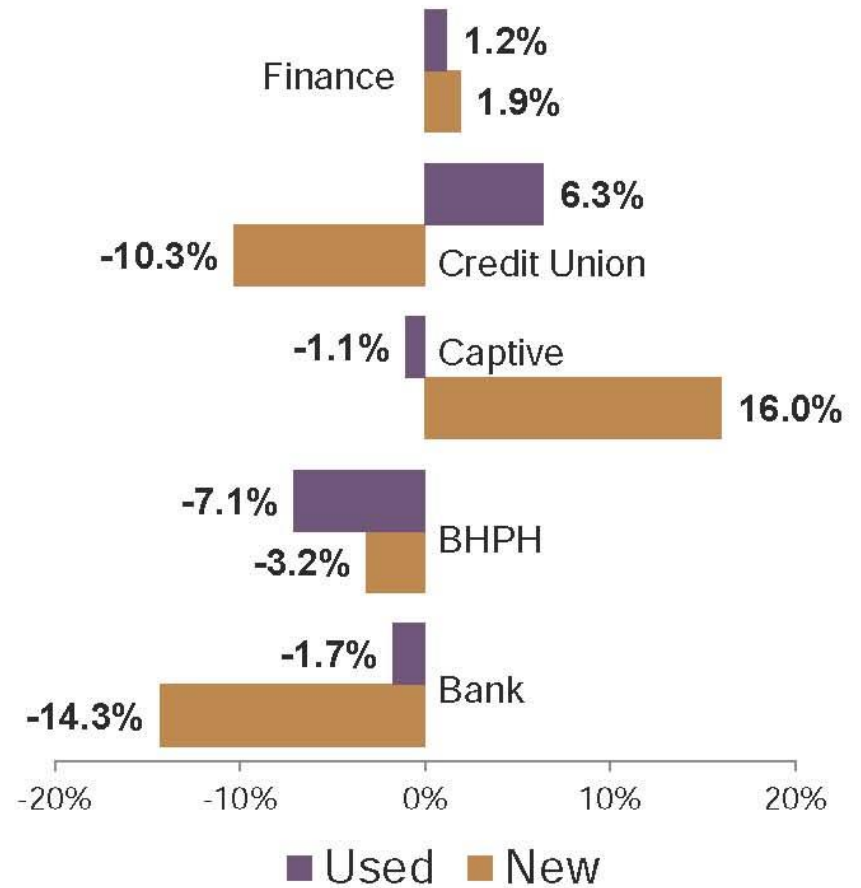


Automotive finance by lender type

Q3 2014 market share by lender type



YOY Change in market share



Source: Experian Automotive

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.



Subprime Analytics

Annually NABD publishes BHPH benchmarks. Through 2013 they can be downloaded at *www.subanalytics.com*.

The 2014 benchmarks are in your conference workbook.

What Successful BHPH Operators Do Today

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

About Subprime Auto Securitizations

“The default rate has been rising for three years reaching 13% in September, 2014, exceeding the pre crisis (pre 2008) range of ten percent to twelve percent.”

Wells Fargo & Co.

November 2014



**Will These Securitized
Loans Stay Sold?**



What Successful BHPH Operators Do Today



What Successful BHPH Operators Do Today

1. Manage credit risk successfully.



What Successful BHPH Operators Do Today

Properly manage portfolio risk by adapting to changes in economic conditions. *(Dealer education, reading and networking are essential!)*

What Successful BHPH Operators Do Today

2. Maintain financial flexibility with the goal of increasing equity. It is what YOU KEEP that counts!



What Is The Right Percentage Of Debt To Total Assets?

Debt / Assets

56% or Greater

45% to 55%

45% or Less

Category

Highly Leveraged

Average

Low

What Successful BHPH Operators Do Today

3. Utilize a cash efficient business model which generates an appropriate return on investment.



What Successful BHPH Operators Do Today

Do you know the annual cash ROI on your portfolio?

Is it appropriate for the risk you are taking?

ROI = Cash Investment / (Total Cash Return – Losses)

What Successful BHPH Operators Do Today

4. Match the right customers with vehicles they can afford.



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.”

Are Your Subprime Competitors Doing This?

Why Is Deep Subprime Finance Growing?

- 1) 47% of American Households spend all of their income, go into debt, or their savings to meet annual expenses. (Capacity)
- 2) If a middle-class household had to weather a period of joblessness without income, they would exhaust their savings in 21 days. (Capacity)
- 3) Over the last 3 years consumer expenses have risen 6% while earnings have been flat! (Ability)
- 4) 55.6% of U.S. consumers have subprime or near subprime credit scores! (History)
- 5) 20% of U.S. households routinely depend on alternative financial services such as payday loans! (Ability)

Source: Federal Reserve

Important BHPH Underwriting Fundamentals

In order to manage credit risk successfully operators must be good underwriters and use experience, technology, and training to identify those customers who will repay them. This begins with a careful evaluation of customer attributes including their:

Capacity

Ability to pay

Stability and credit

History

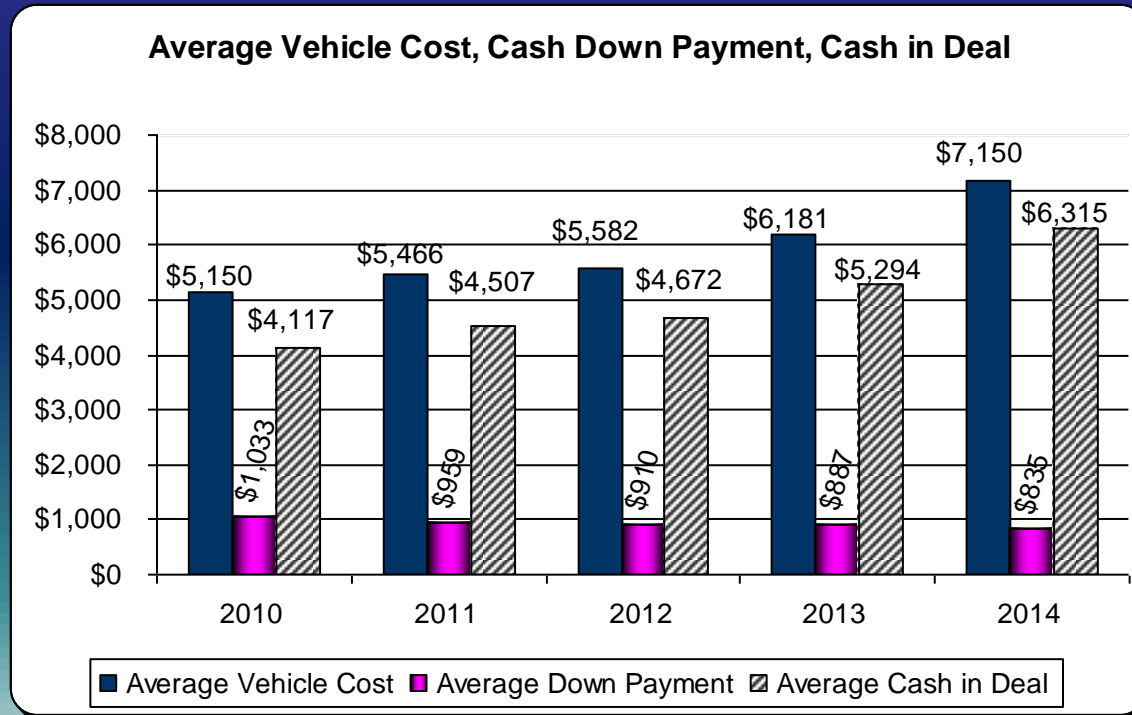
This approach spells (and results in) **CASH!**

What Successful BHPH Operators Do Today

5. Avoid trial and error mistakes which cost millions of dollars. Control portfolio risk thru “cash in deal”. Mistakes today have never been more expensive!



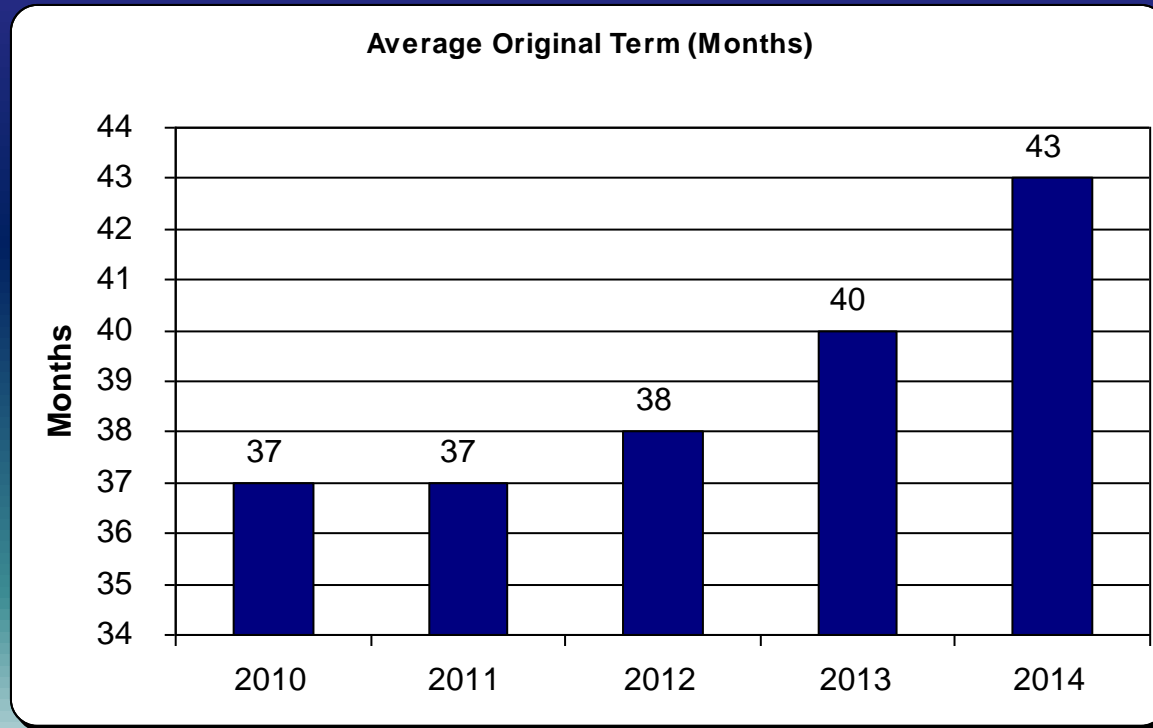
What Successful BHPH Operators Do Today



Source: Subprime Analytics

ACV Up 39%
DP Down 19%
CID Up 53%

What Successful BHPH Operators Do Today



Source: Subprime Analytics

Is buying more expensive vehicles with longer terms the answer?

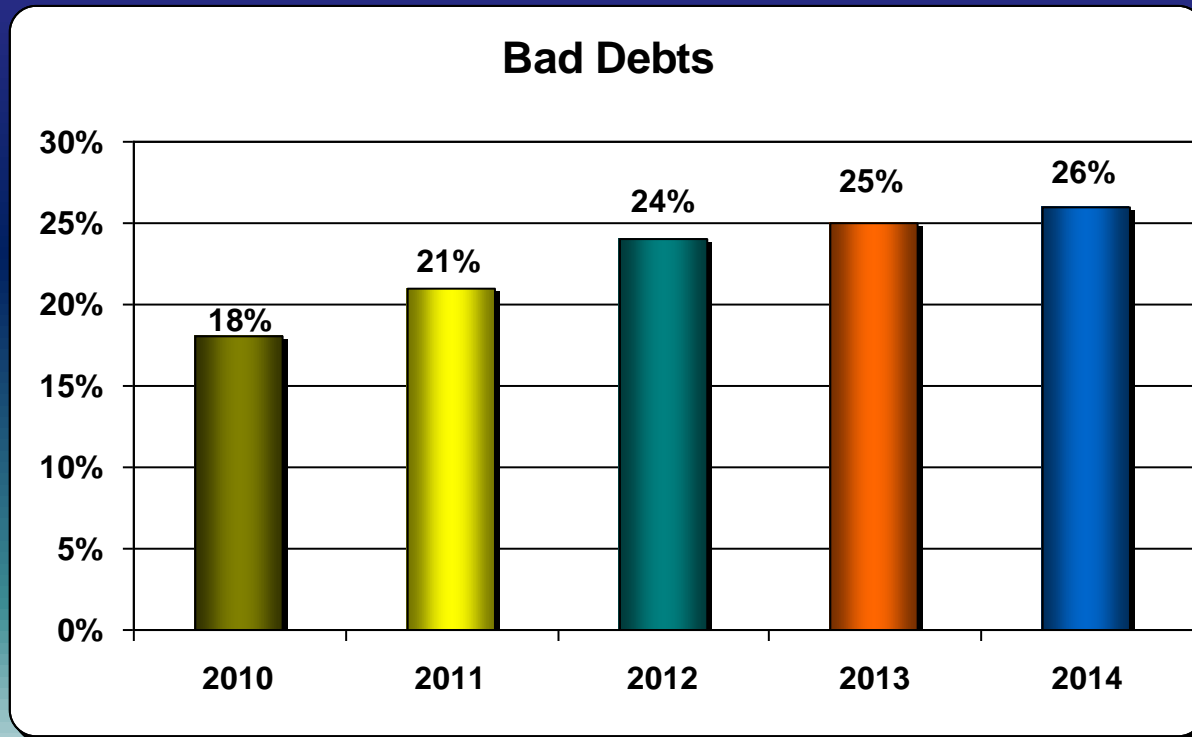
What Successful BHPH Operators Do Today

6. Learn from bad debt losses, don't repeat them.

“The More You Learn, The More You Will Earn!”



What Successful BHPH Operators Do Today



Note: Percentages are expressed as a percentage of vehicle sales.

Source: SGC Certified Public Accountants

It's Time to Look Under Your Hood!



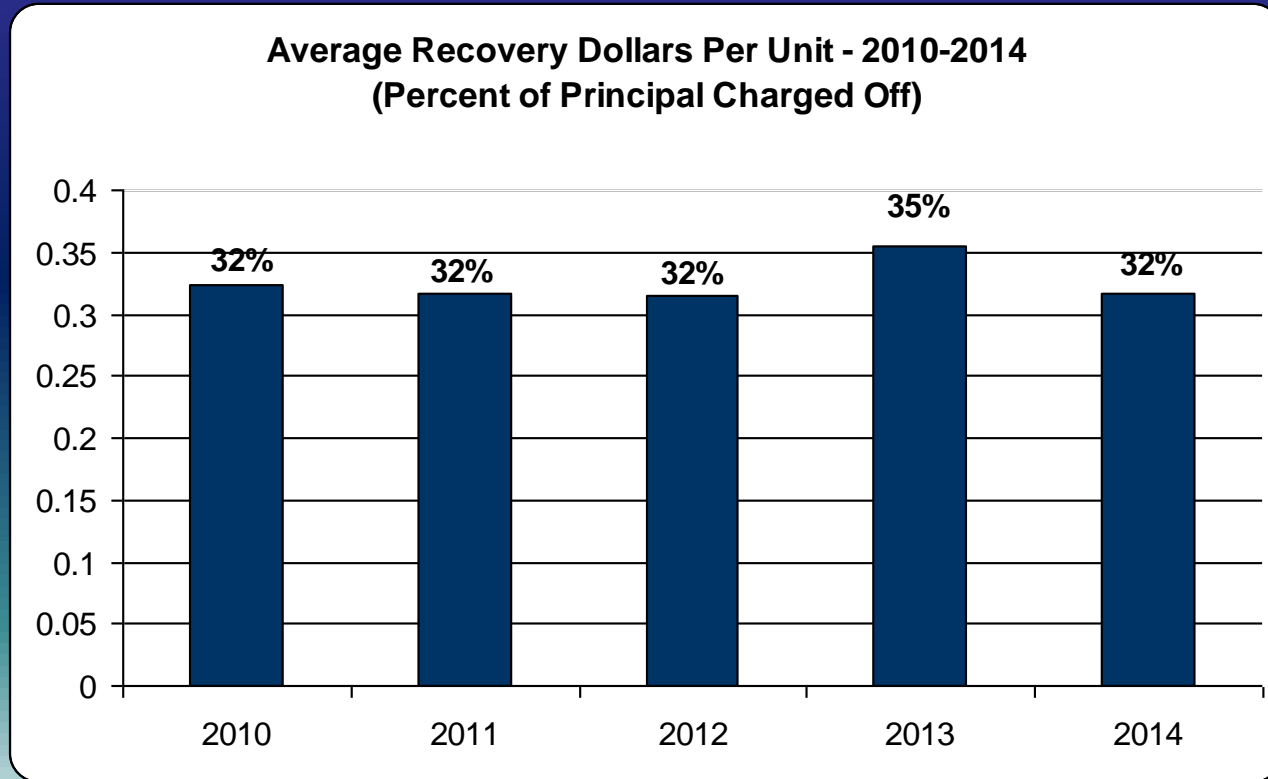
Learn From Your Losses – So You Don't Repeat Them!

What Successful BHPH Operators Do Today

7. Maximize recoveries when customers don't pay.



What Successful BHPH Operators Do Today



Source: Subprime Analytics

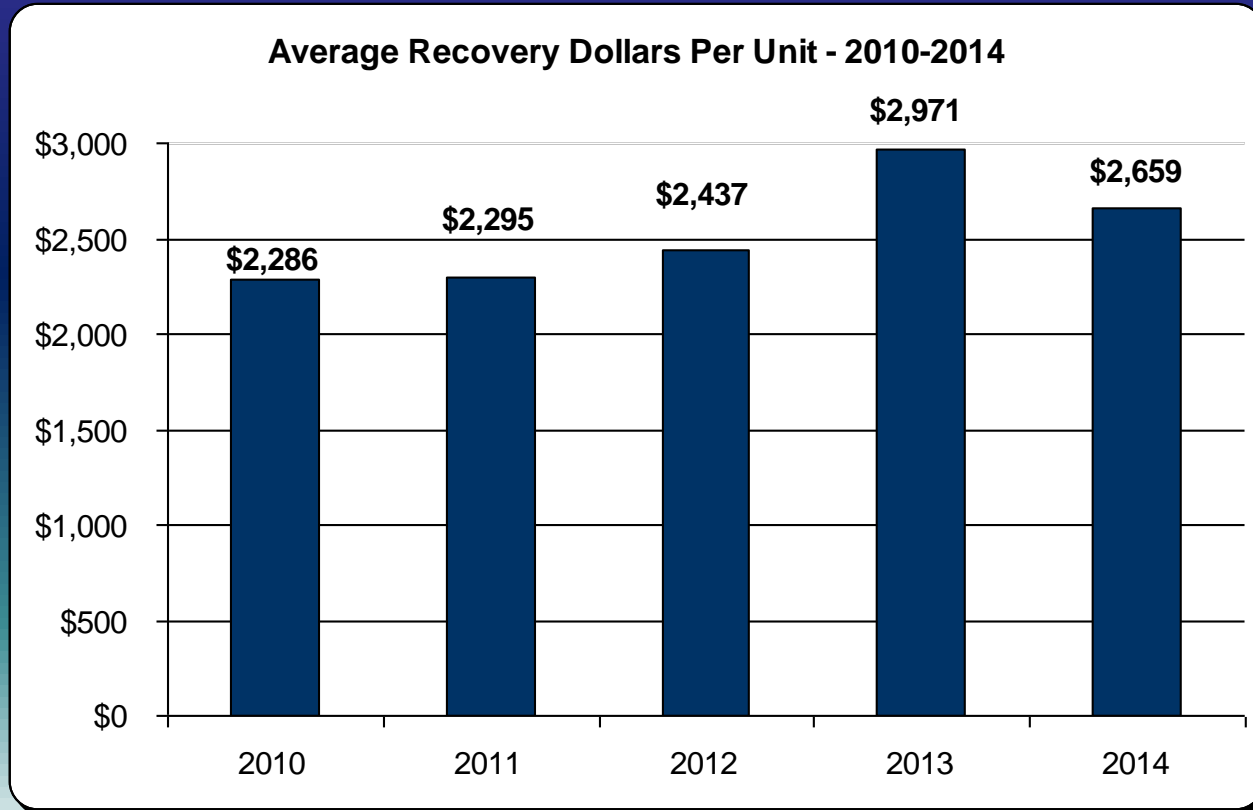


**Recoveries Significantly
Reduce Bad Debts!**



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What Successful BHPH Operators Do Today



Source: Subprime Analytics

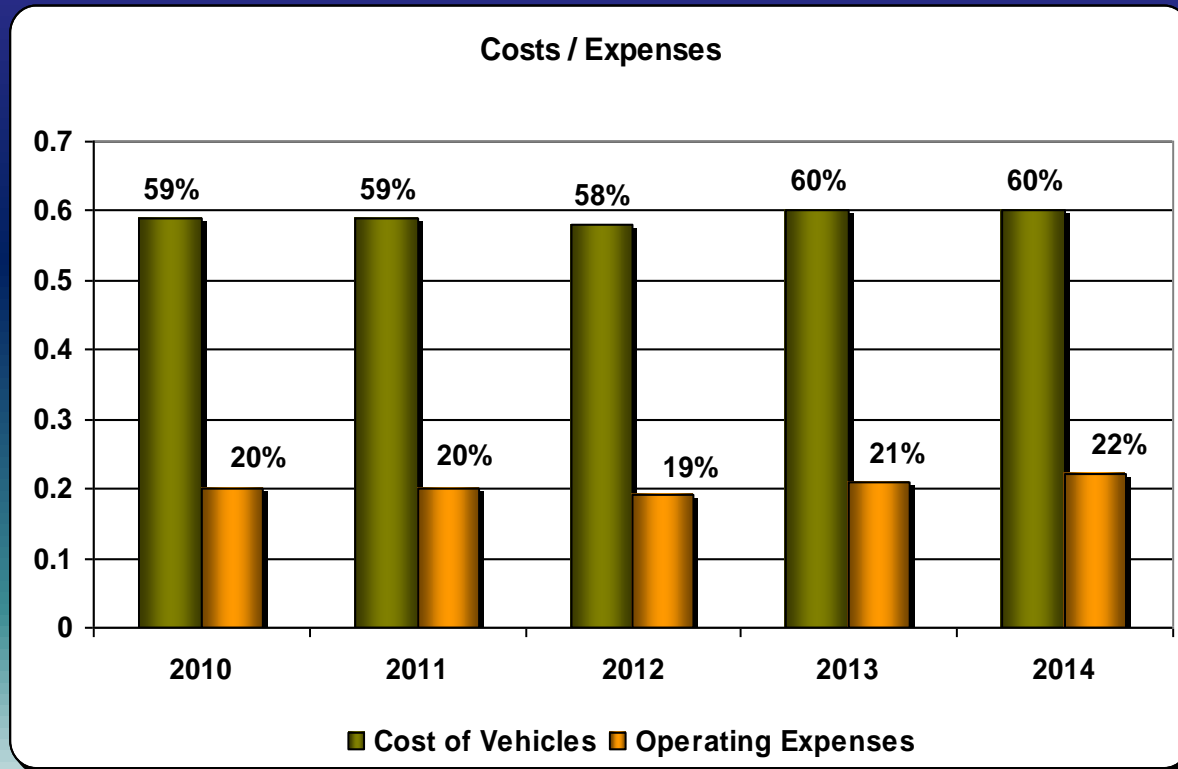
**Recovery Dollars +16% Since 2010.
But Will This Continue?**

What Successful BHPH Operators Do Today

8. Control costs and expenses through efficiencies created by implementing technology.



What Successful BHPH Operators Do Today



Note: All percentages are expressed as a percentage of total sales.

Source: SGC Certified Public Accountants

How do you compare?

What Successful BHPH Operators Do Today

Compare your operating expense ratios to those in the 2014 benchmarks after the conference.

Are You Efficient?

What Successful BHPH Operators Do Today

9. Resolve customer complaints promptly before they escalate into litigation and regulatory problems. **Relationships, not transactions!**



What Successful BHPH Operators Do Today

10. Use metrics to monitor portfolio performance and to adjust underwriting. Your financial statements don't give you the true perspective!



What Successful BHPH Operators Do Today

For a free video which explains static pool, loss/liquidation rate, and default rate visit www.subanalytics.com.

Visit us in Booth #105!

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