BUY HERE PAY HERE TRENDS
MARKET PERSPECTIVES 2019

For 2019, The National Alliance of Buy Here, Pay Here Dealers ("NABD") and Subprime Analytics, with the approval and participation of the National Independent Automobile Dealers Association (NIADA), prepared this industry report from a database of dealers and operators nationwide. The financial information included herein was prepared and contributed by SGC Certified Public Accountants ("SGC"). The financial information they used represents a composite of the "best performing" operators and not an average of the entire industry. This information includes operating data on sales, collections and recoveries, and inventory management, supplied by NCM and NIADA 20 Groups from composite averages. This year we have also included industry perspectives from Tax Refund Services ("TaxMax" on tax refunds), PassTime GPS (technology), NIADA (on compliance and regulatory), Byrider (dealers), and various capital providers (capital and securitizations). Also included are portfolio performance metrics compiled electronically by Subprime Analytics ("Subprime") which, to date, has analyzed approximately $24 billion (nearly 2.3 million deals) of subprime installment contracts to identify loss rates, patterns, and trends. In the aggregate, these statistics and industry perspectives provide comprehensive views of the financial and operating performance of the industry, and important trend information for 2019.

In 2018, NIADA purchased the assets and operations of NABD and merged the two organizations. Subprime Analytics has contracted to provide analytical services, including periodic data to NIADA to support important initiatives for the used car industry. For further information, visit **www.bhphinfo.com** or **www.niada.com**. Industry reports for the past five years can be downloaded free of charge at **www.subanalytics.com**.

DIRECT QUESTIONS OR COMMENTS TO:

Ken Shilson Phone 281-723-9508

Email: ken@kenshilson.com

Subprime: www.subanalytics.com

NABD: www.bhphinfo.com

REPORT CONTRIBUTORS

CAPITAL MARKETS

The following commentary was provided by Ken Shilson, President of NABD and Subprime Analytics, who interviewed various capital providers and issuers of ABS securitizations.

Since 2010, the non-bank lending market for buy here, pay here dealers has evolved greatly given the significant changes to dealers' business models. There are many factors that have influenced the buy here, pay here market since then, but none more important than the growth of indirect auto finance companies and the reemergence of credit unions. Large indirect auto finance companies benefited in 2019 from another solid year for auto loan securitizations by Wall Street.

In this strong financing environment, several auto finance companies and credit unions expanded their capital relationships with new car franchises which contributed to new vehicle sales reaching 17.5 million in 2016 (and these sales have steadily stayed in the 17.0 million range since then). Large independent dealers also benefited from a more active indirect lending market with many independent dealers setting record used vehicle sales volumes from 2010 to 2019.

Another factor impacting the independent dealers' businesses has been a consistent increase in used vehicle values as measured by the Manheim Index. Competition for used vehicles at auction has been intense as franchise dealers retained trades and large independent dealers and buy here, pay here operators stocked their lots with more inventory to meet sales demands.

How do these two factors impact the lending environment? In the aggregate, these factors reduced dealers' gross margins and lowered overall portfolio credit quality. According to NIADA's Used Car Industry Reports, gross margins went from 38% in 2010 down to 31% in 2019 and the average default rates rose from 30.4% in 2010 to 37.5% (up 23%!) in 2019.

Several years ago, non-bank lenders looked almost exclusively to portfolio receivables' quality with less regard to the underlying dealership's and related-finance company's financial performance. Given the interrelationship between front-end and back-end operations of buy here, pay here dealers, lenders now are looking closer at cash profitability to understand internal cash flow sources from down payments, service revenue, customer payments (interest, fees and principal) and cash outflows for fixed expenses such as salaries, rent, interest on debt (senior and subordinated) and other. Buy here, pay here is a cash-intensive business so how dealers manage their cash flow is the most crucial element in the current operating environment.

Given increased competition and reduced profitability levels, non-bank lenders understand that the cash generated from finance receivables portfolio collections is their primary source of borrowing repayment. Accordingly, advance rates on asset-based lines of credit have been reduced from previous levels. Portfolios differ, so advance rates are set based upon the expected cash generated from the finance receivables minus cash expenses and/or the estimated liquidation value if the finance receivables were sold to a third party.

What are the lenders major assumptions when forecasting expected cash flows from dealer's receivables? Lenders are using a more conservative approach to estimate loan losses (measured by unit and gross dollar charge-offs on a static pool basis, supported by NIADA Used Car Industry Report data) due to lower customer quality from the more competitive marketplace. Installment contract structures have changed as the average amount financed increased to $11,694 in 2019 from $9,380 in 2010 which has resulted in larger and longer terms/contracts (149 average weeks or more in 2019 from 134 in 2010). Due primarily to cash constraints, dealers are recycling repossessions more often. Lenders consider these repossession rates in estimating expected future loss rates.

There are several qualified and highly experienced non-bank and bank lenders who provide capital to the buy here, pay here industry. Dealers looking for new lending relationships or renewals are advised to utilize more conservative lending structures in working with them.

ABS SECURITIZATION MARKET

Overall, favorable capital markets in 2019 helped independent non-bank securitization issuers gain market share, causing increased competition for buy here, pay here dealers. Companies like Westlake, Exeter, Global Lending Services, American Credit Acceptance, Credit Acceptance Corporation, and many others were active securitizers in 2019 along with large buy here, pay here operators such as DriveTime Automotive Group, US Auto Finance (US Auto Sales) and Byrider.

Like 2018, 2019 was a robust year for auto loan ABS issuance reaching approximately $82.1 billion (up slightly from 2018's level of $81.7 billion). The subprime auto ABS market (as defined by Equifax credit scores of less than 620) had a positive year in 2019, with approximately $29.7 billion issued (though total issuance as measured by securities sold in dollars was down roughly 7% from 2018). Overall pricing was favorable for issuers in 2019 versus 2018, with a lower all-in cost of funds primarily due to the lower interest rate environment. Demand from fixed-income investors remained relatively high.

In 2019, overall credit enhancement requirements for issuers (i.e. overcollateralization, reserve accounts, subordination) were consistent with 2018, with modest reductions in certain cases.

WHAT'S AHEAD IN 2020

Dealers started the year with optimism. Stronger employment data, low interest rates, reduced subprime competition, and strong consumer demand for affordable used vehicles were the primary reasons for this optimism. Unfortunately, it all halted during the first quarter with the unprecedented adverse impacts of the COVID-19 pandemic. Some dealers were forced to shut down, and lot traffic was reduced or eliminated by state "stay at home" protective orders. At the time of this report, it is not possible to predict the full impact of this catastrophic event nor its duration. Therefore, we plan to issue a mid-year 2020 report this fall which will focus on the first half of 2020! Operators will be forced to adapt to adverse market developments and new challenges in 2020 to survive and prosper. It is hoped that the information provided in this report will help educate them on the recent past and to implement prudent operating and financial goals for the future.

LEGAL AND GOVERNMENT AFFAIRS SUMMARY

The following commentary was provided by Shaun Petersen, Senior Vice President and General Counsel for NIADA.

Even in the age of the Trump administration, compliance considerations remained top of mind for dealerships in 2019. Many state governments increased their regulatory activity adopting policies, procedures or even creating new departments to fill a role they believed the federal government was not doing. For example, several state attorneys general formed "mini-CFPB" units to oversee the consumer financial marketplace.

That increased oversight at the state level saw several state officials bringing enforcement cases against BHPH dealers and other subprime auto finance companies alleging unfair and deceptive acts or practices. State banking agencies also began looking at whether BHPH dealers' offering of products such as debt cancellation products complied with the Truth in Lending Act. And, several state legislatures continued to show interest in the subprime marketplace with several considering legislation regulating the use of starter interrupt devices.

Nationally, data security and privacy became an emphasis for the Federal Trade Commission as it settled an enforcement action against a dealer management system software provider and proposed revisions to its Privacy Rule and Safeguards Rule, the latter of which could bring significant additional costs to dealerships.

Likewise, the Consumer Financial Protection Bureau remained active in the automotive finance space. The Bureau noted highlights of trends/issues it saw during its supervision of automotive lending institutions. The Bureau indicated its supervisors found violations related to improper repossessions and improper application of total loss proceeds. Although most BHPH dealers are not subject to CFPB supervision, these highlights show trends the Bureau looks for in enforcement actions.

2019 continued to bring challenges to dealers doing business with military servicemembers and those subject to the Military Lending Act. The Department of Defense issued the Military Lending Act Rule which made it a practical impossibility for most dealers to sell and finance credit products - such as GAP - with the purchase of a vehicle to military members.

Congress also considered several bills that would impact dealerships including a bill that would prevent the sale of any used vehicle with any open, unrepaired recall; several bills designed to be more consumer protection oriented; and bills to delay the implementation of the CECL accounting standard until an economic impact study can been conducted.

TECHNOLOGY THAT IMPROVES EFFICIENCY/COMMUNICATIONS

The following commentary was provided by Chris Macheca, COO of PassTime GPS Solutions in Denver, Colorado.

Technology in the subprime auto industry to assist in collections and repossessions continued to be more widely adopted to track assets and send payment reminders in 2019. These devices were managed in a variety of ways: the provider's website, mobile apps, as well as integration with Dealer Management Software (DMS) systems. Some providers also began offering self-powered units that do not require vehicle power, thereby removing the requirement of installation. The cost of these devices has continued to decrease in price making units more affordable and increasing their cost/benefit relationship. In addition, many of these GPS solutions now include additional collection tools like audible payment reminders, remote starter-disabling, starter-enabling functionality and other automated features that can be proactively set.

The use of GPS technology as a collection tool has changed the dynamics of communicating with customers by increasing the customer's incentive to communicate with the lender and make timely payments. In addition, it has increased efficiency by allowing collection agents to handle more accounts.

In 2019, one GPS provider engaged a data analytics firm to evaluate the performance of a finance company that utilized GPS solutions. Control groups without GPS were compared to identical participants who used these devices. The evaluation findings showed that recoveries improved by nearly 24%, recovery dollars increased by 20%, and recovery days decreased by 44%. Although this represents a small select, isolated sample, similar benefits have been noted throughout the industry as GPS usage has increased.

Integration within the industry has continued between GPS providers and DMS systems. Such integration has expanded to include text payments and text communication solutions thereby expanding both communication and customer repayment options.

Hardware advancements have made these devices smaller, more powerful and efficient. Newer innovations continue to add features like data and analytical tools to help operators do more. DMS software integration and text message communications are new developments that have improved efficiency as well as collection and recovery results. Technology in the subprime auto industry continues to evolve and remains an important way to reduce profit margin compression.

TAX SEASON FOR INDEPENDENT DEALERS

Below is an interview with William Neylan, President/Owner of TaxMax in Tampa, Florida.

1. **WHEN DID THE TAX FILING SEASON START AND END IN 2019 FOR SUBPRIME CUSTOMERS?**

In January of 2019 the filing season started later because of last minute tax law changes and the government shutdown. The IRS did a great job with the resources that it had and opened in the last week of January. Historically, the IRS opens between January 17 – 23.

2. **WHAT WAS THE AVERAGE REFUND IN 2019?**

The average refund last year was $4,511.74 compared to the 2018 which was $4,121.71, an increase of 9.5%. The reason for the increase in the tax refunds last year was because of the "New Trump Tax Plan." The earned income credit increased 3% while the child tax credit increased from $1,000 to $2,000 per child.

3. **WHEN DID THE IRS START AND STOP PROCESSING REFUNDS IN 2019 AND IS THE TAX SEASON GETTING SHORTER?**

The IRS started processing tax returns during the last week of January. But, because of The Path Act, all tax refunds that had an Earned Income Credit, the Additional Child Tax Credit or Education Credits could not be processed until after February 15. The IRS processed tax returns until November 1, 2019, for the 2018 Tax Year.

4. **WHAT IMPACT DID THE PATH ACT HAVE ON 2019 REFUNDS?**

Because of The Path Act, as indicated above, some refunds could not be processed until after February 15. Taxpayers are becoming more and more aware of The Path Act and the consumers filing patterns which are moving into February vs. January. Consumers that are "hungry" for their refunds do have access to a Refund Advance which they can get as early as January 2.

5. **HOW DID THE 2019 TAX REFUNDS IMPACT THE SELLING SEASON FOR INDEPENDENTS LAST YEAR?**

Tax Max has a portfolio of over 3000 dealers (25% Franchise and 75% Independent). We saw all dealers have a record tax season as consumers were a little "more hungry" for their money because of the government shutdown combined with a need for a purchase of a vehicle. Also, consumers were told of the increase in the child tax credit and consumers were anxious to get it themselves. Once they saw the increase (some were much higher than the average of 9.5%), they filed and applied for a Refund Advance to put that money to work in buying a vehicle.

6. **WHAT CAN WE LEARN FROM THE 2019 TAX REFUND SEASON?**

We learned a lot. Dealers are being more effective on the ways they advertise and market their Tax Marketing Program. Dealers who used a Tax Marketing Program had solid sales during tax season while dealers who had no program at all, stated that "tax season doesn't exist anymore". Tax season is alive and well and is thriving but only for the dealers that have adapted to the changing times. Still, 4 years after The Path Act was passed, 90%+ of the dealers do not understand what the effect The Path Act has on their business. More BHPH dealers are moving towards Irregular Payments but many are not structuring them correctly.

BYRIDER COMMENTARY

The following commentary was provided by Byrider in Indianapolis, Indiana, relating to their franchise network of BHPH dealers.

It appears that much of the growth in the BHPH industry came from larger operators that have the scale to more cost-effectively manage the increased regulatory, digital retailing and financing challenges. Following are some important market observations for 2019:

OPERATING PERFORMANCE - During 2019, unit sales were up by 2.7% year over year for the average Byrider franchise store. At the same time, the credit quality of those originations was improved over the prior year. More importantly, the average portfolio grew 6.6%, net dollars charged-off were down 4.6%, and charge-off as a percentage of the portfolio was down 10.2%. The results were that average pretax earnings were up 75% year over year.

REGULATORY – The penalties for noncompliance are severe and every operator needs a compliance function that addresses the various regulations, monitors and adapts to compliance changes, and conducts audits to ensure that compliance procedures are properly implemented. This cost can be shared across multiple stores, where applicable. Although the CFPB was not as aggressive in 2019, the individual state AG's have filled the enforcement gap. The impact of this enforcement change varies between states.

FINANCING – The most important trend in BHPH finance has been the move from traditional commercial bank asset-backed lines and into asset-backed securitizations (ABS) market. Approximately a dozen of the largest BHPH industry operators (many backed by private equity) have been able to make the move to the ABS market. The move requires large scale portfolios and provides access to lower cost capital and higher loan advance rates, even when such deals are conservatively structured. Local and regional banks were being carefully scrutinized by bank regulators in 2019. Therefore, many banks searched for larger, established operators, forcing smaller operators to either self-fund or seek higher cost capital.

DIGITAL RETAILING – Customer preferences have evolved. More subprime customers now want to shop and get approved online (maybe even execute a contract online and have the car delivered to their home)! In addition, customer expectations are more selective in regard to inventory quality.

ECONOMIES OF SCALE – The advantage of the BHPH dealers servicing local markets has always been the ability to better understand the customer and react to their needs (sales, service and collections). While their overhead was typically higher on a per contract basis they could still manage the portfolio better than a distant third party lender so the economics made sense. However, today the larger BHPH operations are figuring out how to keep the local market presence but also integrate the efficiencies of a large lender (i.e. better scorecards, electronic documentation, centralized underwriting and collections).

BHPH operators must be more efficient to be profitable and scale their operations in the future. That requires a lot of capital. Many long time BHPH dealers feel increased pressure to retail vehicles and underwrite and collect more efficiently due to capital constraints. Industry consolidation appears likely for operators who fail to adapt to the market changes and implement technology to make more from less.

BUY-HERE,PAY-HERE FINANCIAL PERSPECTIVE / DATA 2019

FINANCIAL REVIEW / PERFORMANCE DATA

The following commentary and the financial information which follows was provided by SGC Certified Public Accountants, Houston, Texas.

2019 was an interesting year for Buy Here, Pay Here dealers across the country. We saw the first signs of special finance lenders slowing down, allowing for some better customers to return to BHPH. A number of larger dealers also started programs to lower interest rates and gross in an attempt to win back customers who they had been losing to new car dealers and special finance. Larger dealers tightened underwriting resulting in flat sales but improved charge-off performance. This improved charge-off performance also allowed for larger dealers to adjust their allowance for credit losses downwards resulting in additional bottom line gains. We did see some smaller dealers aggressively pursuing sales and growth but they ultimately paid for it in higher charge-offs. Dealers continued to improve vehicle quality resulting in lower gross profits on each sale, but coupled with the tightened underwriting and improved charge-off performance, this strategy seemed to pay off.

2019 was one of the better years for the BHPH industry, with many dealers finally seeming to get a handle on the charge-offs which have wrecked the industry for the last few years. An interesting side note for 2019 was the number of bank mergers. We saw a number of banks, which serve the BHPH industry, merge which ultimately lowers the number of lenders for the BHPH industry and makes capital harder to obtain.

Looking forward to 2020, the year got off to a great start with strong sales and strong tax money. Unfortunately, that all came to a screeching halt with an unprecedented pandemic hitting the country, adversely affecting many businesses and individuals. Collections and sales over the next few months will be challenging but here's hoping dealers weather the storm and emerge out the other side stronger and wiser for the experience.

NOTES TO FINANCIAL DATA

1. Financial information was prepared from the best performing dealer/operators in the SGC database of BHPH dealers nationwide.
2. The ratio and financial information which follows has been verified for accuracy and comparability.
3. Financial results are combined (dealer and related finance affiliate), where applicable.
4. Intercompany activity has been eliminated from the financial information, where applicable.

RATIO COMPARISONS: 2018-2019

(STATISTICS SUPPLIED BY SGC CERTIFIED PUBLIC ACCOUNTANTS)

COMBINED BUY HERE-PAY HERE BALANCE SHEET

	2019 AVERAGE BHPH BENCHMARK	2018 AVERAGE BHPH BENCHMARK
(Inventory X Days) / Cost Of Vehicle Sales	51.89 days	50.51 days
Cost Of Vehicle Sales / Average Inventory Dollars	7.42x	7.35x
Vehicle Sales / Average Inventory Dollars	11.77x	12.03x
Vehicle Sales / Total Assets	0.90x	0.89x
Total Assets / Total Liabilities	1.70x	1.61x
Allowance For Bad Debts / Finance Receivables*	23%	25%
Total Debt / Total Assets	59%	63%

* FINANCE RECEIVABLES ARE PRINCIPAL BEFORE ALLOWANCE FOR DOUBTFUL ACCOUNTS

COMBINED BUY HERE-PAY HERE INCOME STATEMENT

	2019 AVERAGE BHPH BENCHMARK	2018 AVERAGE BHPH BENCHMARK
Bad Debts / Vehicle Sales	24%	29%
Cost Of Vehicle Sales / Vehicle Sales	63%	61%
Gross Profit*** / Vehicle Sales	31%	30%
Operating Expense / Vehicle Sales	20%	20%
Interest Expense / Financing Income	17%	15%
Operating Income / Vehicle Sales	11%	10%
Financing Income / Vehicle Sales	18%	20%
Compensation** / Vehicle Sales	10.20%	10.11%
Reconditioning Cost / Vehicle Sales	8.5%	8.5%

NOTES TO RATIO COMPARISONS:
**COMPENSATION EXCLUDES THOSE OF THE OWNERS
***GROSS PROFIT IS NET OF BAD DEBTS AND FINANCING INCOME
X = TIMES

S | Certified
G | Public
C | Accountants

INCOME STATEMENT: 2018-2019

(STATISTICS SUPPLIED BY SGC CERTIFIED PUBLIC ACCOUNTANTS)

	2019 BEST DEALER BENCHMARK	2018 BEST DEALER BENCHMARK
Vehicle Sales	100%	100%
Cost Of Vehicle Sales	-63%	-61%
Gross Profit BEFORE Bad Debts and Financing Income	**37%**	**39%**
Bad Debts Expense	-24%	-29%
Financing Income	18%	20%
Gross Profit	31%	30%
Operating Expense	-20%	-20%
Operating Income	11%	10%
Interest Expense	-3%	-3%
Income Before Income Taxes And Officers Compensation	8%	7%

COST OF GOODS SOLD AND OPERATING EXPENSE DETAIL: 2018-2019

(STATISTICS SUPPLIED BY SGC CERTIFIED PUBLIC ACCOUNTANTS)

COST OF VEHICLE SALES	2019 % OF VEHICLE SALES	2018 % OF VEHICLE SALES
Cost of Vehicles	52.20%	49.81%
Reconditioning Costs	8.53%	8.53%
Other	2.27%	2.66%
TOTAL COST OF VEHICLE SALES	**63.00%**	**61.00%**

OPERATING EXPENSE	2019 % OF VEHICLE SALES	2018 % OF VEHICLE SALES
Advertising	3.07%	3.29%
Bank Charges	0.27%	0.23%
Contributions	0.03%	0.02%
Depreciation	0.30%	0.34%
Dues and Subscriptions	0.20%	0.19%
Insurance	0.34%	0.38%
Legal and Accounting	0.58%	0.48%
Outside Services	0.27%	0.24%
Office Expense	0.70%	0.77%
Rent	2.00%	2.13%
Repairs and Maintenance	0.21%	0.27%
Salaries (Non-Owners)	10.20%	10.11%
Taxes - General	0.14%	0.10%
Other Operating Expense	0.04%	0.05%
Taxes - Payroll	0.84%	0.72%
Utilities and Telephone	0.50%	0.39%
Travel / Training	0.31%	0.29%
TOTAL OPERATING EXPENSE	**20.00%**	**20.00%**

NIADA COMMENTARY/DATA

The following commentary and the operating data which follows was provided and compiled by Chuck Bonanno, Vice President of Dealer Development for NIADA 20 Groups.

METHODOLOGY: The NIADA BHPH Benchmarks are based on the 2019 results of over 170 BHPH Dealers from around the country. These benchmarks are the averages of the top half of performers based on business efficiency or pre-tax profits as a percent of sales. This includes a cross section of dealers of all sizes of dealerships, both large and small. The data represents the composite averages of this sample group.

INVENTORY & RECONDITIONING: 2019 saw a slight rise in inventory costs mostly from new purchasing methods including buying online and across the country. The wider vehicle sourcing added to acquisition costs primarily due to increased transportation costs. The second factor was increasing costs to recondition purchased vehicles as vehicles are more complicated and expensive to recondition and the wholesale vehicles acquired needed more reconditioning to make them frontline ready. We also noted a large increase in "time to line" due to the above-mentioned factors. Slower "time to line" required dealers to carry larger inventories with more vehicles in the pipeline being readied for sale.

SALES & MARKETING: Sales were relatively flat in 2019 due to a lack of quality applicants. Dealers continue the shift to digital marketing away from traditional marketing and advertising campaigns. Dealers are also moving to digital retailing platforms with the goal of selling vehicles online and reducing the number of dealership visits by customers.

COLLECTIONS & PORTFOLIO PERFORMANCE: Portfolio performance was solid in 2019 as evidenced by delinquency, recency and charge-off results. Dealers in our sample were very conservative with underwriting and avoided the trap of "buying too deep". This approach resulted in lower sales volumes and lower approval rates on applications submitted. Dealers, in general, "worked with customers" on repayments and mechanical problems in order to maintain relationships, preserve customer repayments, improve loan success, and create more repeat business and referrals.

EXPENSES: Dealers reviewed expenses to determine necessary expenses and unnecessary expenses as margins continued to fall. Expenses (mostly semi-fixed and fixed) that increased more dramatically included loan and floor plan interest, insurance costs and payroll costs. These increases forced dealers to seek other expense reductions and cost savings to offset the increases and costs of doing business. Digital marketing allowed operators to market and advertise with smaller investments than in the past.

DEALER PERSPECTIVES 20 GROUP DATA

The following Dealer Operating Information was provided by NIADA and NCM 20 Groups and represent composite averages from their group participants.

NCM COMMENTARY/DATA

OVERVIEW - The 2 main areas our dealers concentrated on in 2019 were leverage reduction and maintaining exposure. We saw more dealers concise rather than expand opting for the "bigger is not better" philosophy. Their attention turned to maximizing the cash that was available to reduce leverage and aid in the possible future retirement of all debt. We also saw an increased focus on maintaining exposures through better risk assessment. They displayed a willingness to sacrifice volume in order to accomplish this. Even though cost of vehicles increased, they were able to prevent any significant increase in term by making adjustments to both sales price and weekly payment.

SALES - Unit sales were up just slightly in 2019 for our dealer clients as a whole bolstered by an increase from our Large Volume (Over $10m A/R) dealer clients with our Small Volume (Under $10m in A/R) dealer clients showing a slight reduction in sales volume. Though a few increases were provided by additional locations, a majority of the credit for those who experienced an increase in volume can be directly attributed to a more effective digital presence. Intentionally downsizing to maximize capital or a diminishing market were the main reasons for those dealers that experienced a decline

INVENTORY - Average cost of vehicle for both Large and Small Volume dealers increased slightly with most of the increase due to increased reconditioning costs. Inventory aging increased as dealers chose to carry more units to provide a better selection.

COLLECTIONS - Delinquencies remained static for both Large and Small Volume. The number of accounts charged off dropped by 10% for both with the average net loss increasing by a combined 7%. This was aided in part by a 6% increase in Cash in Deal which was a direct result of an increase in average ACV that outpaced the increase in average down payment.

20 GROUP DEALER OPERATING INFORMATION: 2018-2019

(PREPARED BY NIADA AND NCM 20 GROUPS)

SALES

	2019 NIADA BENCHMARKS	2018 NIADA BENCHMARKS	2019 NCM BENCHMARKS	2018 NCM BENCHMARKS
Average Units Sold Per Dealer (BHPH Deals Only)	684	816	579	569
Average Cash In Deal Per Vehicle Sold	$ 6,206	$ 6,116	$ 6,192	$ 5,848
Average ACV Per Vehicle Sold (Includes Recon)	$ 6,275	$ 6,820	$ 6,596	$ 6,086
Average Reconditioning Cost Per Vehicle Sold	$ 870	$ 1,018	$ 1,171	$ 1,021
Average Gross Profit Per Vehicle Sold	$ 6,029	$ 5,802	$ 4,704	$ 4,536
Average Cash Down Payment (Including Trades, Excluding Deferreds)	$ 735	$ 835	$ 1,134	$ 1,046
Average Amount Financed	$ 12,484	$ 11,917	$ 11,824	$ 10,735
Average Term Of Loan (In Weeks)	184	186	149	145

COLLECTIONS / RECOVERIES

	2019 NIADA BENCHMARKS	2018 NIADA BENCHMARKS	2019 NCM BENCHMARKS	2018 NCM BENCHMARKS
Average Weekly Payment Amount	$ 96	$ 97	$ 91	$ 85
Percentage Of Accounts Past Due	18.3%	19.7%	17.2%	17.8%
Average # Of Past Due Accounts Per Collector	69	79	95	92
Average Net Loss Per Charge Off	$ 6,646	$ 6,624	$ 4,991	$ 4,665
AVERAGE PORTFOLIO DELINQUENCY				
Current	81.70%	80.30%	82.80%	82.20%
1-15 days	9.80%	11.10%	10.40%	11.20%
16-29 days	3.50%	3.60%	3.30%	2.90%
30-59 days	2.70%	2.60%	1.70%	2.00%
60-89 days	1.00%	1.00%	0.80%	0.60%
90+ days	1.30%	1.40%	1.00%	1.10%
TOTAL	**100.00%**	**100.00%**	**100.00%**	**100.00%**

INVENTORY MANAGEMENT

	2019 NIADA BENCHMARKS	2018 NIADA BENCHMARKS	2019 NCM BENCHMARKS	2018 NCM BENCHMARKS
Vehicle Days Supply (Units)	61	55	76	58
AVERAGE INVENTORY AGING				
0-30 days	45.50%	49.20%	38.90%	44.10%
31-60 days	22.70%	23.40%	23.20%	25.10%
61-90 days	16.70%	14.10%	13.30%	12.30%
91+ days	15.10%	13.30%	24.60%	18.50%
TOTAL	**100.00%**	**100.00%**	**100.00%**	**100.00%**

PORTFOLIO PERFORMANCE/METRICS

The following commentary was provided by Subprime Analytics, Houston, Texas. The loss metrics data which follows are composite averages from their subprime auto installment contracts database.

1. The gross dollar losses (before recoveries) for 2019 decreased by $400 (4.5%) as operators reduced amounts financed, increased down payments and average customer repayments as indicated in the graphic comparisons which follow. These changes accelerated customer repayment amortizations thereby reducing the dollar severity of losses at the time of default.

2. Average net dollar losses (after recoveries) declined by $549 per unit (7.8%) in 2019 as average recoveries were higher resulting from operators repossessing vehicles more quickly when customers defaulted on repayments and from the accelerated amortizations previously discussed.

3. Default rates (unit defaults / units sold) increased by 1.9% as operators opted in 2019 to mitigate bad debt losses when customers defaulted on repayments more quickly, to improve recovery rates. As a result, average recoveries increased by $149 per unit (7.9%) versus the prior year.

4. The highest default month after origination in 2019 was 4 months earlier than 2018. This resulted from diligent collection efforts and the desire to reduce bad debt losses through improved recoveries.

5. Cash in deal ("CID") in 2019 (which limits portfolio risk) was decreased by $242 per unit (4.0%) resulting from higher down payments and a reduction in the average cost of vehicles sold as indicated in the graph which follows.

6. Capital providers took a more conservative approach in 2019 by implementing tighter underwriting guidelines and using loss metrics (expressed in both units and dollars) to project expected loss rates in structuring financing.

Subprime Analytics

LOSS METRICS: 2018-2019

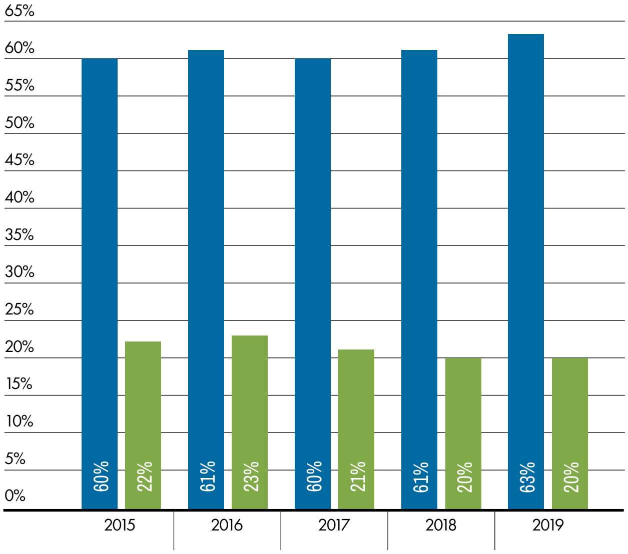
(THE BELOW REFERENCED BHPH LOSS DATA WERE COMPILED BY SUBPRIME ANALYTICS AFTER ELECTRONICALLY ANALYZING APPROXIMATELY 2,300,000 LOANS, AGGREGATING APPROXIMATELY $24.0 BILLION TO IDENTIFY LOSS RATES AND TRENDS.)

LOSS METRICS	2019 BHPH BENCHMARKS	2018 BHPH BENCHMARKS
Average Gross Dollar Loss (Before Recoveries)	$ 8,510	$ 8,910
Average Net Dollar Loss (After Recoveries)	$ 6,484	$ 7,033
Average Default Rate (% Of Loans Written Off)	37.49%	35.58%
Average Gross Dollar Loss/Liquidation Rate (% Of Principal)	41.74%	41.97%
Average Net Dollar Loss/Liquidation Rate (% Of Principal)	31.81%	33.02%
Average Recovery (% Of Deficiency Recovered)	23.81%	21.07%
Highest Cumulative Default (Month After Origination)	21st Month	22nd Month
Highest Frequency Of Default (Month After Origination)	4th Month	8th Month
Worst Periodic Loss Month After Origination	February	February

BHPH FINANCIAL TRENDS COSTS/EXPENSES 2015-2019

NOTE: PERCENTAGES ARE EXPRESSED AS A PERCENTAGE OF TOTAL SALES.

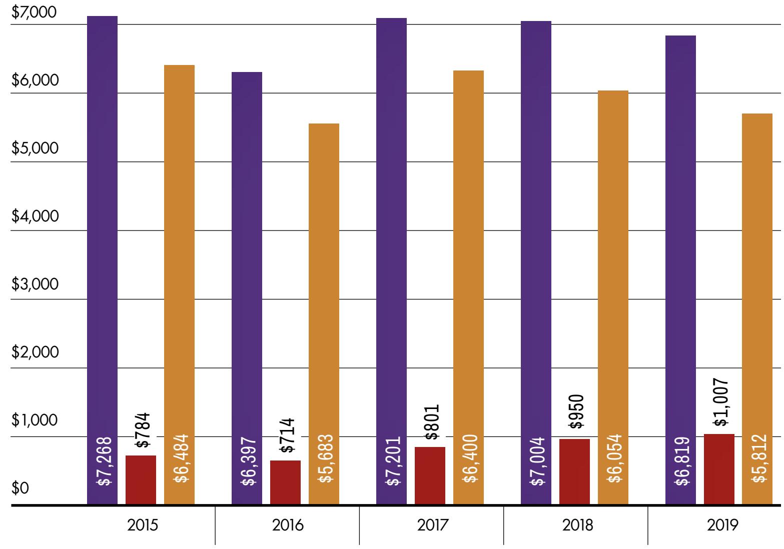
● COST OF VEHICLES ● OPERATING EXPENSES



SOURCE: SGC CERTIFIED PUBLIC ACCOUNTANTS

AVERAGE VEHICLE COST, DOWN PAYMENT, CASH IN DEAL 2015-2019

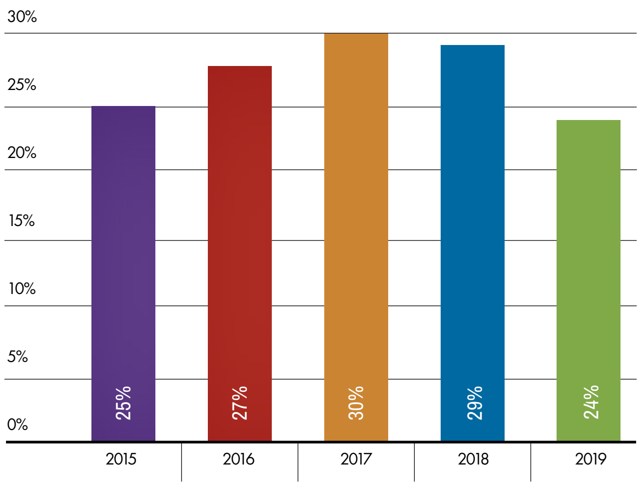
● AVERAGE VEHICLE COST ● AVERAGE DOWN PAYMENT ● AVERAGE CASH IN DEAL



SOURCE: SUBPRIME ANALYTICS

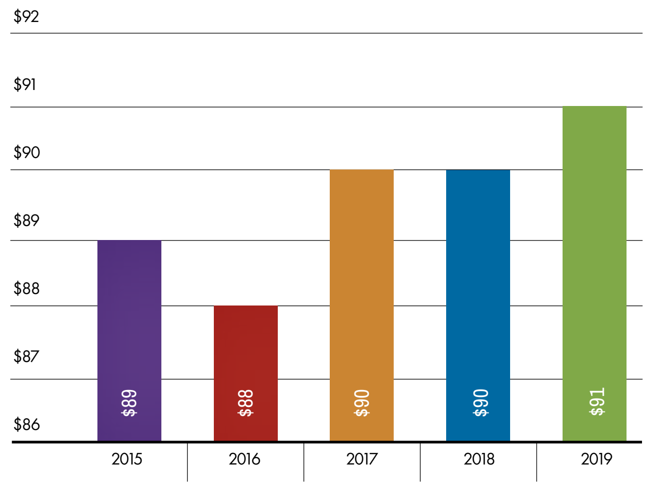
BHPH FINANCIAL TRENDS BAD DEBTS 2015-2019

NOTE: PERCENTAGES ARE EXPRESSED AS A PERCENTAGE OF VEHICLE SALES.



SOURCE: SGC CERTIFIED PUBLIC ACCOUNTANTS

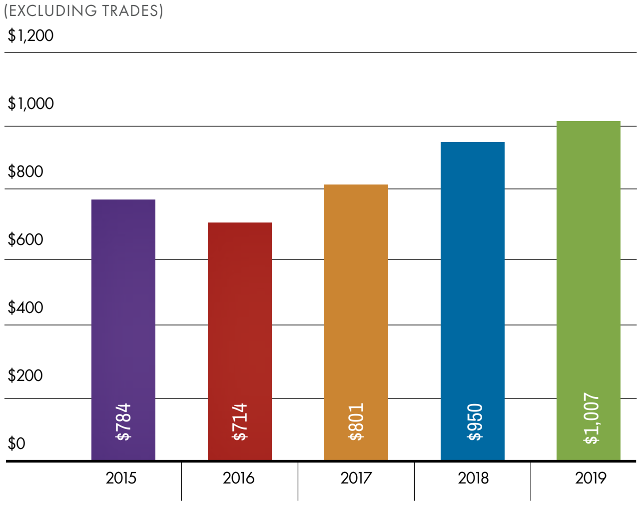
BHPH FINANCIAL TRENDS AVERAGE WEEKLY PAYMENT AMOUNT 2015-2019



SOURCE: SUBPRIME ANALYTICS

BHPH FINANCIAL TRENDS AVERAGE CUSTOMER DOWN PAYMENT 2015-2019

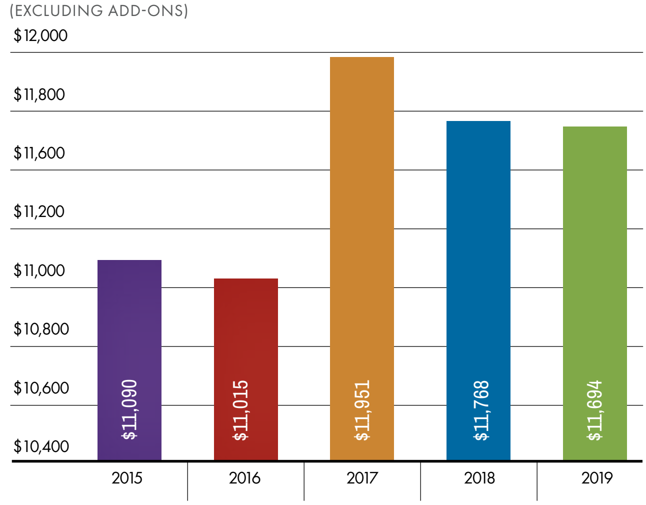
(EXCLUDING TRADES)



SOURCE: SUBPRIME ANALYTICS

BHPH FINANCIAL TRENDS AVERAGE AMOUNT FINANCED 2015-2019

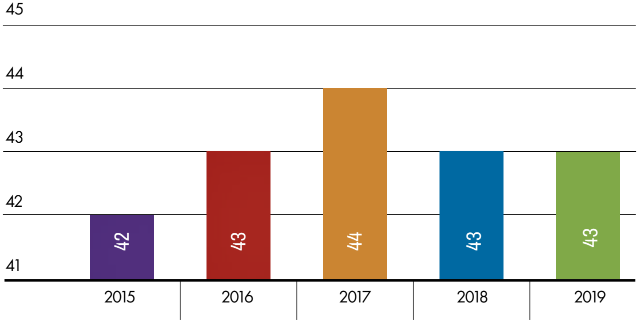
(EXCLUDING ADD-ONS)



SOURCE: SUBPRIME ANALYTICS

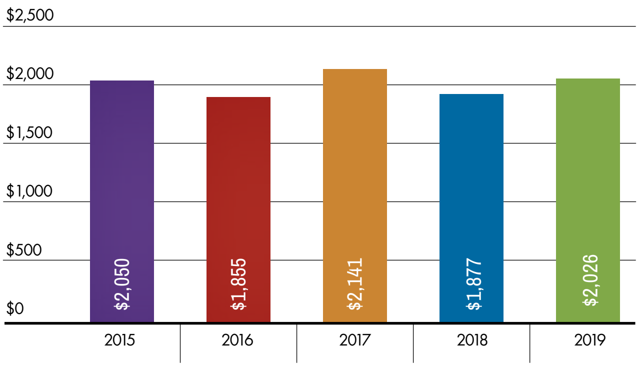
BHPH FINANCIAL TRENDS AVERAGE ORIGINAL TERM 2015-2019

AVERAGE ORIGINAL TERM (MONTHS)



SOURCE: SUBPRIME ANALYTICS

BHPH FINANCIAL TRENDS AVERAGE RECOVERY DOLLARS PER CHARGE OFF 2015-2019



SOURCE: SUBPRIME ANALYTICS

OUR SPECIAL THANKS TO ALL OF THE FOLLOWING CONTRIBUTORS FOR THEIR PERSPECTIVES AND DATA.

Their collective information provides a comprehensive view of the financial and operating performance of the BHPH industry and important trend information for 2019.