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TECHNOLOGY TALK

FactorTrust's latest move in BHPH



SCOTT BRACKIN
FactorTrust

As part of its continued commitment to the needs of buy-here, pay-here dealers, short-term lenders and the alternative financial services industry, FactorTrust announced a tool called FlexFormat; what the company contends is the first industry standard in reporting short-term loan data for products focused on underbanked consumers. FactorTrust vice president of

auto finance Scott Brackin said the tool can give BHPH dealerships the ability to report more accurately.

Read story on page 11

Why BHPH impresses Spireon CEO



KEVIN WEISS
Spireon

Spireon chief executive officer Kevin Weiss acknowledged he didn't possess a deep knowledge of the buy-here, pay-here dealership and deep subprime auto finance industries. But nearly a year into his tenure with the company, Weiss said, "I have an incredible appreciation for men and women who are in this segment of the market. They're some of the smartest business-

people I've come to know in my 40 years of work."

Read story on page 14

J.D. Byrider to leverage SecureClose

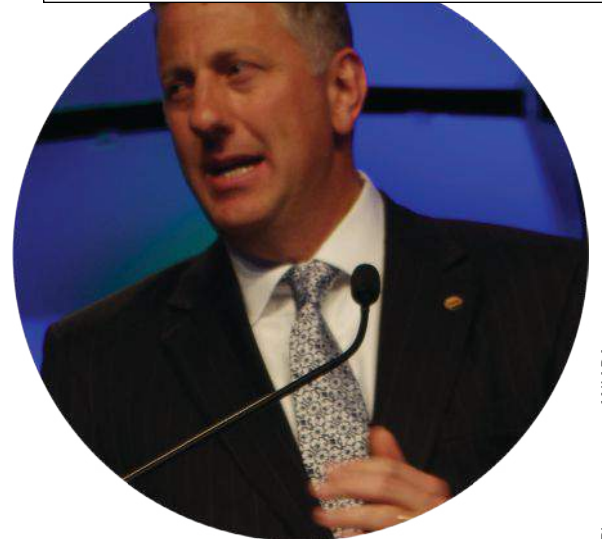


ACE CHRISTIAN
SecureClose

This is the kind of market penetration level SecureClose chief executive officer Ace Christian envisioned as part of "his dream" when he launched the technology company aimed at leveraging digital technology to streamline the explanation of vehicle installment contracts during delivery. Now it could be used in more than 160 J.D. Byrider stores nationwide.

Read story on page 18

State of the



Photos courtesy of NIADA

Leaders of NABD & NIADA describe current landscape and potential future

With conference season getting into full swing for buy-here, pay-here and independent dealerships, *BHPH Report* again connected with two industry leaders who have their fingers on the pulse of what's happening nationwide — Ken Shilson, president and founder of the National Alliance of Buy-Here, Pay-Here Dealers, and Steve Jordan, chief executive officer of the National Independent Automobile Dealers Association.

Both Shilson and Jordan reflected back on how dealers have navigated the challenges of the past couple of years and how perhaps the prospects for the BHPH segment are as upbeat as they've been in some time.

What is the industry element that's the same now as it was back in 1998 when you started the NABD national conference and what would you assert to be the most dramatic difference between then and now?

Ken: With regard to what's the same, success is not just selling BHPH vehicles. It's keeping them sold. That's going to be universally true forever.

The biggest change is the industry is more capital intensive than ever before. In other words, the economics of the industry are changing. There is less margin for error, meaning that training and education have never been more important.

How exciting was it to see the mood of member dealers improve significantly as noted in the first-quarter survey results?

Steve: I've got to tell, it's been very exciting to see this confidence grow as much as it has after being so cautious for as long as it has. It seems like every presidential election cycle always brings this level of uncertainty within businesses, voters and even the financial markets. It seems like everyone takes this wait-and-see attitude about what's going to happen after November. In this particular case, I think many

INDUSTRY continued on page 4

2016 INDUSTRY BENCHMARKS

The 2016 Buy-Here, Pay-Here Industry Benchmarks are more robust than ever as they contain data from the National Alliance of Buy-Here, Pay-Here Dealers, the National Independent Automobile Dealers Association, NCM Associates and Subprime Analytics.

More details on page 6

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Top 3 bankruptcy trends from past 2 quarters

ALEXANDRIA, Va., and NEW YORK — Three noteworthy trends associated with bankruptcies surfaced during the past two quarters.

The American Bankruptcy Institute (ABI) reported that total U.S. filings fell slightly during the first quarter but ticked higher in March compared to the same month a year ago.

And the Federal Reserve Bank of New York indicated the amount of consumers who had a bankruptcy added to their credit reports during the fourth quarter softened to a new low going back 18 years.

According to data provided by Epiq Systems, ABI indicated bankruptcy filings totaled 195,199 in the first quarter of this year, down just 0.23 percent from the 195,647 filings registered in the same quarter a year ago. The 185,868 total noncommercial filings recorded in Q1 represented a 0.27 percent decrease from the year-ago total of 186,376.

ABI noted total commercial filings for the first three months of 2017 were 9,331, representing a 1 percent increase from the 9,271 filings during the same period in 2016. Total commercial Chapter 11 filings represented the largest change, as the 1,270 cases during the first three months of 2017 represented an 11 percent drop from the 1,428 filings reported last year.

“Filing decreases are beginning to level off as more struggling businesses and households turn to the financial relief of bankruptcy,” ABI executive director Samuel Gerdano said. “Distress in the retail sector is pushing up the total number of business

filings, and we are also seeing an uptick in consumer filings from previous months.”

Meanwhile, the New York Fed reviewed Equifax data and found about 204,000 consumers had a bankruptcy notation added to their credit reports in the fourth quarter; an amount 4 percent below the same quarter in 2015 and a new series low that goes back to 1999.

In March, ABI formed the Commission on Consumer Bankruptcy to examine the consumer bankruptcy system and issue a report with recommended improvements that can be implemented within the existing legal structure.

The 15-member expert panel aims to modernize the consumer bankruptcy system with practical and cost-effective recommendations, building on the framework established by the Bankruptcy Code of 1978 and Bankruptcy Abuse Prevention and Consumer Protection Act of 2005.

ABI also touched on data it obtained looking solely at March bankruptcy developments, which showed numerous year-over-year climbs.

For the month of March, the 81,590 total recorded filings represented an increase of 4 percent from the 78,372 filings registered in March of last year. The 77,932 total noncommercial filings in March 2017 also represented a 4 percent increase over the March total of 74,988.

Total commercial filings in March increased 8 percent to 3,658 over the 3,384 filings recorded in the same month a year

STATES WITH THE HIGHEST PER CAPITA FILING RATE (Total filings per 1,000 population) for the first quarter of 2017

Alabama
5.92
Tennessee
5.74
Georgia
4.83
Mississippi
4.24
Illinois
4.18

ABI has partnered with Epiq Systems, a leading provider of managed technology for the global legal profession, in order to provide the most current bankruptcy filing data for analysts, researchers and members of the news media.

ago. Commercial Chapter 11 filings increased 4 percent to 3,547 in March over the 3,407 filings the previous year.

The average nationwide per capita bankruptcy filing rate for the first three months of 2017 increased to 2.51 (total filings per 1,000 per population) from the 2.19 filing rate of the first two months of the year.

NIADA survey shows ‘unprecedented’ positivity

ARLINGTON, Texas — Cox Automotive’s Tom Webb said earlier this year that buy-here, pay-here dealers were in a “better position.” Then a few weeks later, Ken Shilson with the National Alliance of Buy-Here, Pay-Here Dealers highlighted how “bad news could be good news for BHPH.”

More upbeat assessments arrived in March as the latest installment of the National Independent Automobile Dealers Association’s quarterly Business Confidence Survey reflected immense optimism from independent used-vehicle dealers regarding retail sales, consumer traffic, profitability and economic conditions.

The survey, conducted in partnership with Equifax during the first quarter of this year, showed confidence in all of those areas was up substantially from the previous quarter and year-over-year.

Nearly two-thirds of respondents (63 percent) indicated they believe the economy will improve in the next quarter, a significant increase from the previous survey, in which only 34 percent expected economic improvement, and the 36 percent of Q1 2016 — that year’s highest percentage.

Just 2 percent said they expect the

economy to decline, down from 22 percent in the Q4 survey.

It’s the first time since Q3 2015 that a majority of survey respondents have expressed a positive outlook on economic conditions.

That optimism is reflected throughout the survey. More than half (53 percent) of the respondents plan to invest in more retail inventory, up from 41 percent in the previous survey, and 54 percent expect to hire new sales staff (up from 32 percent), as 70 percent anticipate retail sales to grow (up from 46 percent) and 71 percent expect customer traffic to increase (up from 36 percent).

On the financial side, the percentage of dealers expecting cash flow to improve (57 percent, up from 34 percent) and credit availability to expand (32 percent, up from 23 percent) over the next quarter was also sharply higher.

“A degree of optimism is always expected with a new year,” Equifax vice president of dealer services John Giamalvo said, “but this level of widespread positivity is unprecedented for this survey as dealers seem primed to ramp up their businesses and position themselves to capitalize on expected opportunities in the year ahead.”

NIADA senior vice president Scott Lilja said it’s no coincidence that the rise in dealer optimism came in the first survey taken since Donald Trump took office as president.

“Certainly the ‘Trump Effect’ has helped drive this newfound enthusiasm in the market,” Lilja said. “The proposed regulatory and tax overhauls promised by the new administration have helped improve the mood of dealers who have long been inundated with federal and state regulatory measures and overly complex tax policy.

“Should some of that burden be lifted by the new administration, the cost of doing business could be substantially reduced,” Lilja added.

Lilja and Giamalvo said other factors driving anticipated retail sales and customer traffic growth include an increase in used vehicle inventory available to meet consumers’ ever-shifting needs and the average price differential between new- and used-vehicle average transactions, which hit an all-time high of \$11,000 in Q4 of 2016, both of which are expected to bring former new car buyers to independent used car stores to find more affordable transportation.

What's your assessment of some of the negative trends that seem to be surfacing so far this year such as delinquencies ticking higher, new-car inventories stacking up and finance companies tightening their underwriting a bit?

Ken: I think the increased competition has brought people with no experience or training into the buy-here, pay-here and deep subprime spaces. Their mistakes are starting to surface. They've made underwriting decisions that aren't working out.

With regard to the new-car situation, that's been brought about by their desire to increase penetration on the sale of new or certified pre-owned vehicles. In many

cases, they're putting those vehicles into the hands of deep subprime customers who probably, from a credit-decisioning standpoint, don't qualify.

That's why we need to tighten underwriting. Tightening the underwriting is the right thing to do, but in some cases it's late in the game because the cows are already out of the barn. The problem is when you make mistakes, you don't have an eraser where you can correct them. It takes two, three, four or more years for it to work through the system. Those mistakes will continue to surface for several years in the future.

Why is having accounting services provided by individuals with knowledge of buy-here, pay-here all the more

important in light of the allowance for bad debt changes coming in 2020?

Ken: Because you need professional experience to help you understand the impact of this new standard, not only the retroactive impact but the proactive impact of what you're doing. It requires the professional to understand the accounting standard as well as be familiar with how to use metrics to apply that standard to calculate the impact.

Setting aside misconceptions perhaps held by regulators, lawmakers or consumer advocates, what's the biggest misconception about buy-here, pay-here that individuals within the automotive industry have and why?

Ken: Bad-credit backgrounds does not mean they're bad people. That's the first thing. While losses with deep subprime customers are inevitable, if the business is done right, so are profits inevitable.

What about the buy-here, pay-here business still excites you most after nearly 20 years being at the forefront of the industry segment?

Ken: The big thing is it continues to be a vital source of transportation to millions of Americans. Buy-here, pay-here dealers provide capital to consumers who otherwise would not get it, and they keep their vehicles running when they need repair. The thing that excites me is importance of the buy-here, pay-here segment is to transportation in America.

of our dealers are very buoyed by the fact a pro-business environment exists in Washington, D.C., now when it really hasn't been that way for so long.

Now you've got three branches of government that controlled by seemingly those who want to put the interest of small-business owners and taxpayers first. It's encouraging to see a new wave of Congressional leaders in D.C. that understand small businesses and understand that taxes that these small businesses pay are really the backbone of our economy. For so long, our dealers have felt like they were either targets or could be targets of this unpredictable regulatory environment. Now I think they see that the tide is really turning. It's really encouraging to see confidence grow as a result of that.

Whether it's proposed tax cuts for businesses or repealing and replacing Obamacare, there's also been talk about taking two regulations off the books when one is added, I think there is good reason to see confidence soaring. Certainly our quarterly business confidence would support that. We're seeing some of the biggest jumps in confidence than we've seen since we put this survey in place.

Without revealing the specific person, what was the most interesting story from a dealer about his/her operation you heard during the past 12 months?

Steve: I'm not sure I've got just one story, but I can tell you something that's been a consistent story that I've been hearing a lot of dealers talk about and that is the delayed tax season. Once the tax season started, the precipitous decline once it did start was a little bit interesting.

Many people knew as telegraphed by the IRS that some those initial checks were not going to be hitting the market until mid to late February. People knew it was going to be delayed, but once it started, it was almost over as quickly as it began. It was this quick spike in tax season and then it was gone. That's one of the most consistent stories I've heard this year.

I will tell you another interesting perspective from a guy who said for the first time he had remembered where used-car values actually dropped during the spring market. His experience was car values were dropping during the spring market when that traditionally just doesn't happen. I also thought that was pretty interesting. I think much of the data also supports it.

How much stronger is NIADA's standing on Capitol Hill now as compared to when you took the lead at NIADA?

Steve: I would say member engagement in matters of legislative and government affairs has significantly increased over the past four or five years. I think that's

primarily because NIADA has worked really hard to try to create new ways for dealers to tell their story on Capitol Hill and around the country. I think that makes a really big difference.

So by extension, NIADA's voice has gotten stronger because more dealers are engaging in that kind of narrative. We now have a larger chorus of voices contributing to the conversation in addition to a lot of the things we were doing before. I think we have a lot more opportunity for engagement than we ever have. Our voice is really growing and that's very exciting.

It's definitely been a team effort on that front as we build on some of those past successes but look at more ways we can continue to build. There's an old saying in D.C. that if you're not at the table, you're on the menu. I'm happy to report that NIADA is not on the menu.

For the dealers who navigated the challenges of the past couple of years, how strong of a position do they have now to possibly enjoy quality results for the remainder of 2017 and beyond?

Steve: I think dealers who have weathered the storm over the last couple of years have a very strong position and should feel pretty secure in the position they have in the market. There have been so many external factors that have put pressure on dealer operations. Whether it's regulatory compliance or access to capital or having to restructure your financial relationship as well as subprime finance companies buying as deep as they have been, it's all put a lot of pressure on dealers to adapt and conform. Not to mention all of the changes in consumer buying habits, all of the digital and online considerations, how you interact with customers, there has been a lot to absorb in the last couple of years.

We're going to continue to see a lot of changes in the industry going forward to meet consumer demand and expectations. Dealers who have been able to navigate a lot of those concerns over the last couple of years should feel pretty confident in their position. Given some of the dealer

business confidence survey results, it looks like they're also starting to see that as well.

What are the top three things on your association to-do list you hope to complete by the end of the year?

Steve: First and foremost, we're focusing on our convention. One of the biggest priorities every year is to continue to provide a convention platform that meets and exceeds the expectations of our dealers and members. In short, hosting the largest NIADA Convention in our history this June is a major priority. The early returns on our exhibit hall and registrations numbers would support that we'll meet that objective. That's very exciting.

Thinking about what we'd like to get done before the end of the year, I would say a couple of things. One would be that we've talked for so long about reinforcing and expanding the position of NIADA in the legislative arena and regulatory world in D.C. and around the country. I think we're doing a really good job and we've got a lot of great momentum. But what you're going to see over the next six to eight months is a focus on expanding and growing our educational opportunities for dealers. Specifically we're going to retool and grow our Certified Master Dealer program. There's going to be some very specific things coming. We also have some other things coming to the table to support that education goal we have to serve our dealers.

Another thing that personally I would like to see and I know our board would like to see is a very specific plan to put in place between NIADA and our state associations in continuing to build that bridge to work more collaboratively with our state associations. Not that we don't already, but I think that's an important objective, which is to work more closely and collaboratively and help some of those state associations that need help in growing. It will all help to fulfill our mission.

We would also like to raise about \$250,000 for our political action committee. That's something we're working on as well. I'll keep you posted.

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CHART YOUR COURSE

NIADA provides the maps and knowledge – through the unmatched educational content of the NIADA Convention – to help independent vehicle dealers get to their ultimate destination: success. So let's get started and set sail toward your goals!

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OPERATIONAL STANDARDS: NIADA senior vice president of legal and government affairs Shaun Petersen is among the legal and industry experts who will get you up to date on the ever-changing regulatory and legislative issues that affect your business, and offer strategies to stay on the good side of regulators.



BUY HERE-PAY HERE: NIADA national director of 20 Groups Chuck Bonanno and the BHPH world's best and brightest guide you through best practices in underwriting, collections and more, as well as the latest payment assurance technology.



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Presenting for the first time ever, 2017 Buy Here-Pay Here Industry Benchmarks, provided from NABD and NIADA industry data.



Chuck Bonanno

Ken Shilson

KEYNOTE SPEAKER: CAPTAIN RICHARD PHILLIPS

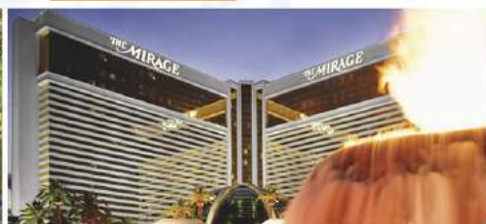
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2016 INDUSTRY BENCHMARKS

BALANCE SHEET RATIO COMPARISONS: 2014-2016

BALANCE SHEET	2016 Average BHPH Benchmarks	2015 Average BHPH Benchmarks	2014 Average BHPH Benchmarks
(Inventory x Days) / Cost of Vehicle Sales	53.21 days	53.44 days	55.82 days
Cost of Vehicle Sales /Average Inventory Dollars	6.89 x	6.73 x	6.54 x
Vehicle Sales / Average Inventory Dollars	11.39 x	11.55 x	11.47 x
Vehicle Sales / Total Assets	0.89 x	0.89 x	0.93 x
Total Assets / Total Liabilities	1.63 x	1.78 x	1.97 x
Allowance for Bad Debts / Finance Receivables*	26%	24%	23%
Total Debt / Total Assets	62%	56%	51%

* Finance receivables are net of unearned finance charges

INCOME STATEMENT RATIO COMPARISONS: 2014-2016

INCOME STATEMENT	2016 Average BHPH Benchmarks	2015 Average BHPH Benchmarks	2014 Average BHPH Benchmarks
Bad Debts / Vehicle Sales	27%	25%	26%
Cost of Vehicle Sales / Vehicle Sales	61%	60%	60%
Gross Profit*** / Vehicle Sales	29%	31%	31%
Operating Expense / Vehicle Sales	23%	22%	22%
Interest Expense / Financing Income	18%	19%	18%
Operating Income / Vehicle Sales	6%	9%	9%
Financing Income / Vehicle Sales	17%	16%	17%
Compensation** / Vehicle Sales	12.0%	11.4%	10.6%
Reconditioning Cost / Vehicle Sales	8.4%	8.3%	7.6%

NOTES TO RATIO COMPARISONS:
**Compensation excludes those of the owners
***Gross Profit is net of bad debts and financing income
x = times

Source: SGC Certified Public Accountants

COST OF VEHICLE SALES: 2014-2016

COST OF VEHICLE SALES	2016 % of Vehicle Sales	2015 % of Vehicle Sales	2014 % of Vehicle Sales
Cost of vehicles	49.24%	49.59%	50.06%
Reconditioning costs	8.39%	8.31%	7.63%
Other	3.13%	2.44%	2.72%
Total cost of vehicle sales	60.76%	60.34%	60.41%

OPERATING EXPENSE: 2014-2016

OPERATING EXPENSE			
Advertising	3.74%	3.93%	3.82%
Bank charges	0.17%	0.18%	0.28%
Contributions	0.03%	0.02%	0.03%
Depreciation	0.49%	0.52%	0.46%
Dues and subscriptions	0.15%	0.14%	0.12%
Insurance	0.31%	0.32%	0.29%
Legal and accounting	0.24%	0.28%	0.45%
Outside services	0.79%	0.38%	0.20%
Office expense	0.79%	0.90%	0.83%
Rent	2.28%	2.27%	2.20%
Repairs and maintenance	0.15%	0.34%	0.16%
Salaries (non-owners)	11.97%	11.36%	10.56%
Taxes - general	0.09%	0.07%	0.18%
Other operating expense	0.16%	0.23%	0.03%
Taxes - payroll	0.51%	0.52%	0.84%
Utilities and telephone	0.59%	0.42%	0.67%
Travel / Training	0.33%	0.38%	0.43%
Total operating expense	22.79%	22.26%	21.55%

Source: SGC Certified Public Accountants

2016 INDUSTRY BENCHMARKS

DEALER OPERATING INFORMATION: 2014-2016

SALES	2016 NIADA Benchmarks	2016 NCM Benchmarks	2015 NCM Benchmarks	2014 NCM Benchmarks
Average units sold per dealer (BHPH deals only)	708	585	635	550
Average cash in deal per vehicle sold	\$6,466	\$5,656	\$6,353	\$5,777
Average ACV per vehicle sold (includes recon)	\$7,438	\$6,034	\$6,403	\$6,237
Average reconditioning cost per vehicle sold	\$811	\$1,126	\$1,221	\$1,207
Average gross profit per vehicle sold	\$5,868	\$4,462	\$4,675	\$4,484
Average cash down payment (including trades)	\$972	\$1,014	\$1,091	\$1,089
Average amount financed	\$12,862	\$10,395	\$10,909	\$10,567
Average term of loan (in weeks)	186	147	159	153

COLLECTIONS / RECOVERIES

Average weekly payment amount	\$98	\$84	\$91	\$89
Percentage of accounts past due	17.9%	18.7%	17.6%	16.3%
Average # of past due accounts per collector	94	87	82	101
Average net loss per charge off	\$6,807	\$5,098	\$5,058	\$4,820
Average portfolio delinquency				
Current	82.10%	81.30%	83.10%	83.80%
0-10 days	N/A	12.00%	9.70%	8.60%
1-15 days	10.50%	N/A	N/A	N/A
11-29 days	N/A	3.60%	3.90%	3.90%
16-29 days	3.60%	N/A	N/A	N/A
30-59 days	2.30%	1.70%	1.90%	2.30%
60-89 days	0.80%	0.60%	0.80%	0.90%
90+ days	0.70%	0.80%	0.60%	0.50%
	100.00%	100.00%	100.00%	100.00%

INVENTORY MANAGEMENT

Vehicle Days Supply (Units)	59	71	84	91
Average inventory aging				
0-30 days	48.70%	44.00%	41.30%	42.40%
31-60 days	23.50%	23.50%	22.20%	23.70%
61-90 days	14.30%	11.40%	14.70%	15.50%
91+ days	13.50%	21.10%	21.80%	18.40%
	100.00%	100.00%	100.00%	100.00%

Source: NCM Associates, NIADA 20 Groups

LOSS STATISTICS: 2016

LOSS STATISTICS	2016 BHPH Benchmarks	2015 BHPH Benchmarks	2014 BHPH Benchmarks
Average gross dollar loss (before recoveries)	\$7,771	\$8,111	\$8,408
Average net dollar loss (after recoveries)	\$5,916	\$6,061	\$5,749
Average default rate (% of loans written off)	33.96%	31.45%	31.16%
Average gross dollar loss rate (% of principal)	38.76%	37.35%	38.57%
Average net dollar loss rate (% of principal)	28.42%	27.91%	26.37%
Average recovery (% of charge off recovered)	23.87%	25.30%	31.60%
Highest cumulative default month after origination	22nd Month	21st Month	18th Month
Highest frequency of default (month after origination)	7th Month	7th Month	7th Month
Worst periodic loss month after origination	February	February	February

Source: Subprime Analytics

Note: The above referenced loss data was determined by electronically analyzing nearly 1,800,000 loans, aggregating approximately \$18.0 billion to identify loss rates and to understand why they occurred.

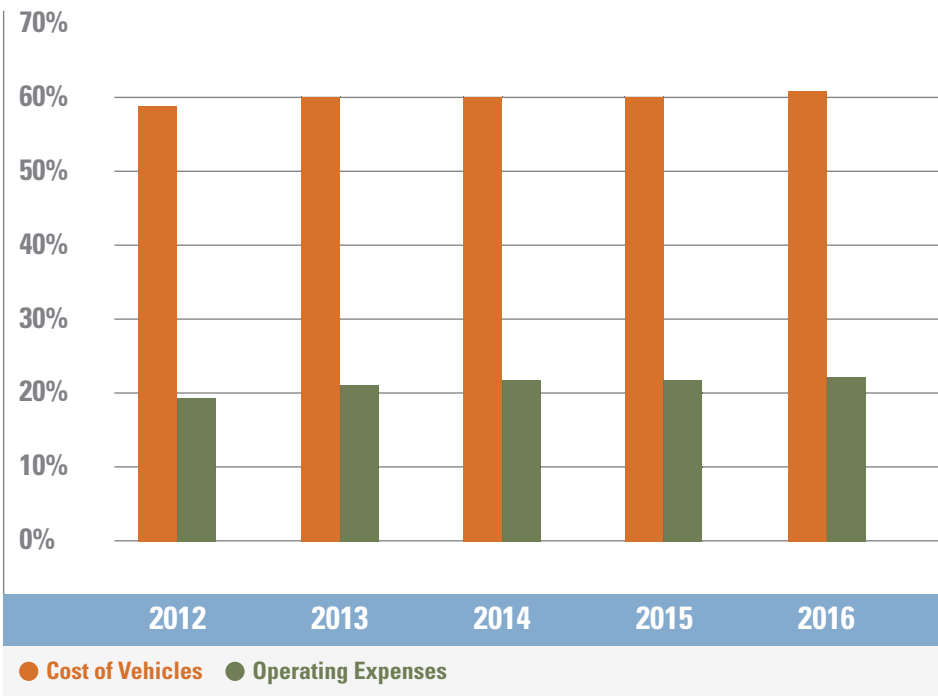
LOSS STATISTICS: 2016 BHPH VS. LHPH

LOSS STATISTICS	2016 LHPH Benchmarks	2015 LHPH Benchmarks	2014 BHPH Benchmarks
Average gross dollar loss (before recoveries)	\$12,070	\$11,657	\$7,771
Average net dollar loss (after recoveries)	\$5,578	\$5,523	\$5,916
Average default rate (% of loans written off)	32.26%	32.21%	33.96%
Average recovery (% of charge off recovered)	53.79%	52.62%	23.87%
Highest cumulative default month after origination	18th Month	22nd Month	22nd Month
Highest frequency of default (month after origination)	6th Month	10th Month	7th Month
Worst periodic loss month after origination	February	March	February

Source: Subprime Analytics

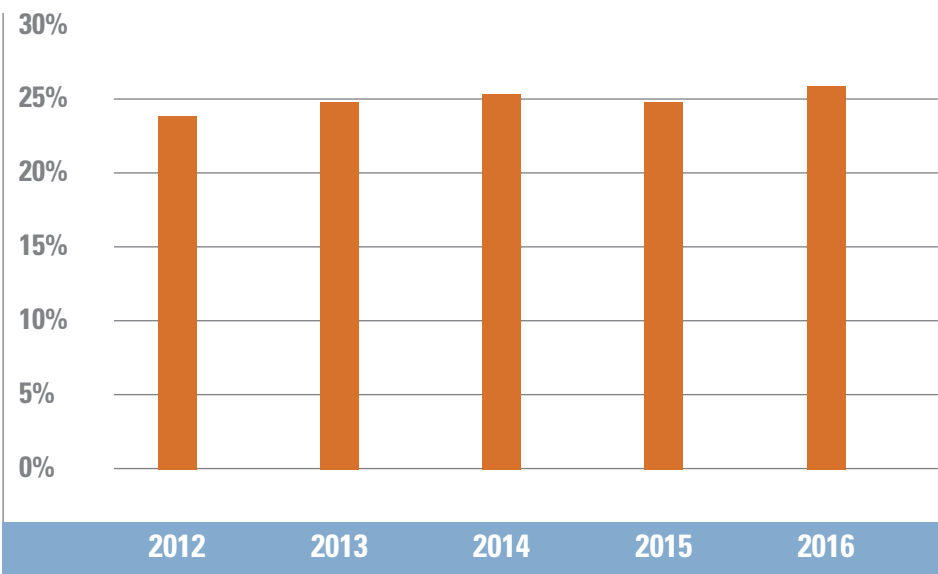
2016 INDUSTRY BENCHMARKS

COSTS / EXPENSES: 2012-2016



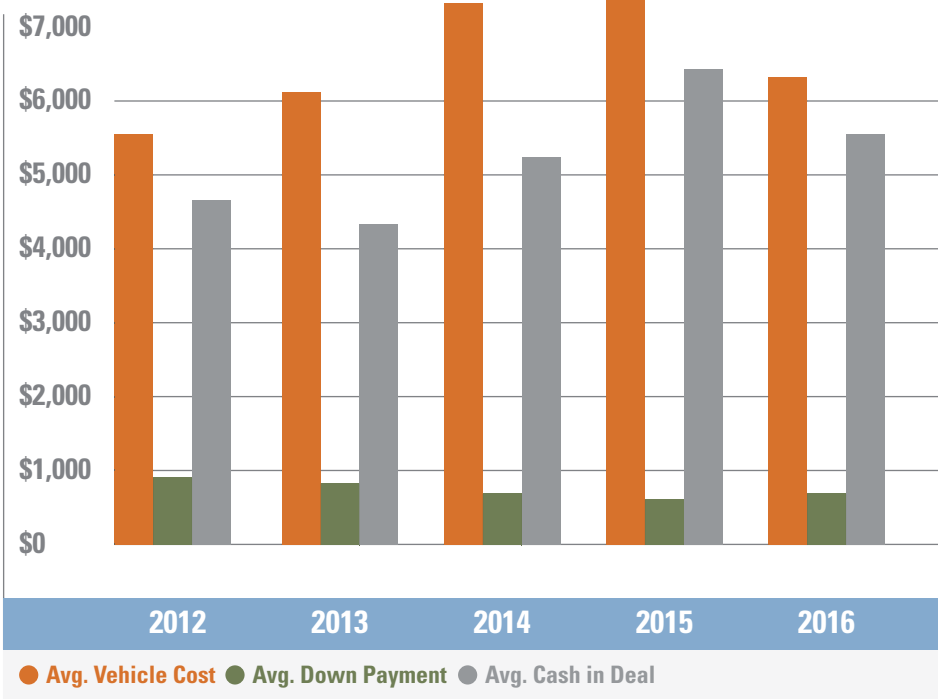
NOTES: All percentages are expressed as a percentage of total sales
Source: SGC Certified Public Accountants

BAD DEBTS: 2012-2016

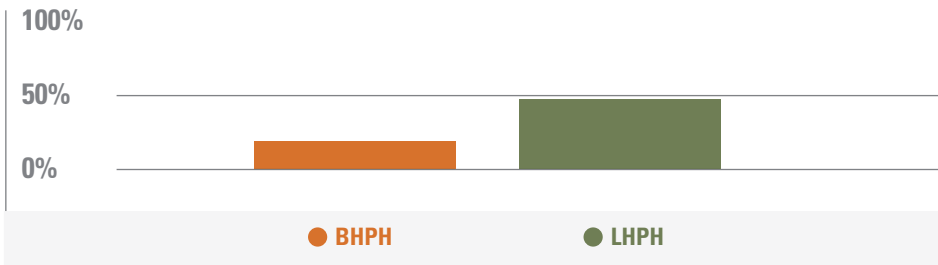


NOTES: Percentages are expressed as percentage of vehicle sales
Source: SGC Certified Public Accountants

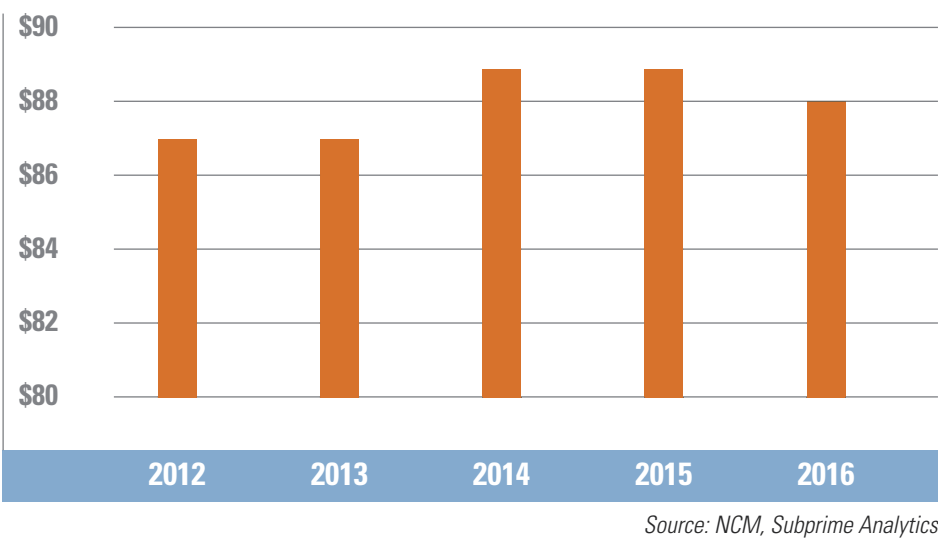
AVERAGE VEHICLE COST / DOWN PAYMENT / CASH IN DEAL: 2012-2016



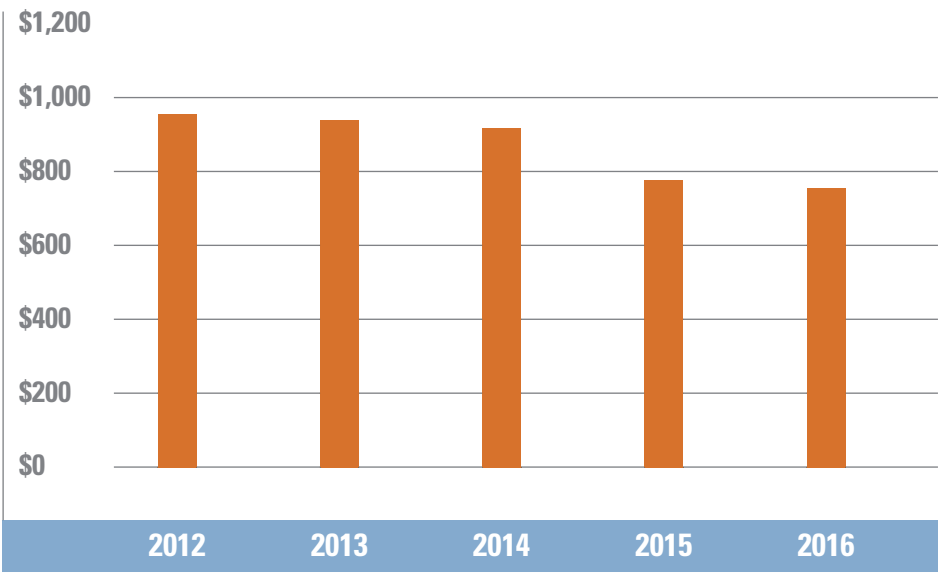
RECOVERY DOLLARS AS A PERCENT OF PRINCIPAL CHARGED OFF: BHPH VS. LHPH



AVERAGE WEEKLY PAYMENT AMOUNT: 2012-2016

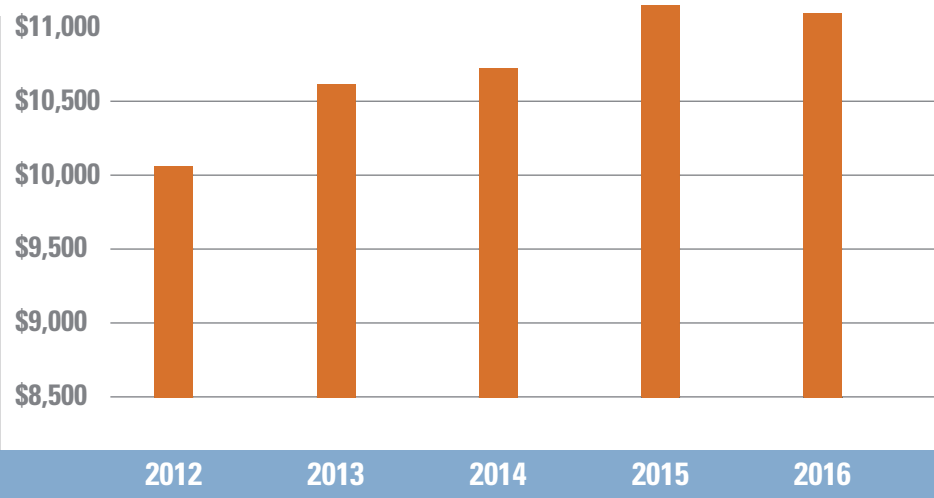


AVERAGE CUSTOMER DOWN PAYMENT: 2012-2016



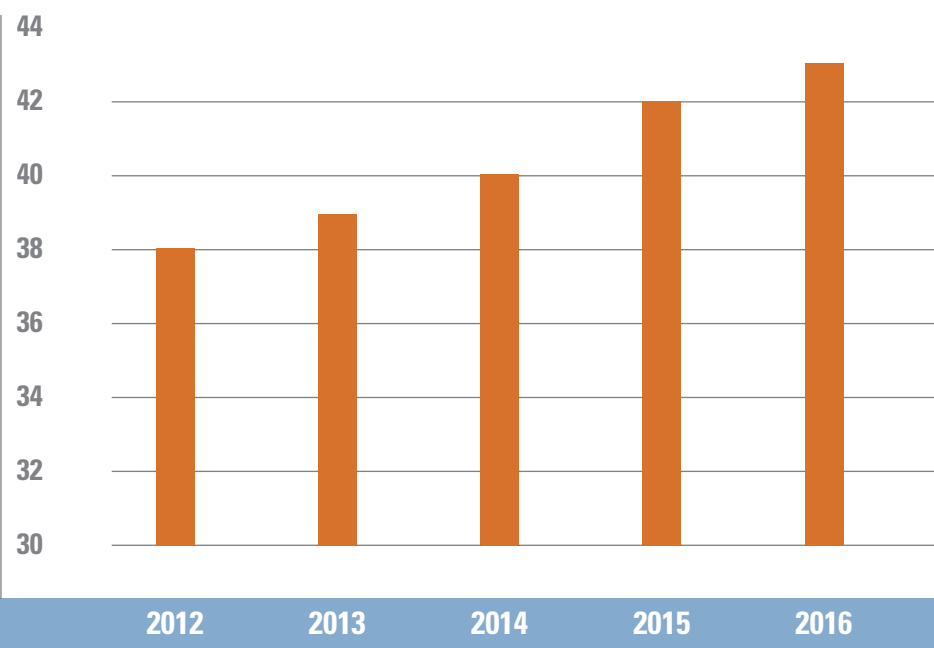
2016 INDUSTRY BENCHMARKS

AVERAGE AMOUNT FINANCED: 2012-2016



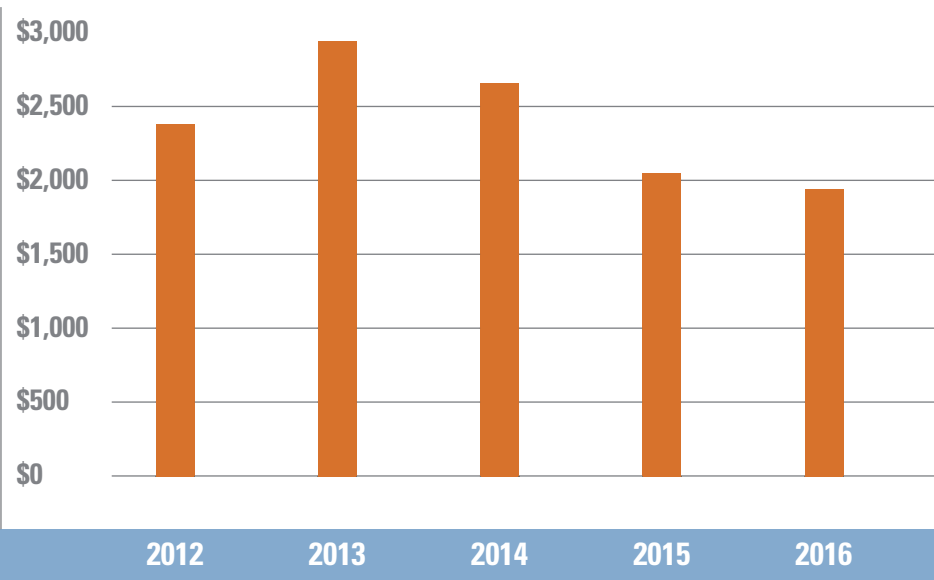
Source: Subprime Analytics

AVERAGE ORIGINAL TERM (MONTHS)



Source: Subprime Analytics

AVERAGE RECOVERY DOLLARS PER UNIT: 2012-2016



Source: Subprime Analytics

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What can a compliance management system do for you?



**STEVE
LEVINE**

If you don't track your complaints then start doing it. If you already do it but aren't studying the results, then pay more attention and reap the rewards.



FORT WORTH, Texas — Conference season is upon us and there will be no shortage of legal and compliance content. One area where I've noticed a gap between conference curriculum and the routine issues that dealers confront is on the subject of dealers' implementing a compliance management system (CMS). While the show presentations highlight the Consumer Financial Protection Bureau regulatory mandate that it expects businesses to have a CMS, less attention is paid to the numerous practical reasons that dealers need to invest in one. This is unfortunate, because in addition to being a regulatory requirement, there are lots of other benefits of a CMS.

The CFPB has set forth four components of a robust CMS. They are:

1. Executive oversight
2. Compliance program
3. Complaint management
4. Audit.

First, I will provide a quick overview of each, and then I'll illustrate the practical benefits to the business.

Executive oversight of compliance

The role of executive oversight is to have an informed management team that takes an interest in compliance and sets the expectation for the entire company. That sounds reasonable enough, but often proves to be elusive because management may not always understand how or where compliance applies and doesn't prioritize it; therefore, neither does the rest of its personnel.

Management has to set forth the expectation that rules will be followed. Is there someone in

charge of compliance (chief compliance officer) or is nobody accountable? Do the leaders inform the employees of important compliance issues facing the industry or do they let them operate in a vacuum? Are violations corrected or swept under the rug if short cuts are profitable?

If the owner or general manager tolerate a compliance lapse, then everyone else will, too. If, on the other hand, they prioritize compliance by frequently mentioning it and correcting mistakes when they are observed, the message will flow from the top down to everyone else. Once this is systematic, the importance of compliance will be recognized by all and the business will be less risky and more efficient.

The benefits of executive oversight are numerous, but the bottom line of business is to make money, and dealerships with executive involvement are in a better position to do so because they identify and limit risk. Leaders that are "hands on" and informed of the compliance dangers that exist can educate their personnel, monitor performance, and take corrective action when necessary. Owners, board members and those in similar positions of power should require that information on compliance topics flow to them so that they can measure performance. Profits can be threatened by just one or two failures in this area, so leaders need to view the business from a compliance perspective in addition to units sold and dollars collected.

A compliance program that "walks the walk"

This section is where the rubber meets the road. Are there policies (the rules) and

procedures (how the rules are executed and followed) that govern the way you do business or not? Are employees trained so following policy becomes a part of the dealership's language and mores, or are they viewed as a nuisance and only begrudgingly mentioned? The biggest mistake dealers make is that they think they can buy compliance, put it on a shelf and gain the benefit of some magic cloak of invincibility! WRONG! You can't just "talk the talk," you've got to "walk the walk."

That means not merely buying generic policies. Instead, have policies that apply to the specific way the dealership conducts business. Be pro-active and train all employees on the policies that touch upon their jobs, document the training, and take corrective action when necessary, and document such action.

I'm often asked to name the magic number of policies needed. There is no set number, it all depends on the business methods and practices. The dealer selling 20 units a month will have different needs than one selling 200 vehicles out of multiple locations. The key is to objectively look at how business is conducted and identify the relevant laws that must be obeyed and whether there are currently policies in place that demonstrate your commitment to follow these laws.

A company that takes this component seriously will be able to withstand regulatory or legal scrutiny when things go wrong or mistakes are made. Such a company will be able to demonstrate that it tries to operate the "right way," and any single instance of failure is isolated and

FactorTrust tool offers real-time reporting on underbanked consumers

ATLANTA — As part of its continued commitment to the needs of buy-here, pay-here dealers, short-term lenders and the alternative financial services industry, FactorTrust announced in April a tool called FlexFormat; what the company contends is the first industry standard in reporting short-term loan data for products focused on underbanked consumers.

FactorTrust classifies the underbanked typically as consumers with traditional credit scores under 700.

While Metro 2 is the industry standard for traditional credit bureaus, it provides an electronic data reporting format more suitable for prime loans, lacking a sufficient data reporting structure for information like loans with terms less than one month. FlexFormat fills this void. It can provide a single format designed around the needs of short-term lenders, while also enabling Metro 2 standardized reporting. FlexFormat's process allows customers to submit data to FactorTrust at no cost, which then maps and translates the data into Metro 2 format, allowing the data to be passed on to traditional credit bureaus.

FactorTrust vice president of auto finance Scott Brackin elaborated about how this tool can help BHPH dealerships.

The FlexFormat will enable buy-here, pay-here operators the ability to report more accurately. BHPH customers and the

reporting needs of associated loans are very similar to the loan information that FactorTrust has been collecting in the short term loan space," Brackin said in a message to BHPH Report.

"FactorTrust has heard from many operators, along with dealer management system providers, that stuffing a BHPH loan into Metro 2 is very cumbersome as each of the big 3 have different requirements and standards," he continued.

"Additionally, BHPH operators can feel safe in reporting their data to FactorTrust without the fear of another alternative credit union 'poaching' their customers," Brackin went on to say. "We feel that the BHPH marketplace is lacking a database that maintains the reporting history for consumers that deal in the BHPH space.

"By opening this up to the BHPH marketplace, we are creating an opportunity for operators to make the needed judgement calls on an applicant by checking out how those consumers are paying other operators," he added.

FlexFormat also includes additional loan types that Metro 2 doesn't support, providing better monitoring, quality assurance and data accuracy. This leads to higher and more complete data quality for these additional loan types, and addresses loan-stacking concerns.

FlexFormat fills a market need that has



been missing until now, including convenient, single-format reporting where lenders only report credit history information once.

The company went on to mention FlexFormat has a simple XML reporting process, driven by events within the lender's loan management system, such as:

- Number and value of new and open loans
- Last payment amounts and dates of made and missed payments
- Mapping and translation of data into Metro 2 format
- Real-time reporting that eliminates lag time between reporting cycles, enhancing accuracy
- Secure SSL encryption, ensuring highest industry standards in data security

▪ Flexible options in reporting only new loan inquiries, or all loan data

With FlexFormat's high quality data reporting capability, lenders and providers more accurately assess risk and make faster decisions on consumers' likelihood to repay loans. FlexFormat provides a complete overview of consumers' creditworthiness, so consumers can get the credit they deserve and can afford. Since its inception, FactorTrust has processed more than 250 million records in real-time.

FactorTrust chief executive officer Greg Rable said the company is uniquely qualified to bring FlexFormat to the market due to its experience working with both Metro 2 and short-term lending data. This proprietary format is founded on FactorTrust's expertise in working with data reporting of short-term and non-prime loans.

"Because Metro 2 cannot support reporting of alternative loans for underbanked consumers, we developed FlexFormat to provide an industry standard and process that has gone unmet by the Big 3 bureaus," Rable said. "This benefits not only the lenders who have asked for a one-to-many reporting format, but also the consumers who have been, until now, widely unrepresented by the Big 3 bureaus.

"FlexFormat easily configures and maps customers' data in a way that is digestible by the Big 3 bureaus," Rable added.

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Don't aim and shoot too high, missing customers



KENNY ATCHESON

Making your message go over readers' heads, or creating a website so fancy that it is difficult for visitors to find what they need does not make you look smarter or your business look classier.

LAS VEGAS — Mount Rushmore reminds me of Abraham Lincoln and his famous speeches.

Because of his hundreds of public addresses, uncanny storytelling ability, and thousands of letters, he mastered the art of effective communication. He told his law partner William Herndon that he had learned the secret to winning over a crowd — being simple.

“Don't shoot too high; aim lower and the common people will understand you. They are the ones you want to reach; at least they are the ones you ought to reach. The educated and refined people will understand you anyway. If you aim too high, your ideas will go over the heads of the masses and only hit those who need no hitting.”

I've consulted with many business owners who wanted me to analyze their marketing tactics. They were interested in a number of our services. An important part of my consulting approach is to dissect their existing marketing/advertising procedures and get a feel for what they typically do.

I've come across fancy, complex, and exhaustingly confusing. As leaders, business owners, and people who are passionate in their fields, sometimes it feels good to go all out and make a marketing message or media into a complicated masterpiece.

For some, having a complicated masterpiece may be an ego thing. But for many, whatever will be the most successful at making a sale will be good enough as long as it is fancy, professional-looking, or corporate-sounding.

Almost everyone thinks their company's

clientele are more sophisticated than they actually are.

Numerous articles and studies reveal that the average newspaper is written at the sixth to eighth grade level. The Wall Street Journal is written at the 10th grade level.

Making your message go over readers' heads, or creating a website so fancy that it is difficult for visitors to find what they need does not make you look smarter or your business look classier. It frustrates that potential customer — at worst, it makes them feel stupid.

Guess what happens when a potential customer feels frustrated or stupid? They go elsewhere.

The show Hotel Hell with star Gordon Ramsay puts him in hotels and motels that generally hemorrhage money. The series features Ramsay visiting various struggling lodging establishments throughout the United States in an attempt to reverse their misfortunes.

One constant that Ramsay brings up is simplification. He nearly always simplifies menus in restaurants and systems in hotels.

What do restaurants, hotels, Abraham Lincoln and Gordon Ramsay have in common with your business?

Their overall message of simplicity — especially as it relates to people and business — should be considered.

Look over the following examples:

Example No. 1; According to SimilarWeb, in March Craigslist was the No. 1 most visited website in its category of shopping/classified, and No. 7 overall in America. Does the website look pretty simple?

Most people who visit Craigslist are looking to buy something. They want to find something. Navigation is simple. The website is void of fancy graphics and things flying all over the screen with Las Vegas-style lights and sounds.

Example No. 2: Some time ago, I was invited to a shareholders meeting for Berkshire Hathaway (Warren Buffet). This is a company that offers one share for more than \$ 250,000.

Following is the homepage of its website: <http://www.berkshirehathaway.com/>

Their website looks pretty simple. I guess multi-millionaires and billionaires who invest in Berkshire Hathaway don't care about fancy graphics and moving parts.

They want information.

They want answers to their questions.

Your customers want information, answers, and they want to know what makes your business different than your competition.

Fancy graphics, expensive logos, complicated websites, and sophisticated communications should not be what makes your company unique.

At this point you may assume that I don't spend any time or money on graphics. There is a place for graphics and pizzazz — but keep it in perspective.

There is a reason a professional copywriter gets paid \$12,000 but a graphics person gets paid \$450 for contributing to the same amount of space to a marketing piece.

In fact, some of the highest paid copywriters in the world get paid \$100,000 upfront for a

CUSTOMERS continued on page 22

Finding your unique advantage in the BHPH business



TIM BYRD

There are some basic truths, but there are always new things to learn to make us better at what we do.

GLOUCESTER, Va. — I think it was Zig Ziglar who said, “Don't ask a guy who makes \$50,000 a year how to be a millionaire.” The reasoning is the advice should be coming from someone who is accomplished in what you wish to aspire to.

I personally have been in business for 23 years. Yes, even suffering as many of you through 2008 and 2009. I have also made many observations in my 30-plus years in the car business that some I think are worth sharing to those who wish to listen.

I am an expert in the car business, including the buy-here, pay-here business. Let me clarify what that means, the car business is like being a doctor or lawyer. One must view it as a practice. There are some basic truths, but there are always new things to learn to make us better at what we do. My friend Jim Zeigler would tell you if you are not CONSTANTLY honing your skills, striving to learn more, getting better, then what the heck are you doing in this business? I am also an expert in reinsurance, which has been my primary business model for many years. I am of the firm opinion that every buy-here, pay-here, every independent retail, every franchised dealer/operator that sells at least 20 cars a month, should have an admin obligor dealer-owned reinsurance company.

Understand something, there are some basic underlying similarities with car dealers, but you are all as different as your DNA. So, as I said, every dealer needs a reinsurance company, however, the company and the products need to be managed in such a way as to enhance you as a dealer, to make you better.

And with better, I mean a more profitable dealer because you are doing things the right way.

With that being said, I want to caution you that snake oil salesmen are in the business of selling you things that just don't smell right. There is a right way and a wrong way to do things. If you are going to walk with the snake oil salesman, you are likely to develop an unpleasant habit of worrying about what is just over your shoulder.

There is a better way. A way that gives you an advantage over your competition. A way that helps you sleep better at night, and up early serving grateful customers. Customers who know your dealership is where they want to buy their next 10 cars.

I love helping dealers develop their unique advantage:

- Like the BHPH dealer with products such as collateral protection, warranties and vehicle

service contracts that are paid for, not all upfront like the other companies require, but as the payment is received each month from the customer.

- Like the independent retail dealer who can promote a great certified pre-owned program where the premium isn't going into some big pot that benefits a few, but into your own pot that benefits you.

There is an advantage in doing things the right way with the right people. When you do things the right way with a servant's heart. When you put a system in place, that all contribute to, that doesn't punish customers because their car broke down, but helps them get back on the road and continuing to make payments. No matter where they are.

That makes for happy customers.

That makes for happy dealers.

Let's figure out your advantage.

Tim Byrd is founder and president of DealerRE, a managing agency located in Gloucester, Va., and an industry expert on dealer-owned reinsurance companies, BHPH operations, and dealership and F&I development. As a 25-year veteran of the business, Byrd is a sought-after speaker and can be reached at www.DealerRE.com or by calling (804) 824-9533.

Sellers Wanted

Not everyone in the market for a new car can have perfect credit. In fact, 44% of Americans won't qualify for prime financing. But that doesn't mean that nearly half of Americans are forgoing the purchase of a new vehicle.

Quite the contrary in fact. Those car buyers are shopping around and as more traditionally prime lending institutions venture in the subprime space – competition is only going to get steeper.

So whether you're already doing subprime financing and are on the fence about going deeper or are considering doing business in the space for the first time - now is the time to establish your dealership as an ally to customers with imperfect credit.

Before you take the plunge, consider these tips on expanding into the subprime market with confidence.

1. Let customers know they have options.

Today's car buyers are savvy, but it's still easy to feel pigeon-holed by your credit history. Make it known that your dealership recognizes there's more to a customer than their credit score and can extend deals that account for each customer's unique circumstance.

2. Get to know your customer.

To treat your customers as more than their credit score you need to get to know them! The more information you have, the more certain you can be that the deal you're extending is a win for both parties. The downside to this approach is that it can be more time consuming. The upside is, there is technology out there that makes even this more human approach to establishing loan

qualifications quick and easy. Features like automated reference checks for example, check references without you or your staff ever having to pick up the phone.

3. Be proactive about risk.

Even with proper vetting there is no getting around the fact that there's additional risk involved with subprime deals. To minimize your exposure, you must be on the offensive and one of the best offensive plays on the market today is a GPS solution. With GPS, your protection starts the minute you install the device and give dealers visibility into default predictors, real time vehicle location and the ability to make more cost effective recoveries when necessary. Why wait until your asset is at risk to start protecting it?

4. Be transparent with your customers.

Compliance is a hot button issue in the Auto Finance Industry. The last thing your business needs is a CFPB investigation. Disclosures are important. In fact, they are the key to making any subprime deal a win-win for both the dealer and the customer. The two key

components to compliance are 1) making sure your customers are aware of your policies and procedures and 2) ensuring any business partners, from recovery agents to technology providers, operate with compliant business practices surrounding consumer privacy and data security regulations.

5. Stay in touch.

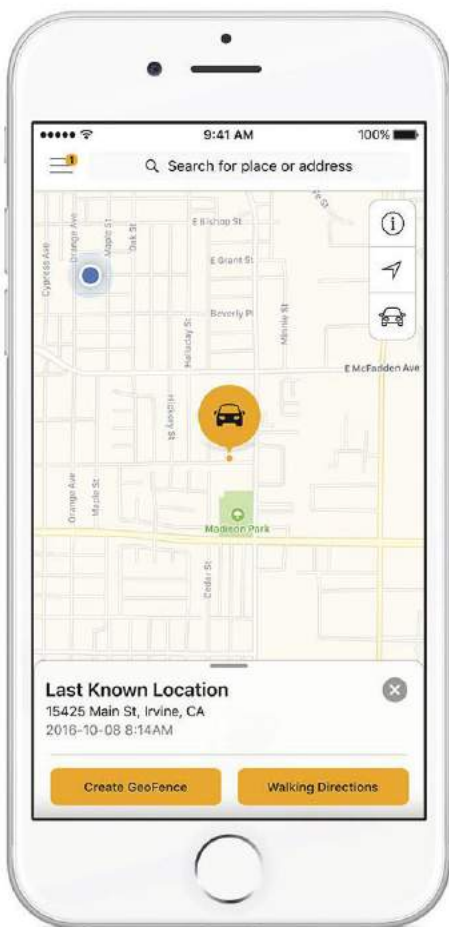
The relationship you start with each customer doesn't end when they drive off the lot. It's only just beginning. For the duration of their loan you should stay in touch! Using an automated payment reminder is a fast and simple way to do just that. Payment reminders have been reported to reduce delinquencies by as much as 20%. This translates into more cash in your pocket as well as credit score improvement for your customers. Win-Win.

6. Have a back-up plan.

Expanding into the subprime space isn't going to be an effective growth strategy if your losses skyrocket. Dealers need to be prepared for the worst case scenario and equip themselves with the tools and resources required to quickly and effectively locate and recover their assets when a customer defaults on the loan.

Auto ownership may not be for everyone, but it certainly is for more than just those with perfect credit. Don't let fear and uncertainty prevent your business from growing.

Explore the tools and technology available to support your business goals starting with GoldStar GPS – the most accessible and scalable GPS solution on the market empowering dealers to control their bottom line and increase profits with confidence. Plus unlike other GPS providers, only GoldStar provides a platform that supports 3.75M+ active devices, with 1B data events per quarter and over 15 years of award-winning operational excellence.



Spireon CEO impressed with BHPH, pledges to help dealers

By Nick Zulovich, Senior Editor

IRVINE, Calif. — Spireon chief executive officer Kevin Weiss acknowledged he didn't possess a deep knowledge of the buy-here, pay-here dealership and deep subprime auto finance industries. The Princeton-educated executive spent nearly 40 years in a wide array of technology leadership positions, but Weiss hadn't interacted much with operations that look to provide vehicle financing to consumers with soft credit backgrounds.

Since becoming the top executive at Spireon nearly a year ago, Weiss explained to *BHPH Report* about his education in this segment and how he's positioning the company as a result to help this valuable segment of its customer base that now spans more than 3 million active subscribers.

"I have an incredible appreciation for men and women who are in this segment of the market," Weiss said. "They're some of the smartest businesspeople I've come to know in my 40 years of work. I'm thrilled to be a part in helping their customers to get the kind of solutions they need to get their working and family lives on track.

"It's a lot of work but rewarding work as well," he continued.

Spireon named Weiss as CEO last June. Prior to joining Spireon, Weiss served as CEO of Unitrends, a global technology

company that delivers end-to-end business recovery solutions. Prior to Unitrends, Weiss served as president and chief executive officer of multiple private-equity owned technology-enabled companies following his role as president of McAfee and senior sales and marketing leadership roles at IBM.

Now with Spireon, Weiss highlighted what's been happening during his tenure beyond learning about vehicle delivery in the deep subprime space.

"There are a lot of times after you take a job, after a month you say, 'Oh my gosh, what have I done?' I haven't had that here, which is pretty cool," he said.

"What I focused early on was trying to get the structure of the company right," Weiss continued. "What I was trying to get us to focus on was the important thing we have in this business, which is our customers. We had to make sure to get all of the wood behind the arrow and focused on that customer; what their wants and needs are.

"We also need to be like dial-tone availability," he went on to say. "When we're needed, when they need us, we're there. Then we also need to think about when they might need us and don't know it yet."

Major company moves

Back in March, Spireon announced updates to Recovery Link — a feature of its

one-step GoldStar GPS solutions vehicle recovery system for buy-here, pay-here dealers — which can allow them to automatically send recovery agents locator intelligence on the location of lapsed vehicles through text or email.

GoldStar can let BHPH dealers see the number of times a recovery agent views a shared link generated by the recently enhanced tool produced to increase efficiency by saving dealers time and money, according to Spireon.



KEVIN WEISS
Spireon

"One of the biggest hurdles BHPH dealers face in recovering assets is the number of manual steps required

to communicate with recovery agents, increasing the time and money spent on recovery," Sunil Marolia, vice president of product management at Spireon said in a news release.

"Our latest Recovery Link feature streamlines the process and automates communication with agents. As we all know, time is money, which is why GoldStar is designed to help our customers be as efficient and productive as they possibly can," Marolia continued.

The company said GoldStar's real-time location and vehicle status intelligence offerings can help minimize financial risk for dealers by lessening the probability of vehicles being damaged, facing impoundment or accruing other avoidable costs.

The revamped solution shares both vehicle location history and real-time location information with recovery agents, which can be clearly viewed on a smartphone or tablet computer, making it easier to locate vehicles while on the road, the open connected vehicle company said.

Recovery agents only have access to vehicle location and data that is deliberately shared.

"I used to stay up late locating and relaying info to recovery agents over the phone," Margie Kimble of Joe's Auto Sales said. "Now I can simply send them the recovery link and it's a done deal."

Additionally, dealers can restrict access to the location of a vehicle after recovery by suspending the link either manually or automatically. Otherwise, it expires after 30 days.

Through features like Spireon's Recovery Link, 78 percent of customers using GoldStar have been able to finance customers with lower credit scores, and 84 percent have reported reduced delinquencies, according to the company.

On the personnel front, this spring the

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company announced the promotion of Reggie Ponsford to senior vice president of sales for Spireon's Automotive Solutions group. Previously, Ponsford was vice president of national accounts, responsible for Spireon's largest and most complex customers in the automotive space.

In his new role, Spireon indicated Ponsford will oversee sales for the vehicle finance market segment, including buy-here pay-here and franchised dealerships, rental companies and power sports vehicle retailers, as well as direct and indirect lenders and strategic accounts.

"Reggie was an early pioneer in the GPS-based telematics industry, building an impressive long-term customer list through his genuine dedication to customer service," Weiss said in a news release.

"In addition to Reggie's exceptional sales track record, he has brought strong leadership and a focus on innovation to Spireon, helping us grow our roster of national accounts and extend our position as the largest aftermarket telematics provider in the country," Weiss continued.

Previously, Ponsford was principle owner of Enfotrace, which was acquired by Spireon in 2011. Before that, he was vice president of sales at CalAmp, vice president of sales and marketing at Aircept, and regional sales manager at Teletrac. Ponsford has more than 18 years of sales and management experience within the wireless asset management and location-based



services (LBS) markets. His industry expertise has been a key driver in the growth of GoldStar.

"My goal is to keep customers constantly connected to their mobile assets through Spireon's reliable hardware and software platform, as well as rich data insights, allowing them to increase profits and mitigate their risk," Ponsford said.

"I'm thrilled to take on this expanded role, which will allow me to deliver Spireon's top-notch customer service and the number one product in the market, GoldStar, to even more customers," he went on to say.

Looking ahead

During the conversation with *BHPH Report*, Weiss hinted at more improvements to the GoldStar solution are coming this year. He emphasized that Spireon is working to overcome a well-known challenge familiar to any technology provider. Weiss referenced a saying in the business that notes, "Simple is really hard. Complex is really easy."

Weiss continued the thought by tying it back to how it applies back to BHPH dealers and financing companies that book subprime paper.

"We have to constantly battle as we put more functionality into our devices — remember you're taking a lot of technologies and putting them inside the device — you have to remember to focus on how to simplify that installation process and the customer getting data from the system they need.

"A lot of people don't want to log into a portal and start running queries against the assets they have. What they want is to have the data ready when they need it," he added.

Weiss also mentioned how Spireon is developing a mobile app to make customer data more readily available as well as an enhanced installation process to help streamline the recording of a device's serial number with the VIN of the unit to which it's attached.

"It's the little things that get you the greatest return for your customers," he said.

With a better understanding of the challenges BHPH dealers and deep subprime auto finance providers face, Weiss is confident his second year as the head of Spireon will be even more successful than the first one.

As we bring out more features, I think there are things we can do to work with the dealers and lenders as well as consumers to help them remain in these vehicles for the entire period of the loan that has been written. We're going to bring technology to help them do that," he said.

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It's conference time in the neighborhood



GENE DAUGHTRY

The conference is about filling gaps you have in your experience and learning what is best to fill those gaps. There are experts for every item you could ever need to know about in this conference right now.

LAS VEGAS — Here we are Las Vegas. Auto Dealers of all shapes and sizes. Lots of new guys eager to learn the ropes. Seasoned dealers looking for the newest widget and tidbit of information that will help them steer clear of a regulator or steer into a new way to make some money. Everyone seeing vendors and friends from previous conferences or their 20 group.

Are you excited about being in Vegas or excited about learning something new? If you are reading this, you are probably at a conference right now. What do you have planned? What do you want to find out while you are here? I have heard a few dealers grouse a bit about "it's always the same." I have to tell you it isn't really the same unless you have no plan and are just walking around waiting for someone to appear and give you the magic formula to making millions of dollars.

Another point is don't go into these training tracks and expect to hear every detail of how or why something works or is a potential risk to your operation. You will get insight from someone in that business and hear enough to help you investigate further on your own, in your state and create a plan when home to help further your idea or protect your business. Have questions. Insist on getting answers. The only dumb thing about a question is not asking it.

Let me ask you — are you in a 20 group? Do you have a DMS? Do you have a warranty



or service contract plan? Is that through a third party or do you have reinsurance working? Do you have collateral protection? Do you have all the inventory you need all the time? Who decides what recon to do and how much to spend? Are you using a GPS device of some kind, which configuration? Do you have a shop operation? Who is underwriting, collecting, managing insurance? Are you still taking cash? Can you take credit card payments? How do I get my customer the ability to pay or apply online? What is the best way to find new customers? What type employees do you need? Should they be exempt or non-exempt? What if I get a letter from an attorney or a regulator? These are just a few questions and you can get deep in the weeds on each one at this conference.

The conference is about filling gaps you have in your experience and learning what is best to fill those gaps. There are experts for every item you could ever need to know about in this conference right now. There are dealers standing around you that have already asked these questions, gotten answers, gone home and tried it and made adjustments to it for their operation. In my experience every one of them will share their experience with you if you will ask. Another tidbit for you. Most of the vendors that you see have either been or still are dealers and have a wealth of information about more than the product or service they represent at this conference. Find one you like and dig into their experience.

As I have said in other commentaries, many of those reading this are members of 20 groups and already have most of the answers. All those becoming interested in the business, just starting or have been operating but not sure why they aren't making money, the people around you have been there.

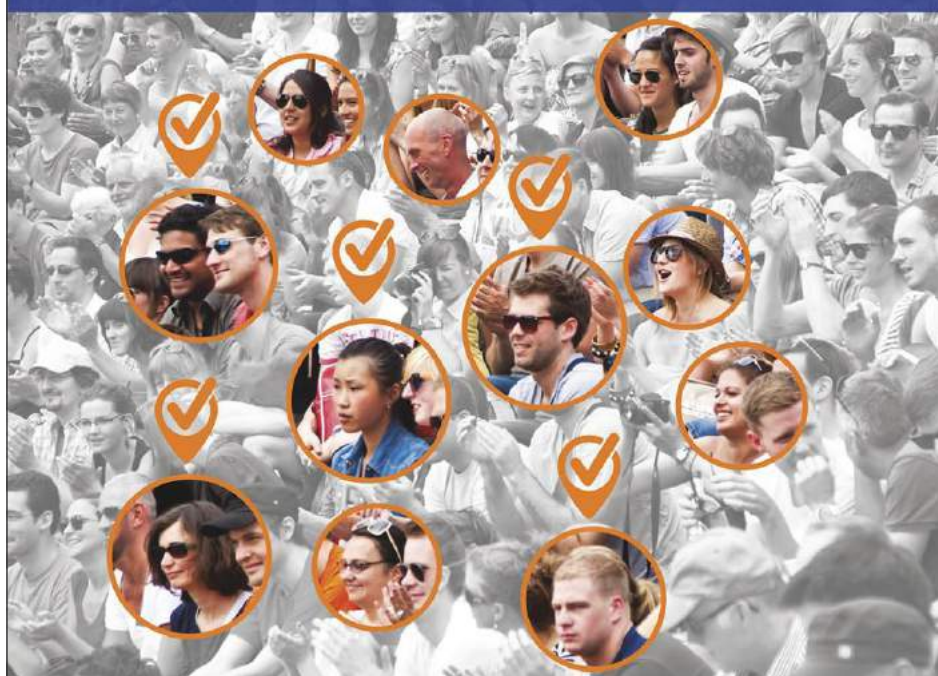
I can give you a list of vendors to speak with on any given subject, find me. The conference organizers have also provided you a list of vendors and have learning tracks on every subject. It is down to you to have something you came to find out about and do the legwork to get answers.

You are in the BHPH business. You should know something about cars, collections, people and regulators. There are only so many ways you can slice those subjects up. So yes it is sort of "the same" each time. You can count on coming to these conferences and seeing the same people. You should be happy that these organizers do all this work (it is a LOT of work!) and bring all this together so you have a place to go and be able to get answers on a multitude of subjects at once. Is everyone making money? They should be. But the conference is here to help you improve, hopefully with less work, risk or expense than before.

Remember, what you LEARN in Vegas better not stay in Vegas!

Gene Daughtry is an experienced trainer and consultant specializing in BHPH/LPHD dealership operations. Daughtry now is director of BHPH operations for PLS Financial and has begun a multistate project of building new BHPH dealerships in several states. He has 17 years of BHPH experience. If you would like a "how-to manual" on starting up and operating a BHPH dealership, check out www.Dealers411.net and get a copy of his book BHPH 101 Plus. You can reach Daughtry at gene@dealers411.net or (479) 970-4049.

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not an indication of a wide spread problem. That's important when having to defend oneself, because allegations of intentional indifference can prove costly.

Complaint management and resolution

Customer complaints provide critical insight into the business and opportunities for improvement. Well run companies don't ignore complaints, they examine them and use them to get smarter. Some customer issues are simply misunderstandings, while others provide notice of compliance issues that can harm the company. Therefore, it's important that all matters be tracked and evaluated so that investigation is easy, commonality of issues can be discovered, and records of resolution can be kept.

Again, not all dealerships will manage their complaints the same way. Larger businesses may buy software and complex resolution systems, while smaller dealerships may simply keep a spreadsheet. Whatever tool is chosen, care should be exercised to consistently and objectively enter the information and evaluate the claims being made. If a mistake has been made, admit it and move on. Take advantage of training and learning opportunities for your team, and notate this has occurred so that the business can demonstrate its commitment to compliance.

A robust complaint management system acts as a scorecard for the entire company. Trends can be spotted, opportunities for employee training will become evident, and the company will learn a lot about the customer perception of the products and services it offers and even the performance of its third party service providers. A dealer could pay an expert thousands of dollars to conduct an operational assessment that won't come close in value to the information that can be discovered by thorough complaint management. If you don't track your complaints then start doing it. If you already do it but aren't studying the results, then pay more attention and reap the rewards.

Audit

This may be the prong that is most scary and misunderstood. Don't worry, nobody is saying to call in one of the big accounting firms. This component simply calls for an objective review of operations to ensure compliance and that policies are followed. Objectivity can be tricky, especially in smaller dealerships, given the many hats people wear and the close quarters folks often work in, so give some consideration to having someone on the outside (lawyer, consultant, etc.) come in and conduct the assessment.

For a smaller dealer, the basic audit that looks at a handful of current deals, past charge offs, and repossessions may be sufficient, along with evaluating any policies in place and whether the dealer can demonstrate they are obeyed. For a larger dealer,

the scope may grow to include evaluation of servicing, credit reporting, and similar sophisticated functions such as sending of adverse action letters or whether closing files contain all signatures. Again, the size and sophistication of the business determines the scope, but any audit is better than no audit so leave fear behind and start looking with a more critical eye.

Auditing takes some work, but its' valuable as an inexpensive way to keep score, plus it is better to find your own mistakes rather than have them uncovered by a regulator or plaintiff's lawyer. Dealers are more than willing to put forth the effort to develop metrics to track dollars and the performance

of sales and collections. Taking a similar approach to the operational aspects of the business will ferret out bad behavior and also identify opportunities for efficiencies and potential profits.

Final thoughts

The past several years have seen an unprecedented call for the development of CMS' in dealerships. While much focus has been given to the regulatory perspective, this article, instead, focuses on the practical impact a CMS can make on the business. Both reasons are important, so for those of you sitting on the fence thinking you won't

ever be the unlucky one drawing the regulator's "short straw", give thought to the practical gains a CMS can help you achieve, jump down from that fence, and take the next step!

Steve Levine is chief legal and compliance officer of Ignite Consulting Partners, which offers compliance, technology, and cyber security guidance to car dealers and finance companies. Ignite's team has broad experience working with dealers of all sizes. These experiences allow them to develop strategy, overcome internal obstacles and implement meaningful change. Contact sales@IgniteCP.com to learn more. You can follow Steve on Twitter @LawyerLevine for compliance and industry related content.



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SecureClose lands agreement with J.D. Byrider



By Nick Zulovich, Senior Editor

CARMEL, Ind., and MESA, Ariz. — This is the kind of market penetration level SecureClose chief executive officer Ace Christian envisioned when he launched the technology company aimed at leveraging digital technology to streamline the explanation of vehicle installment contracts during delivery.

SecureClose reached an agreement with J.D. Byrider where this technology can be available to franchisees who operate a buy-here, pay-here dealership in the network as well as the stores that are within the company's corporate portfolio. SecureClose is a solution that can combine the presentation of compliant legal disclosures with electronic document presentation, E-signature, and document and presentation storage.

When the dealer and consumer are ready to close their transaction, the consumer sits in front of a computer with SecureClose's Clarify Auto Software. The tool's virtual "closer" walks the customer through the high points of each of the pertinent documents while the presentation and consumer interaction are all recorded. The consumer executes the actual electronic deal documents using eSignature, and the signed documents and video are combined into a unique closing record that is stored for the dealer.

During a phone interview with *BHPH Report*, Christian said he "was just a dealer who had a dream that we could, as an industry, design a system that made everyone's closings consistent and we all said the same thing, delivering the same message and not cutting corners or trying to skip a step."

Then as a result, "The industry as a whole would become stronger and the regulators would see that we really care about our

customers and want to provide a better service," Christian added.

This agreement is about two years in the making, roughly about the time Christian and his team began to deploy the technology to other dealerships much smaller in scale than J.D. Byrider, which currently boasts more than 165 locations nationwide.

"SecureClose has been on our radar for a while now," said Mike Onda, director of strategic initiatives at J.D. Byrider, who indicated that his first meeting with the technology company came in January 2015.

"At that time, we instantly understood that they had identified a need in the marketplace; one that we shared with all of the other auto dealerships out there," Onda continued. "That's the need for consistent and compliant disclosure that do two things. One, they educate and inform the customer, which is critical. Two, they protect us from legal and regulatory issues."

"I remember it like it was yesterday because a number of us left the room and said, 'Why didn't I think of that?' It's so crystal clear that they were meeting a need out there that we're constantly thinking about."

One of the first operators in the J.D. Byrider network to deploy SecureClose is Mark Morris, who owns five franchises and also worked together with Christian earlier in their automotive careers. Morris explained how SecureClose can alleviate the problems dealerships face when the delivery closings can pile up during busy times, especially on Fridays and Saturdays. He made an analogy that potential buyers often do not come to the dealerships at regular intervals like what might happen at a doctor's office.

"They arrive more like an emergency room, so there are peak times. And during

these peak times, service becomes a bit more of a challenge. Even though you try to staff at peak time, it seems like you never quite get it right," Morris said.

Depending on how many computer terminals a dealership might have at its disposal, stores using SecureClose could have three, four, five, perhaps even more deliveries being finalized simultaneously.

"It's that cliché where you never get a second chance to make a first impression. If the customer's first impression of our company and our people is that we're understaffed and overworked and they're going to have to wait for a long time to do business with us, even if they choose to do business in that initial set of circumstances, that's their impression of our company ... that's just not the impression I want to leave," Morris said.

"Reviewing contracts is an incredibly important part of our process, but it is very time-consuming as well. It should be the same every time. That's the perfect scenario for automation," he added.

Morris shared at the time he discussed the platform with *BHPH Report* that his five stores had been using SecureClose for almost two months. Anecdotal feedback Morris received from repeat customers showed only positive experiences with the solution.

"They're telling us it's a better experience. They didn't have to wait. They felt it was very respectful because it allowed them to go at their pace," Morris said.

"I'm convinced this system enhances deliveries," he went on to say.

Onda emphasized that J.D. Byrider has a "multistep process" when evaluating potential vendors. To review SecureClose, he mentioned multiple meetings involving Christian and his team as well as technology managers

at J.D. Byrider. Onda even visited dealerships using SecureClose to see the process himself.

"Before I left, I said, 'Tell me the truth.' They said, 'Actually we're acquiring more stores and we're going to roll out SecureClose as soon as we do.' I think that showed that they not only truly believed in the product but they saw value and are going to continue to grow its use," Onda said.

Onda also mentioned how Christian and his team approached the roll-out differently since he remains a BHPH dealer in Arizona.

"I specifically meet with a lot of vendors. Many of them seem to have a hammer looking for a nail," Onda said. "They've got a product and they're trying to figure out what they might do with it."

"It wasn't like that with SecureClose," he continued. "We had a clear vision of how the product could be used in our dealerships. That speaks to the leadership that Ace and the other SecureClose executives have in running their own dealership. They created a technical product that met the needs of auto dealers that would work in the 'real world.'"

That real world means not only will J.D. Byrider stores be using SecureClose, Christian hopes the platform eventually can become a standard tool used in all sorts of dealerships, especially in buy-here, pay-here.

"The old stereotype of the dealer with a cigar in his mouth and his feet up on the desk waiting for the next 'victim,' those days are gone," Christian said.

"Buy-here, pay-here dealers want to be compliant," he emphasized. "They want the benefits of this ongoing digital process not only because it benefits the dealer, it benefits the consumers. Think about it. A customer is a better, happy, educated customer when the explanation is consistent."

The value in monitoring your dealership's paper tracks



TOM HUDSON

Now, go pull your dealership's corporate records off the shelf and take a close look at them. Do they resemble Sharp's, or are they more on the order of Buttowdown's?

HANOVER, Md. — Way back when, in my contracts class in law school, a professor whose name I cannot recall uttered a sentence I will never forget. His topic was corporations, and the point he was trying to make was that if you are operating your business in the form of a corporation, you must pay close attention to documenting things (similar concerns arise with a partnership, but the terms are a bit different).

He said, "Corporations are paper animals, and they must leave paper tracks." He was referring to the corporation's formative documents — its charter and bylaws — but he was also focusing on the records of corporate actions, typically minutes of meetings of the board of directors and, if the corporation has one, the board's executive committee.

What does this have to do with compliance, you ask? Keep on reading.

Assume that a state or federal regulator decides for whatever reason that two dealerships are misbehaving, violating state and federal compliance laws. The regulator wants to determine if those suspicions are warranted and decides to subpoena each dealership's corporate records going back five years.

The first dealership, Sharp Motors, responds by providing copies of minutes of its board of directors for the period. Unfortunately, Sharp's board has met only twice in that five-year period, and the minutes of its meetings deal with a few corporate matters, a couple of tax items, the golf resort selected for the next meeting, and raises for the board



members. The minutes make no mention of any compliance issues.

The other dealership, Buttowdown Autos, turns over quarterly board minutes for each quarter of the period in question. The minutes follow an agenda established by Buttowdown's compliance officer, working with the dealership's corporate lawyer. A perusal of the minutes shows that each quarter, its board hears a report from the compliance officer about any new state or federal compliance requirements imposed on the dealership during the period, customer compliance complaints and the resolution of those complaints, and any required review, updating, and auditing of the dealership's compliance management system, including its Red Flags policy and its safeguarding and disposal policies. Early in the five-year period, the minutes reflect the board's appointment of the dealership's Red Flags and privacy officer, and they show a directive by the board to that officer to develop and maintain a compliance management

system consisting of all compliance programs required by federal and state law, along with an undertaking by the board to adequately fund that effort. Each quarterly record contains a description of any unresolved compliance action items that become part of the next quarterly meeting's agenda.

How do you suppose the regulator examining these records will react to them? If there's an enforcement action under way, and there is any room for the regulator to cut the dealership some slack, how much more leeway will Buttowdown have because its records reflect a culture of compliance that is driven by attention from its top management? How successful will Sharp be in arguing that, despite the scarcity of any records to back up its claim, it takes care of its customers and really, really tries hard to comply with all those burdensome rules and regulations?

Now, go pull your dealership's corporate records off the shelf and take a close look at them. Do they resemble Sharp's, or are they more on the order of Buttowdown's? If it's the former, it might be time to start laying the paper tracks of your corporation.

Tom Hudson is chairman with Hudson Cook, LLP and has been practicing consumer financial services law since 1973, focusing his practice on matters relating to vehicle financing and leasing. He is a frequent speaker to industry groups and trade associations on topics relative to vehicle financing and leasing and also speaks on a variety of other topics related to consumer financial services issues. He can be reached at (410) 865-5411 or thudson@hudco.com.

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Used-car consignment stores blur retail, wholesale lines

By Joe Overby, Staff Writer

GREENSBORO, N.C. — This CarLotz location in Greensboro, N.C., sits in a pocket of Wendover Avenue nestled between car dealerships and an auto auction.

Quite literally, it is adjacent to both retail and wholesale vehicle marketplaces.

But metaphorically, the same could be said for the overall business concept of CarLotz itself.

The retail consumer can walk in to buy a

vehicle, same as he or she would at a traditional car dealership.

But the cars being sold are vehicles consigned for sale by folks like fleet management companies, dealers or private consumers themselves.

This small but growing chain of used-vehicle consignment stores started with a Richmond, Va., location in 2011.

At that time, co-founder and chief executive Michael Bor says in an interview here, the vision was a retail concept, where the

consumer could consign a vehicle for sale and/or purchase one, as well.

The thinking was, if a car owner wasn't satisfied with the trade-in offer from the dealership or didn't want to mess with selling the vehicle through Craigslist, CarLotz could sell the vehicle, Bor said.

The concept soon spread, and when CarLotz opened its third location (this time in Chesapeake, Va.), it brought on Brent Garrett to run the store.

Garrett, who had come to CarLotz from

the remarketing and fleet management side at Enterprise, saw an opportunity to expand the business into the commercial side, which CarLotz had "dabbled" in previously.

They started small with the commercial business. For instance, selling a vehicle for a business owner and then selling the 15 pickup trucks in the company fleet.

Garrett saw an opportunity to do the same with larger leasing and fleet management companies, so Bor pulled him out of the Chesapeake store to pursue that line of business.

"Literally, I made thousands of phone calls," Garrett said. "Just calling every plumber, electrician and construction company out there, just trying to see who would be interested in this channel. And we had some success, selling vehicles for a variety of smaller, local-based businesses in Virginia."

Based on his time with Enterprise, Garrett knew of large fleet management companies that needed to dispose of huge pools of vehicles. So, CarLotz put a list of these companies together and began hitting the phones.

"It took a while, but sometimes all it takes is one to give you a try and sample it and see what the results could be like," Garrett said. "And we started generating wins for them, and then that helped us have conversations with other FMC partners. And I would say that if you look at the top 15 FMCs in auto remarketing, we're working with 10 of the 15."

Garrett said that has since expanded to local credit unions, local dealer groups who want to retail trade-ins that do not fit their lot's mix, and other various portfolios.

"When we first started with these guys, it was a change in process," Bor said of approaching commercial consignors. "It's a very tough sell. You're going to a remarketing team where there are 20 guys in an office tower and they've been doing it a certain way their whole life."

"But we have found that a lot of these guys are really forward-thinking. It's not just talk. They are trying to find the best way to do their job; they're trying to find ways to increase returns on their assets for them and for their clients," he said.

Again, Bor acknowledges that it was a "tough leap" at first and a risk for these remarketers to change part of their business and take a chance on what was then a small operation.

But not long into working with these folks, he said, CarLotz was able to "generate enough wins" to where they could present case studies with hard data on days to sell, returns after fees, the reconditioning investment made by CarLotz and so forth.

More of these larger consignors became comfortable with the process, "and now they're actively trying to figure out how to get more volumes through us," Bor said.

"And then some of them said, 'we're not



Tip OF THE Month

Using Late Fees to Educate Your Customer

BHPH Dealers should always ask for the total amount due from every past due customer, including late fees. By not collecting late fees you are educating your customer that it is acceptable to pay late. But if late fees are consistently charged anytime a payment is made after the grace period, you will be encouraging timely payments, and will reduce your collection expense. Paying on time also benefits your customer by reducing the total amount of interest they pay over the life of the contract.



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WHOLESALE continued on page 22



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Va. dealership caught retailing salvage vehicles with tampered odometers

WASHINGTON, D.C. — A Georgia man running a Virginia dealership retailing repaired salvage units pleaded guilty to operating an odometer fraud scheme involving more than 100 vehicles, according to an announcement from the Department of Justice.

Officials said in February that Paul Robinson, of Lawrenceville, Ga., pleaded guilty in U.S. District Court in Norfolk, Va., to one count of conspiracy to commit securities fraud and odometer tampering.

Robinson owned and operated Affordable Auto Body Repair, a repair shop and licensed salvage vehicle dealer located in Chesapeake, Va. The Justice Department indicated Robinson purchased older vehicles, many of which had been involved in accidents, from an auction specializing in vehicles from insurance companies. On more than 100 of these vehicles, officials said Robinson altered or replaced the odometer to reflect a false, lower mileage.

The Justice Department said Robinson then obtained fraudulent Virginia motor vehicle titles with mileage readings matching the false, lower mileage on the new odometer, and passed these falsified title documents on to the vehicle purchasers.

Officials determined Robinson obtained many of these fraudulent titles from a former DMV Select clerk named Steven Bazemore. In many instances, DOJ said Robinson asked Bazemore to return the documents used to procure the fraudulent titles rather than

retaining the documents in the DMV file system. Officials acknowledged this strategy made it more difficult for the DMV to detect the fraud.

On Sept. 22, Bazemore was sentenced to one year of home confinement and ordered to pay restitution to the ultimate purchasers of the vehicles. Robinson's sentencing is scheduled for June 8.

"We buy vehicles to help assist us in many aspects of our lives," said acting assistant attorney general Chad Readler of the Justice Department's Civil Division. "No consumer makes such a significant purchase lightly and we have to be able to trust that a dealer is not selling one car and actually supplying a vastly inferior automobile paired with falsified title documents.

"We are committed to prosecuting individuals who break that trust by rolling back odometers and passing off phony title," Readler continued.

This case was investigated by National Highway Traffic Safety Administration Office of Odometer Fraud Investigation (NHTSA) and the Virginia DMV. NHTSA estimates that odometer fraud in the United States results in consumer losses of more than \$1 billion annually and has established a special hotline to handle odometer fraud complaints.

Individuals having information relating to odometer tampering can call (800) 424-9393 or (202) 366-4761.

WHOLESALE continued from page 20

comfortable with it, maybe our cars are different,' and so with those guys, on several occasions, we just bought a bucket of cars from them and we sold them on our lot, and then we showed them the returns that we made," he said.

Future expansion

These consignors would send CarLotz vehicles from a limited geographical radius at first, so long as CarLotz could pick the vehicles up, Bor said. As the company started to prove their benefits to these consignors, they agreed to expand that radius to 100 miles, 200 miles and so on.

"Fast forward to today, we've got guys who are shipping us cars from New Hampshire to Florida, New Mexico, Texas, the Midwest," Bor said. "The bulk of our cars still are probably within 300 miles of our stores, but when people see some real opportunity with specific cars, they're willing to send them from pretty far away to get that retail lift."

Currently, CarLotz has stores in Richmond; Chesapeake; Midlothian, Va.; Greensboro; and Charlotte, N.C.

This reflects the initial growth plan for CarLotz: expansion stemming outward from the Richmond area into nearby markets.

However, that strategy has changed to include areas of the U.S. where consignors have expressed a need for additional channels, places like Texas and Florida, for instance. CarLotz aims to have a couple additional stores launching this year.

Not putting anyone out of business'

Next door to this particular CarLotz location is Greensboro Auto Auction. On the surface, it may seem like the two would be competitive. That's not necessarily the case.

In fact, Bor said, "We find that working with and being near an auction is helpful to our clients."

If a commercial consignor has a vehicle for retail sale at CarLotz and it doesn't move, it needs to be wholesaled. Pretty convenient then to be near (or better yet, next door) to an auto auction.

And it might be the relatively infrequent case where a vehicle arrives at CarLotz and its condition makes it more ideal for wholesale than retail.

Or a buyer might bring in a trade-in that is simply aged out of the range CarLotz is trying to retail, so the company would then wholesale that car.

It's very much about working with the existing players in wholesale. The model is less about disruption and more about supply chain management.

CarLotz is aiming to "build a system" where this very small slice of used-car market that's retail-ready at wholesale can go direct to retail, Bor explained.

"If we had unlimited parking spaces to do what we do, we'd still be a tiny portion of the auction business," Bor said. "If we were 100-percent successful, the auctions would still be very successful. We're not putting anyone out of business. We're just creating a better supply chain of vehicle from a previous user to new user than exists today. Just a more efficient way to do things."

CUSTOMERS continued from page 12

large national advertising campaign plus 3 to 7 percent of sales.

So far you have seen and read examples of a not-so-fancy approach with a focus on functionality and the message. Let's dive deeper into messaging and copywriting:

Country singer Rodney Atkins sings a song, *Watching You*. In it, a dad listens to his child getting ready for bed. While praying the child speaks to God like he is "talking to a friend."

There are adults I know who have a difficult time praying because they don't speak church-ese. I tell them to just pray like you are talking to a friend.

Your message to customers should be along the same lines—in your emails, on your websites, on your direct mail advertising pieces, and more.

The first step in this type of communication is to understand and relate to your customer. Step outside of yourself for a moment and look at your business from their perspective:

- What makes this business different?
- Why should I buy here instead of the others listed on my smartphone?

- Do they care about me or just my money?
- Are they going to be just as good and nice to me after they have my money?
- I've heard this jargon before...why should I believe it now?

Get inside your potential customers' heads. It's not obvious to them how you are different. You know you are different because you are there every day. You know your team on a personal level.

But your regular customers don't necessarily know any of that; your potential customers certainly don't.

Kenny Atcheson is the founder of Dealer Profit Pros and author of Marketing Battleground: How to Deploy Under-the-Radar Strategies to Explode Your Profits. He offers private consulting and he teaches workshops and speaks at conventions and 20 groups. His company offers several marketing and advertising programs which include private consulting, a referral results training program, a newsletter program, a feedback & review & complaint management system, Google pay-per-click management, Facebook pay-per-click management, direct mail campaigns, copywriting and more. His website can be found at www.DealerProfitPros.com.

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- Bulk Purchase Program with NO hassles
- Stream of Payment Advances (6-15 months)
- Aged Pay Share Program that gives you Capital and Cash Flow!
- Floorplan for select BHPH Dealers for BHPH Vehicles with NO audit fees
- Servicing for all types of Auto Receivables
- Backup Servicer and Custodian for Banks and Finance Companies





Recover Your Vehicles. Recover Your Money.

You know all too well the truth in the saying, "Time is money." The losses add up fast as days past due roll on. GPS and starter interrupters offer a small measure of security but costs can add up quickly to install and maintain. Plus, what happens when that expensive device ends up being disabled?

Vehicle location data helps dealers like you find vehicles faster without the hassle or cost of opting-in. This dealer put DRN's vehicle location data to the test, using the data in early stage delinquency. The results were swift and the impact nearly immediate. They recovered more vehicles faster and were even able to cure loans using DRN's data to make right party contact.

See for yourself. Sign up for DRN's free VIN test for up to 10 VINs. Submit your VINs and DRN will put over 6 billion sightings to work looking for your vehicles. Get a report that shows the total number of sightings for each VIN. It's a no-risk way to recover your vehicles and your money.

10freevins.com



17 Vehicles Assigned to Repo: One Month



Vehicle Location Data used for Early Stage Delinquency



10 Cured Loans



2 Repossessed

Savings = \$145,000
in Potential Losses



www.DRNdata.com • 817-877-0077

*Subject to DPPA permissible use.

