2017 Used Car Industry Report

A PUBLICATION OF THE NATIONAL INDEPENDENT AUTOMOBILE DEALERS ASSOCIATION

FEATURING THE 2016 NAAA ECONOMIC HIGHLIGHTS
Exclusive Audience. Efficient Spending. Increased Sales.

As a TrueCar Certified Dealer, you’ll enjoy special access to America’s most trusted brands through our network of over 500 affinity partners sites. Gaining an instantly wider audience enables you to close more sales in a cost-effective way. There’s never been a better time to list your used vehicle inventory on TrueCar.

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- **Cost Effective**
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- **High Growth**
  70% increase in Used Car site traffic

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CAR DEALER OPTIMISM SURGES AS NEW ADMINISTRATION VOWS TO STRENGTHEN SMALL BUSINESS

NIADA begins its eighth decade as an association riding the crest of an unprecedented wave of optimism. The 2017 Used Car Industry Report shows the positivity, improvements and increased confidence experienced by virtually all of the used motor vehicle industry over the past six months.

Each year this report offers more data and greater insight into our industry. It’s become a go-to resource for many local, state and federal regulators and legislative staff.

Thanks to the continued support of our dealer members, whose survey responses power the data, the 2017 edition leads off with an NIADA Membership section that offers pertinent information and statistically relevant facts about our membership.

This section is a great tool to see how your dealership compares to the averages of other dealer members nationwide.

The NIADA Business Confidence section continues to add a unique, real-time dealer perspective on the state of the industry and the growing confidence of independent dealers.

The results of the first quarter 2017 Business Confidence Survey presented here show a dramatic shift in optimism and confidence among our small business members as they see the beginning of the Trump presidency as business-friendly.

The quarterly results and insights, compiled with the assistance of industry partner Equifax, have proven to be a great educational tool for NIADA to pass on to dealer members nationwide.

NIADA’s alliances with other automotive industry associations, including NADA, NAAA and NABD, continue to evolve.

For the fourth consecutive year, the Used Car Industry Report includes the complete 2016 NAAA Economic Highlights (see Section 15). In Section 3, NABD provides in-depth analysis of the Buy Here–Pay Here segment of the industry for the year past, along with forecasts for what BHPH dealers can expect for the rest of 2017.

The NIADA Certified Pre-Owned program continues to offer used car dealers a competitive edge in the market and CPO related data gives us valuable insight. In Section 4, J.D. Power provides used car sales volumes and related CPO sales data, and the Edmunds Used Vehicle Market Report, in Section 7, also touches on sales volumes and CPO data, in addition to a forecast for 2017.

Both of those sections provide significant comparisons for dealers, particularly those who own NIADA CPO vehicles to their customers.

NIADA has partnered again this year with Experian and Equifax to provide a detailed analysis of the used automotive finance and subprime markets and credit trends (see sections 5 and 6).

Industry partner DealerSocket always commissions some very interesting research studies for our industry report, and this year is no exception. In Section 8, DealerSocket examines how the car–buying process has dramatically changed during the past few years, research that proves it’s crucial for dealers to constantly re-evaluate their processes to ensure they are evolving with the times.

DealerSocket’s most recent Independent Dealership Action Report, which is included in this year’s Used Car Industry Report, sets out to take a closer look at the fact and fiction of the car–buying process.

CARFAX is again highlighted in our report, in Section 9, and for the first time we are proud to partner with them to provide very valuable data regarding recalls.

The record number of vehicle recalls is a major ongoing concern in the automotive industry. Consumers are often unsure about the impact of an open recall, which can negatively affect their buying decisions. Dealers can alleviate concerns about recalls by repairing or disclosing open recalls during the purchase process which can boost consumer trust and make your dealership stand out from the competition.

Customer studies are always an interesting part of our annual report – it’s important for all dealers to know who their customers are and how they shop. To that end, Autotrader and KBB have teamed up to present their 2017 Car Buyer Journey Study in Section 10.

Remarketing is another integral part of our industry, and we are excited to provide a snapshot of the 2017 Manheim Used Car Market Report in Section 11, as well as a vehicle retention values study from Black Book in Section 12.

Valuable F&I partner EFG Companies brings some historical context and data on GAP coverage. Everyone in the retail automotive industry, on both the franchise and independent side, is feeling the impact of rising GAP loss ratios and wondering what’s behind the trend. Read all about it in Section 13.

Starting on page 61, the NAAA Annual Review includes detailed information and statistics on the state of the auction and remarketing side of the used vehicle industry, along with auction industry perspectives from some of the field’s leading experts.

Thank you to all of our allied industry partners who help us make NIADA’s annual Used Car Industry Report a must–have in understanding the used motor vehicle industry.

And I want to thank you, our dealer members, for your ongoing feedback and support of our shared goals. Your input is valuable and essential in providing the necessary direction of NIADA.
Section 1

One of the best ways to gauge the success of your dealership and its operations is to compare your dealer demographics and your dealer data to those of other NIADA members around the country. Each year NIADA surveys its members on a quarterly basis on a variety of topics covering demographic and business data.

In addition, we were able to pull six key data points of our dealer members from our InfoGroup data on page 7 of this section. The six charts on page 7 are derived from more than 10,500 confirmed dealer member records within our InfoGroup data, providing a 100% confidence level in the validity of the data on that page of the report.

Major results of the member survey indicate the following:

- Over 57% of our membership sell vehicles in the 6-10 year old range
- 35% of our dealer members have average inventories of 31-50 vehicles
- Over 54% of our dealer members sell vehicles in the retail price points of $5,000 to $10,000
- Almost 70% of our dealer members have annual sales volumes of $2.5 million or less
- Almost 96% of our dealer members are single location dealers
- Over 62% of our dealer members have 1-4 employees
- NIADA dealer members overwhelmingly rely on online advertising as their main advertising avenue
Section 1

NIADA MEMBERSHIP FINANCING

How do you finance/floorplan your inventory? (PERCENTAGE OF RESPONDENTS)  
- 2015  2016

<table>
<thead>
<tr>
<th>Mode</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>banks</td>
<td>38.8%</td>
<td>38.8%</td>
</tr>
<tr>
<td>auction floorplanning</td>
<td>24.6%</td>
<td>24.6%</td>
</tr>
<tr>
<td>cash</td>
<td>18.9%</td>
<td>18.9%</td>
</tr>
<tr>
<td>other</td>
<td>8.5%</td>
<td>8.5%</td>
</tr>
</tbody>
</table>

What finance options do you supply to your customers? (PERCENTAGE OF RESPONDENTS)  
- 2015  2016

<table>
<thead>
<tr>
<th>Mode</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>BHPH</td>
<td>51.3%</td>
<td>55.5%</td>
</tr>
<tr>
<td>finance company</td>
<td>18.5%</td>
<td>12.2%</td>
</tr>
<tr>
<td>banks</td>
<td>15.1%</td>
<td>18.6%</td>
</tr>
<tr>
<td>credit union</td>
<td>9.3%</td>
<td>7.3%</td>
</tr>
<tr>
<td>other</td>
<td>46.8%</td>
<td>49.4%</td>
</tr>
</tbody>
</table>

Advertising media used (PERCENTAGE OF RESPONDENTS)  
- 2015  2016

<table>
<thead>
<tr>
<th>Media</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>TV</td>
<td>61.4%</td>
<td>36.4%</td>
</tr>
<tr>
<td>newspaper</td>
<td>9.7%</td>
<td>7.5%</td>
</tr>
<tr>
<td>radio</td>
<td>25.7%</td>
<td>25.7%</td>
</tr>
<tr>
<td>specialty pubs</td>
<td>1.6%</td>
<td>3.0%</td>
</tr>
<tr>
<td>online</td>
<td>1.4%</td>
<td>0.9%</td>
</tr>
<tr>
<td>mobile</td>
<td>9.3%</td>
<td>8.8%</td>
</tr>
<tr>
<td>other</td>
<td>5.0%</td>
<td>11.3%</td>
</tr>
</tbody>
</table>

Average down payment (PERCENTAGE OF RESPONDENTS)  
- 2015  2016

<table>
<thead>
<tr>
<th>Payment Range</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to $1,000</td>
<td>46.4%</td>
<td>46.3%</td>
</tr>
<tr>
<td>$1,001-$1,500</td>
<td>48.3%</td>
<td>31.2%</td>
</tr>
<tr>
<td>$1,501-$2,000</td>
<td>3.3%</td>
<td>12.2%</td>
</tr>
<tr>
<td>$2,001-$2,500</td>
<td>11.3%</td>
<td>11.3%</td>
</tr>
<tr>
<td>$2,501+</td>
<td>4.1%</td>
<td>4.1%</td>
</tr>
</tbody>
</table>

Average term of contract (PERCENTAGE OF RESPONDENTS)  
- 2015  2016

<table>
<thead>
<tr>
<th>Term</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-12 months</td>
<td>7.3%</td>
<td>7.3%</td>
</tr>
<tr>
<td>13-24 months</td>
<td>14.9%</td>
<td>14.9%</td>
</tr>
<tr>
<td>25-36 months</td>
<td>14.9%</td>
<td>14.9%</td>
</tr>
<tr>
<td>37-48 months</td>
<td>26.1%</td>
<td>26.1%</td>
</tr>
<tr>
<td>49+ months</td>
<td>25.7%</td>
<td>25.7%</td>
</tr>
</tbody>
</table>

If you are a BHPH dealer, do you have a related finance company? (PERCENTAGE OF RESPONDENTS)

<table>
<thead>
<tr>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>yes</td>
<td>35.7%</td>
</tr>
<tr>
<td>no</td>
<td>64.3%</td>
</tr>
</tbody>
</table>

Separate F&I Department (PERCENTAGE OF RESPONDENTS)

<table>
<thead>
<tr>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>yes</td>
<td>20.1%</td>
</tr>
<tr>
<td>no</td>
<td>79.9%</td>
</tr>
</tbody>
</table>
MORE

10 TURNS PER YEAR

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CHRIS HAUS | HAUS AUTO GROUP | CANFIELD, OH

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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) 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 and credit availability to expand over the next quarter was also up sharply.

What’s driving this newfound enthusiasm in the market? Certainly the “Trump Effect,” as the proposed regulatory and tax overhauls promised by the new administration 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. Other factors driving retail sales and customer traffic growth are the increase in used vehicle inventory available to meet consumers’ ever-shifting needs and the average price differential between a new and used vehicle average transaction, which hit an all-time high of $11,000 in Q4 of 2016.

Both will drive former new car buyers to independent used car stores to find more affordable transportation.

A degree of optimism is always expected with a new year, but this level of widespread positivity is unprecedented for this survey as dealers seem primed to position themselves to capitalize on expected opportunities in the year ahead.

**BY SCOTT LILJA**
Scott Lilja is NIADA’s senior vice president of member services. He can be reached at scott@niada.com.

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**Overall, does your dealership expect economic conditions to improve, stay the same, or decline in the auto industry over the next quarter?**

<table>
<thead>
<tr>
<th>Q3</th>
<th>Q4</th>
<th>Q1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IMPROVE</strong></td>
<td>23%</td>
<td>24%</td>
</tr>
<tr>
<td><strong>STAY SAME</strong></td>
<td>33%</td>
<td>33%</td>
</tr>
<tr>
<td><strong>DECLINE</strong></td>
<td>44%</td>
<td>43%</td>
</tr>
</tbody>
</table>

---

**Does your dealership plan to expand its business over the next quarter?**

- YES | 35% | 33% | 40%
- NO | 65% | 67% | 60%

---

**What percentage of the following categories make up your total retail automobile sales?**

- PRIME | 44% | 44% | 43%
- SUBPRIME/OTHER | 56% | 56% | 57%

---

**Do you expect your dealership’s credit availability to expand, stay the same or reduce over the next quarter?**

- **EXPAND** | 33% | 32% | 32%
- **STAY SAME** | 37% | 37% | 38%
- **REDUCE** | 30% | 31% | 30%

---

**Do you anticipate your dealership’s total expenses (cost of business) to increase, stay the same or decrease over the next quarter?**

- **INCREASE** | 58% | 54% | 55%
- **STAY SAME** | 40% | 40% | 34%
- **DECREASE** | 2% | 6% | 11%

---

**Considering the following marketing channels, please indicate the level of investment your dealership plans to make over the next quarter.**

<table>
<thead>
<tr>
<th>Channel</th>
<th>Increase</th>
<th>Hold</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital</td>
<td>59%</td>
<td>10%</td>
<td>31%</td>
</tr>
<tr>
<td>TV</td>
<td>7%</td>
<td>68%</td>
<td>27%</td>
</tr>
<tr>
<td>Newspaper</td>
<td>4%</td>
<td>70%</td>
<td>27%</td>
</tr>
<tr>
<td>Outdoor</td>
<td>20%</td>
<td>60%</td>
<td>20%</td>
</tr>
<tr>
<td>Radio</td>
<td>7%</td>
<td>65%</td>
<td>27%</td>
</tr>
<tr>
<td>Direct Mail</td>
<td>12%</td>
<td>38%</td>
<td>30%</td>
</tr>
</tbody>
</table>

---

**Does your dealership anticipate hiring any new staff over the next quarter?**

- **MORE** | 36% | 41% | 33%
- **SAME** | 54% | 51% | 37%
- **LESS** | 10% | 8%  | 10%

---

**Will your dealership increase, hold, or decrease retail vehicle prices over the next quarter?**

- **INCREASE** | 13% | 10% | 30%
- **HOLD** | 71% | 72% | 59%
- **DECREASE** | 17% | 18% | 11%

---

**Do you anticipate your dealership's retail sales to grow, stay the same or decrease over the next quarter?**

- **GROW** | 44% | 46% | 70%
- **STAY SAME** | 44% | 40% | 26%
- **DECREASE** | 12% | 14% | 4%

---

**What is the single most important problem facing your business today?**

- **Inadequate Training** | 17% | 14% | 16%
- **Increased Competition** | 24% | 25% | 25%
- **Increased Cost of Doing Business** | 25% | 25% | 25%
- **Lack of Customer Retention** | 16% | 16% | 16%
- **Lack of Qualified Inventory** | 14% | 14% | 14%
- **Lack of Credit Resources** | 10% | 10% | 10%
- **Lack of Qualified Employees** | 7% | 7% | 7%
- **Other** | 10% | 10% | 10%
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dealers.cars.com
800.298.1460 | salesinfo@cars.com

¹ Sourced by TRANSPARENCY AI, LLC 2017
² Cars.com Site Data December 2016

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Section 3

Annually the National Alliance of Buy Here, Pay Here Dealers (“NABD”), with the help of SGC Certified Public Accountants (“SGC”), prepares buy here, pay here (“BHPH”) financial benchmarks from a database of their clients nationwide. These financial benchmarks are a composite of the “best performing” operators and are not an average of their entire client data base. This year, the NABD benchmarks also include operating information on sales, collections and recoveries, and inventory management developed, supplied by NCM and NIADA 20 Groups, based upon composites of their BHPH 20 Group members. The NABD benchmarks also include portfolio performance metrics which were compiled electronically by Subprime Analytics (“Subprime”) which, to date, has analyzed approximately $18 billion (nearly 1.8 million deals) of subprime installment contracts to identify loss rates, patterns, and trends. In the aggregate, these statistics provide a comprehensive look at the financial and operating performance of the BHPH industry, and important trend information.

2016 Year In Review!

The financial benchmarks for 2016 reflect significantly increased competition within the deep subprime marketplace, which began late 2013. The more significant factors that impacted the deep subprime market in 2016 were:

1) Unit sales for most operators declined or were flat compared with 2015 volumes. Significant market competition continued from third-party finance, credit unions, and franchise dealers who aggressively financed deep subprime customers in late model vehicles over longer terms. Many independent operators chose not to match those underwriting decisions and opted for lower unit sales and debt reduction. Individual operators were affected by varying levels of competition in local markets. Rural markets were less competitive than urban markets. A few operators expanded their lot facilities (added lots) in an attempt to gain market share. Experian market data indicated that the declines in BHPH deep subprime financing by independent operators in 2016 shifted primarily to credit unions. Franchise operators and finance companies slowed sales of new and CPO vehicles to deep subprime customers as repayment performance deteriorated in the second half of the year.

2) Subprime competition, which was particularly aggressive in deep subprime financing customers (those with credit scores below 500) who purchased new and late-model CPO (certified pre owned) vehicles (less than two years old) with low down payments, high repayments and terms of more than 50 months, experienced higher defaults. Several deep subprime auto bond securitizations incurred higher losses and lower returns than projected with investors.

3) History indicates that higher default rates occur on deals with “too much vehicle and too little customer.” More charge-offs on deep subprime auto securitizations should be anticipated in the future. These customers will return to the BHPH market and their repossessed vehicles will be available at auction when they default. Profit opportunities for independent operators will improve in the future as this occurs.

4) BHPH operators again found inventory acquisition to be challenging given the increased competition. Wholesale inventory supplies improved from 2015, resulting from greater availability of trades from the increased new car sales, from off-lease and off-rental vehicles, and from repos. Although vehicle prices stabilized, some operators bought more expensive vehicles or increased reconditioning in an attempt to compete.

5) Technology now plays a more vital role in improving BHPH operating efficiency. Most BHPH customers have smartphones. This cellular link has become an important way for operators to "connect and collect" with their customers and prospects. In addition, the integration of Internet-based marketing tools, payment device technology, electronic pay portals, inventory sourcing, and other technology is now available. Operators who proactively used online marketing, social media, and advance tax refunds fared better than those who did not. With inflation and compliance costs increasing, operators must improve efficiency by implementing technology to contain operating cost increases.

6) In June 2016, the AICPA passed a new credit loss measurement standard for all types of receivables. The new standard will require holders of receivables to provide a “life of loan” loss reserve in the future. This accounting change will impact both lenders and borrowers as they implement the new standard. In 2016, bad debt expense increased from greater loss severity caused by charge offs of higher amounts financed and from lower recoveries on the liquidation of repos. Some operators increased their allowance for bad debts in anticipation of the aforementioned accounting change and from the higher charge-offs.

7) New regulatory challenges surfaced in 2016 as the FTC, CFPB, and various state attorney generals’ offices scrutinized BHPH compliance and investigated operating and collection practices.

8) Operators with greater financial flexibility (more equity and/or available lines of credit) fared best. The increased competition requires that operators preserve their financial flexibility. Absent increases in sales, this can be done by controlling expenses, better underwriting and collections, debt reduction, and by having more cash efficient business models.

9) Operators who are financially able to withstand competitive challenges from lost market share will prosper in the future as subprime customers return to the independent dealers. In the interim, operators are advised to implement technology to improve operational efficiencies, streamline internal systems and processes, and maximize recoveries to mitigate bad debt losses. Business models should maximize cash returns on investment (ROI) as increased borrowing becomes a more expensive alternative.

10) Lease here, pay here is growing in popularity in several states where sales tax deferral and state regulations favor this business model. Therefore, we have again included lease benchmark metrics in 2016. These loss metrics are a guide for those considering the lease model and for those already using it. It is recommended that operators understand their applicable state laws and obtain capital before implementing a leasing model.

BY KENNETH SHILSON,CPA
Ken Shilson (ken@kenshilson.com) is president of Subprime Analytics (www.subanalytics.com) and NABD (www.bphhinfo.com).
### COST OF GOODS SOLD AND OPERATING EXPENSE DETAIL

**COST OF VEHICLE SALES**

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Vehicles</td>
<td>51.76%</td>
<td>50.08%</td>
<td>49.59%</td>
<td>49.24%</td>
</tr>
<tr>
<td>Reconditioning Costs</td>
<td>5.50%</td>
<td>7.63%</td>
<td>8.31%</td>
<td>8.39%</td>
</tr>
<tr>
<td>Other</td>
<td>2.96%</td>
<td>2.72%</td>
<td>2.44%</td>
<td>3.13%</td>
</tr>
<tr>
<td><strong>TOTAL COST OF VEHICLE SALES</strong></td>
<td>80.22%</td>
<td>80.41%</td>
<td>80.34%</td>
<td>80.76%</td>
</tr>
</tbody>
</table>

**TOTAL OPERATING EXPENSE**

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising</td>
<td>3.80%</td>
<td>3.82%</td>
<td>3.93%</td>
<td>3.74%</td>
</tr>
<tr>
<td>Bank Charges</td>
<td>0.20%</td>
<td>0.28%</td>
<td>0.18%</td>
<td>0.17%</td>
</tr>
<tr>
<td>Contributions</td>
<td>0.04%</td>
<td>0.03%</td>
<td>0.02%</td>
<td>0.03%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>0.40%</td>
<td>0.46%</td>
<td>0.52%</td>
<td>0.49%</td>
</tr>
<tr>
<td>Dues and Subscriptions</td>
<td>0.12%</td>
<td>0.12%</td>
<td>0.14%</td>
<td>0.15%</td>
</tr>
<tr>
<td>Insurance</td>
<td>0.27%</td>
<td>0.20%</td>
<td>0.32%</td>
<td>0.31%</td>
</tr>
<tr>
<td>Legal and Accounting</td>
<td>0.42%</td>
<td>0.46%</td>
<td>0.28%</td>
<td>0.24%</td>
</tr>
<tr>
<td>Outside Services</td>
<td>0.03%</td>
<td>0.20%</td>
<td>0.38%</td>
<td>0.79%</td>
</tr>
<tr>
<td>Office Expense</td>
<td>0.80%</td>
<td>0.83%</td>
<td>0.90%</td>
<td>0.79%</td>
</tr>
<tr>
<td>Rent</td>
<td>2.33%</td>
<td>2.20%</td>
<td>2.27%</td>
<td>2.26%</td>
</tr>
<tr>
<td>Repairs and Maintenance</td>
<td>0.47%</td>
<td>0.16%</td>
<td>0.34%</td>
<td>0.15%</td>
</tr>
<tr>
<td>Salaries (Non-Owners)</td>
<td>10.17%</td>
<td>10.56%</td>
<td>11.36%</td>
<td>11.07%</td>
</tr>
<tr>
<td>Taxes - General</td>
<td>0.10%</td>
<td>0.11%</td>
<td>0.07%</td>
<td>0.09%</td>
</tr>
<tr>
<td>Other Operating Expense</td>
<td>0.22%</td>
<td>0.03%</td>
<td>0.23%</td>
<td>0.16%</td>
</tr>
<tr>
<td>Taxes - Payroll</td>
<td>0.70%</td>
<td>0.84%</td>
<td>0.52%</td>
<td>0.51%</td>
</tr>
<tr>
<td>Utilities and Telephone</td>
<td>0.39%</td>
<td>0.67%</td>
<td>0.42%</td>
<td>0.59%</td>
</tr>
<tr>
<td>Travel / Training</td>
<td>0.40%</td>
<td>0.43%</td>
<td>0.38%</td>
<td>0.33%</td>
</tr>
<tr>
<td><strong>TOTAL OPERATING EXPENSE</strong></td>
<td>20.92%</td>
<td>21.55%</td>
<td>22.26%</td>
<td>22.79%</td>
</tr>
</tbody>
</table>

**LOSS STATISTICS 2012-2015**

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Gross Dollar Loss (Before Recoveries)</td>
<td>$4,361</td>
<td>$4,608</td>
<td>$4,111</td>
<td>$4,771</td>
</tr>
<tr>
<td>Average Net Dollar Loss (After Recoveries)</td>
<td>$4,510</td>
<td>$4,749</td>
<td>$4,601</td>
<td>$4,916</td>
</tr>
<tr>
<td>Average Default Rate (% of Loans Written Off)</td>
<td>31.41%</td>
<td>31.18%</td>
<td>31.45%</td>
<td>33.96%</td>
</tr>
<tr>
<td>Average Gross Dollar Loss Rate (% of Principal)</td>
<td>37.76%</td>
<td>36.57%</td>
<td>37.35%</td>
<td>39.78%</td>
</tr>
<tr>
<td>Average Net Dollar Loss Rate (% of Principal)</td>
<td>24.57%</td>
<td>26.37%</td>
<td>27.91%</td>
<td>28.42%</td>
</tr>
<tr>
<td>Average Recovery (% ofPrincipal Charged off)</td>
<td>35.46%</td>
<td>31.60%</td>
<td>25.30%</td>
<td>23.87%</td>
</tr>
<tr>
<td>Highest Cumulative Default (Month After Origination)</td>
<td>19th Month</td>
<td>18th Month</td>
<td>21st Month</td>
<td>22nd Month</td>
</tr>
<tr>
<td>Highest Frequency of Default (Month After Origination)</td>
<td>February</td>
<td>February</td>
<td>February</td>
<td>February</td>
</tr>
<tr>
<td>Worst Periodic Loss (Month After Origination)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*(Statistics supplied by Subprime Analytics)*

**What’s Ahead For 2017?**

Although profitability was again challenging for the BHPH industry in 2016, better profit opportunities are ahead for operators positioned to capitalize on them as follows:

1. Sales by independent operators should increase as competition declines and as some deep subprime securitizations continue to default, sending customers back into the independent operators market.
2. Although inventory availability remains challenging, improved sourcing tools are available to help locate wholesale vehicles. Operators who use these new tools will fare better than those who don’t. Price stabilization will benefit future acquisition costs.
3. Regulatory scrutiny will continue to detect non-compliant “bad apples” in the subprime auto industry, thereby eliminating unwanted and unfair competition.
4. Building stronger customer relationships versus just adding more sales transactions will help operators regain market share and keep their customers paying. Operators must be proactive in order to regain lost market share and become compliant with existing regulations.
5. Operators who implement technology will improve efficiency and regain market share without incurring corresponding increases in operating costs. Technology has never been more beneficial for those who implement it properly.
6. Operators who implement technology will improve efficiency and regain market share without incurring corresponding increases in operating costs. Technology has never been more beneficial for those who implement it properly.
7. Future success will be best achieved by “keeping vehicles sold” and customers paying over the entire life of the contracts. This requires matching customers with vehicles they can afford, and by keeping contract terms shorter rather than longer.
8. The lease model has merit. Leasing can be used to reduce customer repayments, shorten contract terms, and increase recoveries. However, the future popularity and growth of this alternative business model is dependent upon capital availability and the state regulations where it is used.

Operators must educate themselves to the latest industry developments, manage portfolio risk, implement technology, improve financial flexibility and become compliant. Networking, education and training can help. Success in the BHPH industry is achieved over time, not overnight! The old ways are not working like they used to, so it’s important to embrace the changes!

*BY KENNETH SHILSON,CPA (ken@kenshilson.com) is president of Subprime Analytics (www.subanalytics.com) and NABD (www.bhphinfo.com).*
## 2013–2016 Dealer Operating Information

(BENCHMARKS SUPPLIED BY NCM ASSOCIATES, INC. AND NIADA)

### For the First Time
**NIADA Dealer 20 Group Benchmarks**

**ARE USED FOR**

**2016**

**IN COMPARISON**

**TO PAST NCM BENCHMARKS**

### Sales

<table>
<thead>
<tr>
<th>Years</th>
<th>NCM Benchmarks</th>
<th>NIADA Dealer 20 Group Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>610</td>
<td>708</td>
</tr>
<tr>
<td>2014</td>
<td>550</td>
<td>6,466</td>
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<tr>
<td>2015</td>
<td>635</td>
<td>7,438</td>
</tr>
<tr>
<td>2016</td>
<td>715</td>
<td>8,911</td>
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</tbody>
</table>

**Average Units Sold Per Dealer (BHPH Deals Only)**

<table>
<thead>
<tr>
<th>Years</th>
<th>NCM Benchmarks</th>
<th>NIADA Dealer 20 Group Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$4,028</td>
<td>$6,353</td>
</tr>
<tr>
<td>2014</td>
<td>$4,777</td>
<td>$6,963</td>
</tr>
<tr>
<td>2015</td>
<td>$4,987</td>
<td>$4,675</td>
</tr>
<tr>
<td>2016</td>
<td>$5,409</td>
<td>$5,888</td>
</tr>
</tbody>
</table>

**Average Cash In Deal Per Vehicle Sold**

<table>
<thead>
<tr>
<th>Years</th>
<th>NCM Benchmarks</th>
<th>NIADA Dealer 20 Group Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$4,987</td>
<td>$6,353</td>
</tr>
<tr>
<td>2014</td>
<td>$4,777</td>
<td>$6,963</td>
</tr>
<tr>
<td>2015</td>
<td>$4,987</td>
<td>$4,675</td>
</tr>
<tr>
<td>2016</td>
<td>$5,409</td>
<td>$5,888</td>
</tr>
</tbody>
</table>

**Average ACV Per Vehicle Sold (Includes Recon)**

<table>
<thead>
<tr>
<th>Years</th>
<th>NCM Benchmarks</th>
<th>NIADA Dealer 20 Group Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$1,026</td>
<td>$1,091</td>
</tr>
<tr>
<td>2014</td>
<td>$1,027</td>
<td>$1,134</td>
</tr>
<tr>
<td>2015</td>
<td>$1,221</td>
<td>$1,089</td>
</tr>
<tr>
<td>2016</td>
<td>$1,134</td>
<td>$972</td>
</tr>
</tbody>
</table>

**Average Reconditioning Cost Per Vehicle Sold**

<table>
<thead>
<tr>
<th>Years</th>
<th>NCM Benchmarks</th>
<th>NIADA Dealer 20 Group Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$205</td>
<td>$1,091</td>
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<tr>
<td>2014</td>
<td>$207</td>
<td>$1,134</td>
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<tr>
<td>2015</td>
<td>$221</td>
<td>$1,089</td>
</tr>
<tr>
<td>2016</td>
<td>$221</td>
<td>$972</td>
</tr>
</tbody>
</table>

**Average Gross Per Vehicle Sold**

<table>
<thead>
<tr>
<th>Years</th>
<th>NCM Benchmarks</th>
<th>NIADA Dealer 20 Group Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$9,664</td>
<td>$12,862</td>
</tr>
<tr>
<td>2014</td>
<td>$10,567</td>
<td>$150</td>
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<tr>
<td>2015</td>
<td>$10,909</td>
<td>$150</td>
</tr>
<tr>
<td>2016</td>
<td>$10,567</td>
<td>$150</td>
</tr>
</tbody>
</table>

**Average Down Payment**

<table>
<thead>
<tr>
<th>Years</th>
<th>NCM Benchmarks</th>
<th>NIADA Dealer 20 Group Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$143</td>
<td>$188</td>
</tr>
<tr>
<td>2014</td>
<td>$153</td>
<td>$188</td>
</tr>
<tr>
<td>2015</td>
<td>$153</td>
<td>$188</td>
</tr>
<tr>
<td>2016</td>
<td>$153</td>
<td>$188</td>
</tr>
</tbody>
</table>

**Average Amount Financed**

<table>
<thead>
<tr>
<th>Years</th>
<th>NCM Benchmarks</th>
<th>NIADA Dealer 20 Group Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$87</td>
<td>$87</td>
</tr>
<tr>
<td>2014</td>
<td>$88</td>
<td>$17.9%</td>
</tr>
<tr>
<td>2015</td>
<td>$88</td>
<td>$17.9%</td>
</tr>
<tr>
<td>2016</td>
<td>$88</td>
<td>$17.9%</td>
</tr>
</tbody>
</table>

**Average Term Of Loan (In Weeks)**

<table>
<thead>
<tr>
<th>Years</th>
<th>NCM Benchmarks</th>
<th>NIADA Dealer 20 Group Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
<tr>
<td>2014</td>
<td>94.00%</td>
<td>100.00%</td>
</tr>
<tr>
<td>2015</td>
<td>84.00%</td>
<td>100.00%</td>
</tr>
<tr>
<td>2016</td>
<td>85.00%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

### Collections / Recoveries

**Average Weekly Payment Amount**

<table>
<thead>
<tr>
<th>Years</th>
<th>NCM Benchmarks</th>
<th>NIADA Dealer 20 Group Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$87</td>
<td>$88</td>
</tr>
<tr>
<td>2014</td>
<td>$99</td>
<td>$99</td>
</tr>
<tr>
<td>2015</td>
<td>$91</td>
<td>$99</td>
</tr>
<tr>
<td>2016</td>
<td>$99</td>
<td>$99</td>
</tr>
</tbody>
</table>

**Percentage Of Accounts Past Due**

<table>
<thead>
<tr>
<th>Years</th>
<th>NCM Benchmarks</th>
<th>NIADA Dealer 20 Group Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>17.0%</td>
<td>17.9%</td>
</tr>
<tr>
<td>2014</td>
<td>16.9%</td>
<td>17.9%</td>
</tr>
<tr>
<td>2015</td>
<td>17.6%</td>
<td>17.9%</td>
</tr>
<tr>
<td>2016</td>
<td>17.6%</td>
<td>17.9%</td>
</tr>
</tbody>
</table>

**Average # Of Past Due Accounts Per Collector**

<table>
<thead>
<tr>
<th>Years</th>
<th>NCM Benchmarks</th>
<th>NIADA Dealer 20 Group Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>88</td>
<td>94</td>
</tr>
<tr>
<td>2014</td>
<td>101</td>
<td>101</td>
</tr>
<tr>
<td>2015</td>
<td>92</td>
<td>101</td>
</tr>
<tr>
<td>2016</td>
<td>94</td>
<td>101</td>
</tr>
</tbody>
</table>

**Average Loss Per Charge Off**

<table>
<thead>
<tr>
<th>Years</th>
<th>NCM Benchmarks</th>
<th>NIADA Dealer 20 Group Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$4,584</td>
<td>$4,607</td>
</tr>
<tr>
<td>2014</td>
<td>$4,620</td>
<td>$5,058</td>
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<tr>
<td>2015</td>
<td>$4,098</td>
<td>$5,058</td>
</tr>
<tr>
<td>2016</td>
<td>$4,098</td>
<td>$5,058</td>
</tr>
</tbody>
</table>

**Average Portfolio Delinquency**

<table>
<thead>
<tr>
<th>Years</th>
<th>NCM Benchmarks</th>
<th>NIADA Dealer 20 Group Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>83.70%</td>
<td>83.10%</td>
</tr>
<tr>
<td>2014</td>
<td>83.80%</td>
<td>83.10%</td>
</tr>
<tr>
<td>2015</td>
<td>83.10%</td>
<td>83.10%</td>
</tr>
<tr>
<td>2016</td>
<td>83.10%</td>
<td>83.10%</td>
</tr>
</tbody>
</table>

### Inventory Management

**Vehicle Days Supply (Units)**

<table>
<thead>
<tr>
<th>Years</th>
<th>NCM Benchmarks</th>
<th>NIADA Dealer 20 Group Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>94</td>
<td>84</td>
</tr>
<tr>
<td>2014</td>
<td>91</td>
<td>84</td>
</tr>
<tr>
<td>2015</td>
<td>84</td>
<td>84</td>
</tr>
<tr>
<td>2016</td>
<td>59</td>
<td>59</td>
</tr>
</tbody>
</table>

**Average Inventory Aging**

<table>
<thead>
<tr>
<th>Years</th>
<th>NCM Benchmarks</th>
<th>NIADA Dealer 20 Group Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>40.80%</td>
<td>42.40%</td>
</tr>
<tr>
<td>2014</td>
<td>42.40%</td>
<td>41.30%</td>
</tr>
<tr>
<td>2015</td>
<td>41.30%</td>
<td>48.70%</td>
</tr>
<tr>
<td>2016</td>
<td>41.30%</td>
<td>48.70%</td>
</tr>
</tbody>
</table>

### BHPH Financial Trends

**Average Cost Per Vehicle 2013–2016**

<table>
<thead>
<tr>
<th>Years</th>
<th>NCM Benchmarks</th>
<th>NIADA Dealer 20 Group Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$6,181</td>
<td>$900</td>
</tr>
<tr>
<td>2014</td>
<td>$7,150</td>
<td>$835</td>
</tr>
<tr>
<td>2015</td>
<td>$7,268</td>
<td>$784</td>
</tr>
<tr>
<td>2016</td>
<td>$6,397</td>
<td>$714</td>
</tr>
</tbody>
</table>

**Average Customer Down Payment 2013–2016**

<table>
<thead>
<tr>
<th>Years</th>
<th>NCM Benchmarks</th>
<th>NIADA Dealer 20 Group Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$87</td>
<td>$87</td>
</tr>
<tr>
<td>2014</td>
<td>$85</td>
<td>$87</td>
</tr>
<tr>
<td>2015</td>
<td>$79</td>
<td>$87</td>
</tr>
<tr>
<td>2016</td>
<td>$75</td>
<td>$87</td>
</tr>
</tbody>
</table>
THEY’LL KEEP CHARMING YOU IF YOU KEEP LETTING THEM.

Find out why so many dealers are switching to PassTime.

Some of our competitors will do and say anything to sell you their GPS and Starter Interrupt devices. But only PassTime creates, manufactures, and sells genuine PassTime products.

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RATIO COMPARISONS, COMBINED BUY HERE–PAY HERE

(STATISTICS SUPPLIED BY SGC CERTIFIED PUBLIC ACCOUNTANTS)

COMBINED BUY HERE–PAY HERE BALANCE SHEET

Inventory X Days / Cost Of Vehicle Sales
Cost Of Vehicle Sales / Average Inventory Dollars
Vehicle Sales / Average Inventory Dollars
Vehicle Sales / Total Assets
Total Assets / Total Liabilities
Allowance For Bad Debts / Finance Receivables*
Total Debt / Total Assets

* Finance Receivables are net of unearned finance charges

COMBINED BUY HERE–PAY HERE INCOME STATEMENT

Bad Debts / Vehicle Sales
Cost Of Vehicle Sales / Vehicle Sales
Gross Profit*** / Vehicle Sales
Operating Expense / Vehicle Sales
Interest Expense / Financing Income
Operating Income / Vehicle Sales
Financing Income / Vehicle Sales
Compensation** / Vehicle Sales
Reconditioning Cost / Vehicle Sales

** Compensation excludes those of the owners
*** Gross profit is net of bad debts and financing income

X = times

NOTES TO RATIO COMPARISONS:

RATIO COMPARISONS, BUY HERE–PAY HERE INDUSTRY

BENCHMARKS PREPARED FOR NABD BY SGC CERTIFIED PUBLIC ACCOUNTANTS

THE NABD RESULTS – COMBINED DEALER AND FINANCE AFFILIATE NUMBERS – BREAK DOWN BALANCE SHEETS AND INCOME STATEMENTS INTO 16 CATEGORIES. IT ALSO COMPARES 2016 TO THE PAST THREE YEARS SO DEALERS CAN EXAMINE INDUSTRY TRENDS.
American Credit Acceptance, LLC ("ACA") is an indirect automotive lending institution that provides financing to emerging credit consumers coast-to-coast. ACA manages more than $2 Billion in assets, has successful relationships with nine of the top ten automotive dealer groups and thousands of independent dealerships across the country. Spartan Financial Partners, a division of ACA, specializes in Lines of Credit and Bulk Purchases for Buy-Here-Pay-Here dealers and independent auto finance companies across the country. ACA has an A+ rating with the BBB and is a proud National Corporate Partner.

Bulk Purchase Program:
Reduce your risk by selling your in-house loans.

Line of Credit Program:
Keep your customers and grow your business.

Point of Sale Financing:
Programs available for independent and franchise dealerships.

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855-233-3605
www.AmericanCreditAcceptance.com
www.Spartan-Partners.com
BUY HERE–PAY HERE INDUSTRY BENCHMARKS

BHPH Financial Trends
Average Vehicle Cost, Cash Down Payment, Cash in Deal:
Two Year Snapshot

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>BHPH</td>
<td>7,000</td>
<td>7,000</td>
</tr>
<tr>
<td>LHPH</td>
<td>6,000</td>
<td>6,000</td>
</tr>
<tr>
<td>BHPH</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>LHPH</td>
<td>4,000</td>
<td>4,000</td>
</tr>
<tr>
<td>BHPH</td>
<td>3,000</td>
<td>3,000</td>
</tr>
<tr>
<td>LHPH</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>BHPH</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>LHPH</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>BHPH</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>LHPH</td>
<td>1,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>

BHPH Financial Trends
Recovery Dollars as a % of Principal
Charged off (BHPH vs LHPH)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>BHPH</td>
<td>13.80%</td>
<td>22.3%</td>
<td>20.42%</td>
</tr>
<tr>
<td>LHPH</td>
<td>22.37%</td>
<td>18.2%</td>
<td>17.79%</td>
</tr>
</tbody>
</table>

Loss Statistics – 2016

BHPH VS. LHPH

<table>
<thead>
<tr>
<th></th>
<th>LHPH</th>
<th>BHPH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average gross dollar loss (before recoveries)</td>
<td>$12,070</td>
<td>$7,771</td>
</tr>
<tr>
<td>Average net dollar loss (after recoveries)</td>
<td>$5,578</td>
<td>$3,916</td>
</tr>
<tr>
<td>Average default rate (% of loans written off)</td>
<td>53.79%</td>
<td>23.87%</td>
</tr>
<tr>
<td>Highest cumulative default month after origination</td>
<td>18th Month</td>
<td>22nd Month</td>
</tr>
<tr>
<td>Highest frequency of default (month after origination)</td>
<td>6th Month</td>
<td>7th Month</td>
</tr>
<tr>
<td>Worst periodic loss month after origination</td>
<td>February</td>
<td>February</td>
</tr>
</tbody>
</table>

LHPH COMPARISONS FROM 2015 TO 2016 SHOW VERY SHARP DECREASES IN GROSS & NET DOLLAR LOSSES, LHPH DEFAULT RATES REMAINED STEADY FROM 2015 TO 2016 WITH 32.26% OF ALL LHPH LOANS BEING WRITTEN OFF

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The following Used and CPO Trends data is derived from J.D. Power, and provides a four-year history and side-by-side comparison of used and CPO unit data for total sales, transaction price, days to turn, and average buyer age. A four-year history of lease returns vs. purchase returns comparisons is also noted at the top of page 23.

**Summarizing the data:**
- Used sales at franchised dealers continued their upward trend in 2016, climbing 0.5 million units to 11.7 million. Even with greater supply, retail transaction prices for used sales jumped $500/unit, driven by an increasing supply of high quality used vehicles.
- While the new car market continues to shift dramatically from cars to trucks, the mix of vehicles in secondary channels trails this dynamic. In 2016, cars comprised 57% of off-lease units disposed, even as sales of new cars comprised only 39% of industry retail sales.
- CPO sales at affiliated dealers showed modest gains in 2016, but remained around the 2.6 million unit mark.
- Increasing lease returns will continue to feed both used and CPO businesses and this dynamic may force automakers to reinvigorate their CPO programs as part of remarketing efforts.
- While CPO units show a slightly slower average days to turn than non-CPO, the composition of the two averages tends to mask specific model performance, which favors CPO by 3-4 days.

### RETAIL SALES

**(USED) (IN MILLIONS)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>14</td>
<td>12</td>
<td>10</td>
<td>11.7</td>
</tr>
</tbody>
</table>

### RETAIL SALES

**(CPO) (IN MILLIONS)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2.6</td>
</tr>
</tbody>
</table>

### TRANSACTION PRICE

**(USED)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$24,000</td>
<td>$22,000</td>
<td>$20,000</td>
<td>$18,000</td>
<td>$16,000</td>
</tr>
</tbody>
</table>

### TRANSACTION PRICE

**(CPO)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$24,000</td>
<td>$22,000</td>
<td>$20,000</td>
<td>$18,000</td>
<td>$16,000</td>
</tr>
<tr>
<td>$23,900</td>
<td>$24,600</td>
<td>$24,800</td>
<td>$24,600</td>
<td></td>
</tr>
</tbody>
</table>
The following is taken from Experian’s 4th Quarter 2016 State of the Automotive Finance Market Report. For the purposes of this section, we highlight the reliance upon financing and automotive loans by risk segment and by lender type. Average credit scores by vehicle type are also noted. The second page of this section details average amounts financed, average used monthly payments, average used loan term, and average used loan rates. This section also highlights all four major areas broken down by loan type. The sidebar to the very right details leasing data.

Additionally, Experian published a summary of their entire 4th quarter 2016 report below:

- Portfolio balances reach record levels as loan amounts grow to all-time highs.
- Increases in both 30 and 60-day delinquency rates.
- Leasing drops below 30% of all new consumer vehicle sales as consumers across all risk tiers increasingly choose to lease.
- Originations across all finance types become increasingly more prime and credit scores improve.
- Prime consumers also increasing choosing used vehicles resulting in score increases, greater percentages of used financing in the prime risk tier and lower average used rates.
- Loan amounts and some payments reach record highs while terms continue to extend.
More than 4 out of 10 cars on the road have been in an accident*

We have the data to help you know the difference.

AutoCheck® helps you identify hidden damage and accident events to avoid costly mistakes. Our unique insights and data sources allow you to move more metal while protecting your business and reputation. Get elite access to:

- Tens of thousands of distinct accident sources, many provided only to AutoCheck.
- Data from over 95% of all U.S. auto auction houses, with most providing exclusive structural damage announcements.
- Private sources of salvage, export, fleet and repair info.
- Patented AutoCheck Score® — an easy-to-understand summary of a vehicle’s past.

To request a free analysis of hidden accidents on your lot, call us now at 1 888 636 3311 or visit www.experian.com/autocheck.

*Experian’s assessment of the percentage of U.S. vehicles in operation in Q2 2016 with accident events. Since less than 100% of events are captured, a vehicle inspection is also recommended.
LEASING DATA
Leasing remains very prime as more consumers across all risk tiers chose to lease.

% of new borrowers choosing to lease
- Prime: 34.8%
- Nonprime: 32.7%
- Deep & Sub: 24.2%
- Prime + Nonprime: 51.7%

2016 EXPERIAN INFORMATION SOLUTIONS, INC. ALL RIGHTS RESERVED. EXPERIAN PUBLIC

AVERAGE MONTHLY PAYMENT FOR A LEASE

LEASING DATA

Average amount financed by loan type

2016 EXPERIAN INFORMATION SOLUTIONS, INC. ALL RIGHTS RESERVED. EXPERIAN PUBLIC

AVERAGE MONTHLY PAYMENT FOR A LEASE

Average used loan term

2016 EXPERIAN INFORMATION SOLUTIONS, INC. ALL RIGHTS RESERVED. EXPERIAN PUBLIC

Average used loan rate by loan type

SOURCE: EXPERIAN AUTOMOTIVE

Average used monthly payment

2016 EXPERIAN INFORMATION SOLUTIONS, INC. ALL RIGHTS RESERVED. EXPERIAN PUBLIC

Average used amount financed by loan type

SOURCE: EXPERIAN AUTOMOTIVE

Average used monthly payment by loan type

SOURCE: EXPERIAN AUTOMOTIVE
Manage Compliance Risk with the
Brand You Can Trust

Reynolds Document Services is the exclusive provider of LAW® documents, an F&I forms suite available in all 50 states.

LAW documents are ideally suited for NIADA dealers because they are regularly reviewed for compliance with the latest state and federal laws by Reynolds’ industry-leading forms specialists, state dealer associations, major financial institutions, and other top leaders of automotive finance law.

Standardized designs and consumer-friendly language are used throughout the LAW document suite, helping you to streamline processes and improve the customer experience.

For more information on Compliance Solutions, contact your Reynolds Document Services Consultant, call 877.912.3651, or email LAW@reyrey.com.
2016 was another strong year for the auto industry and subprime lending.

All of the historical data that follow are taken from Equifax’s Credit Trends 5.0 product. For the purposes of this analysis, we classify loans to borrowers with a VantageScore 3.0 credit score of 620 or less at origination as subprime.

A close look at subprime originations revealed the following:

While auto lending overall continued to grow, subprime lending declined. Total subprime originations declined by 2.5% in 2016 in comparison to the previous year. Prime lending continued to grow at a rate of 4.5%. The net effect was that the share of subprime loans as a proportion of total auto lending decreased to 19.4% in 2016 from 20.5% in 2015.

Longer loan terms continue gaining in popularity. 22% of loans originated had a term of 7 years or more. Within subprime, 14% had a term of 7 years or more.

Recent subprime vintages performance is fair: better than 2007 vintages, but not as good as 2010. This is largely due to more deep subprime loans originated.
Lenders Specialize in Credit They Originate

2016 Q1 Share of Origination Balances for Lender Type by Credit Score, NSA

Auto Subprime Loan Terms Are Also Longer, Mostly 6-Year Terms

Share of Origination Balances, NSA
Section 6

Auto Loan and Lease Originations

Auto Cumulative Non-Performance by Quarterly Vintage and Months on Book
SEAL THE DEAL.

Close more deals confidently with insights that drive.

When driving business growth is a key dealership objective, you need deep consumer insights that help you find the right customers and sell more cars.

Equifax has you covered with:
- Real Time (Soft Pull) Credit and Prescreen Offers
- Credit Risk Decision Information
- Consumer Income and Employment Data

We’re here to help you learn more about your market and accelerate dealership growth—on and off the lot.

Focus on the right shoppers, get more qualified leads, close more deals, and build lasting customer loyalty and trust with Equifax.

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800-685-5000
key takeaways

Used sales up over 2015
38.5M vehicles sold in the 2016 second-hand market, a slight 0.6% increase compared to 2015. Franchise used sales gained 1.5% over 2015 despite fewer trade-ins on new vehicle sales.

CPO volume set record
Certified Pre-Owned sales forged ahead with a 3.5% lift over 2015 and accounted for 22.8% of all franchise used car sales.

Highest used vehicle prices ever
The 2016 average retail used price was $19,189—3.4% higher, year-over-year. This record breaking high can be attributed to a newer fleet: 58% of the used vehicles sold were three years old or newer. Consumers’ high demand for trucks and SUVs, which are more expensive, also contributed. Also, 8- to 15-year-old vehicles from almost every category retained more of their value.

Favorable financing mitigated high prices
Financing was one place consumers found relief from higher prices. Interest rates were at record lows, coupled with slightly longer loan terms, reducing monthly payments.

Older vehicle supply fading
2016 saw fewer buyers trading in old vehicles when purchasing a new one. This affected older used car supply, since the average age of a trade-in is six years old (on a new car purchase). For buyers in the near-new used market, supply is healthy, as 2014 leasing volume increased 10.6% over 2013.

used prices edged up

Annual transaction prices ($ thousands)

Record 2016 transaction prices reflected a used market that’s undergoing dramatic change. Growing numbers of three-year-old off-lease vehicles, more one- to two-year-old rental returns and a consistent flow of near-new trade-ins made a big impact. A record-high 56% of the used vehicles sold at franchise dealerships were three years old or newer.
The average age of retail used vehicles sold in 2016 was 4.1 years. In 2015, it was 4.4. The largest age group sold last year were off-lease three-year-old vehicles. However, one- and two-year-old rental cars also indexed high. Rental agencies bought more vehicles in the last few years so this trend should continue.

**2016 CPO continued to grow**

CPO % share of franchise used sales

Franchise used sales saw record CPO share
CPO vehicle sales climbed to an all-time high last year, 2.6M units sold on franchise dealer lots. This accounted for 22.8% of franchise used vehicle sales—also a record. CPO sales could still increase in the future, although they don’t specifically correlate to the increased leasing volume we’ve seen. Many lease returns came into the used market as non-Certified Pre-Owned vehicles.

Near-new category continued to shine
58% of the cars sold off franchise dealer lots in 2016 were near-new. Retired rental units consistently feed the near-new category. But the recent gains resulted more from leasing’s popularity as an easier way to sell more cars. The higher residuals of lease returns also helped fuel this increase.
forecast for 2017

2017 used market: more near-new, fewer older vehicles
New car buyers traded in vehicles less in 2016. For 2017, we expect more of the same. Add the likely new vehicle sales dip, and trade-ins could slip below 6M units for the first time since 2012—lowering older used inventory. But the volume of near-new used vehicles should rise due to the 10.6% uptick in 2014 leasing.
Is Your Dealership COMPLETE?

You owe it to yourself to learn more about the NIADA Certified Pre-Owned program. More than just a limited warranty, it is a complete marketing and selling system designed to help your dealership sell more vehicles and increase gross profits. If you're not offering the NIADA CPO program, you're missing out on a big piece of the market.

Increase Profits. Sell More Vehicles. Reach New Markets.
Become Complete So You Can Compete.
Call 1.877.310.0288 to start today!

Don't forget to visit us at the upcoming 2017 NIADA Convention!

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For more information, visit www.niadacertified.com/dealers or e-mail us at automotivesales@amtrustgroup.com.
The car buying process has changed dramatically in the past few years. It is crucial that dealers constantly reevaluate their processes to ensure they are evolving with the times. For our most recent Independent Dealership Action Report, we set out to take a closer look at the fact and fiction of the car buying process.

DealerSocket conducted consumer research using Google Surveys to reach more than 2,000 consumers who purchased a vehicle in the last 12 months. We asked them about their attitudes toward the following stages of the car buying process. We surveyed independent dealerships across the United States and Canada to find out what they believed their customers felt about the same questions we posed to our consumer pool and compared the results. By juxtaposing consumer perceptions against those of independent dealers, we can understand the buying process better and identify opportunities to meet everyone’s needs.

Inside the numbers:
Age, gender, and income affected results

LEADING “NO” CONSUMER RESPONSES:
85% 45–54 years old
85% Female
82% Income: $25K–$50K

LEADING “YES” CONSUMER RESPONSES:
29% 18–24 years old
24% Male
32% Income: $150K+

22%
Consumers who prefer independent dealerships earn $24,999 or less annually

24%
Consumers aged 35–44 who prefer independent dealerships

GOOGLE SURVEY
Q: Do you enjoy the car buying process?

CONSUMERS

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>19%</td>
<td>81%</td>
</tr>
</tbody>
</table>

DEALERSOCKET DEALER SURVEY

INDEPENDENT DEALER PERCEPTION

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>32%</td>
<td>68%</td>
</tr>
</tbody>
</table>
The car buying process has changed dramatically in the past few years. It is crucial that dealers constantly reevaluate their processes to ensure they are evolving with the times. For our most recent Independent Dealership Action Report, we set out to take a closer look at the fact and fiction of the car buying process. DealerSocket conducted consumer research using Google Surveys to reach more than 2,000 consumers who purchased a vehicle in the last 12 months. We asked them about their attitudes toward the following stages of the car buying process. We surveyed independent dealerships across the United States and Canada to find out what they believed their customers felt about the same questions we posed to our consumer pool and compared the results. By juxtaposing consumer perceptions against those of independent dealers, we can understand the buying process better and identify opportunities to meet everyone's needs.

**Q: What don’t you like about the car buying process?**

**Inside the numbers:**

**TOP CONSUMER RESPONSE**

29% Don’t trust salespeople

**TOP INDEPENDENT DEALER PERCEPTION**

32% It’s too time consuming

**J.D. POWER: POWER INFORMATION NETWORK (PIN)**

**Rating Technology During the Sales Process**

According to J.D. Power, the use of technology, specifically the use of tablets during the payment presentation process, improves customer satisfaction ratings significantly. In contrast, lower satisfaction ratings resulted from negotiations using handwritten figures and verbal quotes.

**POSITIVE SATISFACTION RATING**

When negotiation figures were displayed using:

- 8.12 Tablet device
- 7.08 Verbal quotes
- 6.92 Handwritten

**Transparency Builds Consumer Trust**

Consumers need to feel engaged throughout the entire car buying process. Every time a salesperson excuses him- or herself to privately negotiate with a manager, consumer confidence takes a hit as they feel growingly disconnected from the process.

Mobile technology reverses this effect by allowing salespeople to manage the entire transaction without stepping away from the consumer, thus increasing efficiency, transparency, and trust.

**DEALERSOCKET DATA**

43% Users who have logged into mobile during the last year to complete job tasks

**CRM Desktop Versus Mobile Usage**

Dealers have not fully embraced mobile technology, deferring instead to desktop. This presents a great opportunity for tech-savvy dealers to differentiate themselves from their competition.
Increase Visits to the Dealer Website

Most consumers visit only one or two dealer websites (if any) prior to visiting just one or two dealerships during the car buying process. This data suggests that a buyer who visits the website is likely to visit that dealership. It becomes vital, then, to invest in an effective website with targeted digital marketing to reach each consumer at as many touch-points as possible throughout the car buying process.

DEALERSOCKET DATA

$2,905

The average profit per used vehicle sold in DealerSocket CRM in 2016

Independent dealers need to position themselves as a buying power

Equity-mining technology enables dealers to identify customers in their database that are in a position to buy. Most likely, these customers have not quite started shopping yet. And once they are in the store, the likelihood they purchase a new vehicle and trade in their old one is very high. Sourced through Revenue Radar, DealerSocket’s robust equity-mining tool, this lead type is as likely to close and include a trade-in.

$2,905

57% Visits sold

DEALERSOCKET DATA

DealerFire Digital Insights

48%

New leads that come from organic search (ranked No. 1)

2+

1 in 3 consumers who submit leads interact with auto dealers via two or more channels

1/5

Paid ads results in a new lead

GOOGLE CONSUMER SURVEY

Q: How many dealership websites did you visit before physically visiting a dealership?

- 0–2: 44%
- 3–5: 33%
- 6–10: 15%
- 11+: 8%

GOOGLE SURVEY

Q: If you want to sell your car, do you consider a car dealership as a potential buyer?

1

Yes

48%

Men aged 25–34 years picked YES

2

No

52%

Women aged 25–34 years picked YES
GOOGLE SURVEY

Q: When consumers are in the market to purchase a used car, where are they more inclined to go to purchase it?

1. Brand-specific dealership: 48%
2. Independent dealership: 52%

Consumers make it clear that they want to love the car buying experience just as much as the vehicle they’re purchasing. There is no sacrificing one for the other.

Dealers can’t afford to focus solely on inventory; customer experience must also be a priority.

Inside the numbers:

A significant portion of consumers still prefer to negotiate face to face in the store. Conscientious consumers come armed with mobile technology, empowering them with information to readily verify what they are being told. Dealers must be cognizant of this and embrace technology that promotes transparency and trust.

GOOGLE SURVEY

Q: Do you like to negotiate or be given the “best price” up front?

57% Best price
43% Negotiate

Q: Where do you prefer to have the negotiation take place?

71% In store
29% Elsewhere

GOOGLE INSIGHTS

2015 Automotive Path to Purchase

36%

Consumers that checked the price of a vehicle on a mobile device while on the dealership lot to make sure they’re getting a good deal.
GOOGLE SURVEY

62%
18-24 year olds who prefer to secure financing through the dealership

53%
Consumers who earn $25K-549K per year in the South prefer to secure financing through the dealership

The used car landscape is highly competitive. Independent dealers must compete to be top-of-mind. The demographic sweet spot for independent dealers occurs in lower income members of Generation X (ages 35-55).

DEALERSOCKET DATA

DMS Insights

UNITS SOLD BY TRANSACTION TYPE

<table>
<thead>
<tr>
<th>Transaction Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local lender</td>
<td>35%</td>
</tr>
<tr>
<td>BHPH</td>
<td>27%</td>
</tr>
<tr>
<td>Wholesale</td>
<td>20%</td>
</tr>
<tr>
<td>Cash</td>
<td>17%</td>
</tr>
<tr>
<td>Lender portal</td>
<td>1%</td>
</tr>
</tbody>
</table>

Mistrust continues to rear its head as both an obstacle and opportunity for dealers. On the other hand, with only 15% of consumers citing “credit score” as their reason for choosing an outside lender, there still remains opportunity for a portion of customers to opt to finance with an in-house BHPH.

GROSS PROFIT AVERAGE

<table>
<thead>
<tr>
<th>Transaction Type</th>
<th>Average Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>BHPH</td>
<td>$4,702</td>
</tr>
<tr>
<td>Local lender</td>
<td>$1,869</td>
</tr>
</tbody>
</table>

35% of units sold in 2015 were financed through a local lender. Yet, DealerSocket data shows that independent dealer gross profit margins are 250% higher with BHPH deals.

Download the entire report at dealersocket.com/idar.
INTEGRATED TECHNOLOGY
INTEGRATED DEALERSHIP

The fully integrated DealerSocket platform brings your customers and vehicles together digitally.

Schedule a demo at DealerSocket.com/iDMS.
Vehicle history is an integral part of the car buying process today. With thousands of dealers integrating vehicle history into all aspects of their used car operations, and consumers asking for it before they buy, it’s no surprise that more than 250 million CARFAX Reports were viewed in 2016 alone.

While vehicle history information builds customer confidence at retail, dealers use it most at acquisition. By running a CARFAX Report during the acquisition process, dealers can make informed decisions about their inventory, helping to ensure they’re paying the right price for the right car.

But vehicle history can bring you more than just important information about a single car’s past—it can also provide valuable insight into what’s trending in the used car market. As you look into acquiring vehicles for your inventory, the data below can help you make the right buying decisions for your dealership and your customers.

### The Average Used Car

With over 259,000,000 vehicles on the road, we wanted to look at what the average used vehicle looks like. As you consider vehicles in the auction lanes or coming in on trade, here’s what you might expect to see:

<table>
<thead>
<tr>
<th>AGE</th>
<th>10.5 YRS.</th>
</tr>
</thead>
<tbody>
<tr>
<td>SERVICE RECORD</td>
<td>8.9</td>
</tr>
<tr>
<td>OWNERS</td>
<td>2.23</td>
</tr>
<tr>
<td>MILEAGE DRIVEN PER YEAR</td>
<td>12,873</td>
</tr>
</tbody>
</table>

*BASED ON INFORMATION REPORTED TO CARFAX AS OF 3/22/2017

### Open Recalls

One of the ongoing concerns in the automotive industry is the record number of vehicle recalls issued year after year. The bigger issue, however, is the massive growth in open recalls on used vehicles (See map on pages 44-45). CARFAX data suggests a 34% increase in unfixed recalled vehicles from 2016 to 2017. Consumers are often unsure about the impact of an open recall, which can negatively affect their buying decision. Your efforts to alleviate concerns about recalls by disclosing open recalls up front can give an added boost to your customer service and make your dealership stand out from the competition. Providing customers with recall information and offering to help facilitate getting it fixed can actually remove a point of friction and help you close more deals.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>OPEN RECALLS (M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014*</td>
<td>37</td>
</tr>
<tr>
<td>2015*</td>
<td>46</td>
</tr>
<tr>
<td>2016*</td>
<td>47</td>
</tr>
<tr>
<td>2017+</td>
<td>63</td>
</tr>
</tbody>
</table>

*YEAR END (12/31) +BASED ON INFORMATION REPORTED TO CARFAX AS OF 3/22/2017

### 1-Owner

One of the most important vehicle history attributes consumers look for in a used car is the number of owners. While the average vehicle on the road has just over two owners, dealers seem to understand the value of vehicles with only one owner. In fact, over half (54%) the vehicles listed for sale by dealers in February 2017 were CARFAX 1-Owner vehicles. How does your inventory stack up?

Creating the right mix of CARFAX 1-Owner vehicles should be an important part of both your inventory acquisition strategy and your marketing strategy. CARFAX 1-Owner vehicles are highly sought-after by consumers, so making sure these premium vehicles are a part of your inventory can help lower turn time and maximize profits.

### Use Type

Another important factor to look at when acquiring a car is usage. In recent years, the number of people choosing to lease vehicles has increased. In 2014, personal lease vehicles accounted for 3.52% of all vehicles on the road, and in 2017 that number has risen to 4.3%. Because these vehicles are prime candidates for certification programs, including independent programs like NIADA Certified Pre-Owned, it is important to identify these vehicles during acquisition.

**Fraud/Other**

Despite efforts to combat it, vehicle fraud and other crimes continue to plague consumers and dealers alike. Dealerships, law enforcement, and companies like CARFAX are working together to help protect people from buying flooded cars, cars with rolled-back odometers, clones and other costly scams that can put dangerous cars on the road. Using vehicle history at acquisition can help you identify these vehicles to protect both your business and your customers.

### OTHER

<table>
<thead>
<tr>
<th>NUMBER VEHICLES</th>
</tr>
</thead>
<tbody>
<tr>
<td>REPO</td>
</tr>
<tr>
<td>STOLEN</td>
</tr>
<tr>
<td>ROLLBACK</td>
</tr>
</tbody>
</table>
SOLD WITH CARFAX
USED CAR LISTINGS
THE MAP BELOW SHOWS THE IMPACT OF OPEN RECALLS IN EACH STATE
The map below shows the impact of open recalls in each state.
USED CAR BUYERS SPEND 62% OF THEIR TIME ONLINE
(among those who shopped online)

While car buyers use a variety of sites to shop, they spend most of their time shopping on third-party sites. Third-party sites, dealer sites and search engines complement each other during the shopping process. Therefore, dealers need to have a broad yet integrated marketing strategy, including a strong presence in the online inventory marketplace, to effectively reach and influence shoppers wherever they are online.

TOTAL TIME SPENT

<table>
<thead>
<tr>
<th>Used Buyers</th>
<th>New Buyers</th>
</tr>
</thead>
<tbody>
<tr>
<td>15:39 HOURS</td>
<td>13:04 HOURS</td>
</tr>
</tbody>
</table>

TIME SPENT ON VARIOUS SITES

<table>
<thead>
<tr>
<th>Used</th>
<th>New</th>
</tr>
</thead>
<tbody>
<tr>
<td>9:48 HOURS</td>
<td>7:00 HOURS</td>
</tr>
</tbody>
</table>

MOST CAR BUYERS ARE UNDECIDED AT THE START OF THE SHOPPING PROCESS

Car buyers consider a variety of makes/models and purchase options as they move through the shopping process. Although most buyers have some idea of what they are looking for, less than half have a specific make in mind when they start shopping. Many of them are also open to both New and Used vehicles, but by the time they actually show up to the dealership, they already know the exact vehicle they want to buy. 38% of car buyers only visit one dealership, and 55% only test drive one vehicle.

While car shoppers can be influenced about what to buy and who to buy from, the time to influence and convert them is online, where car buyers spend the majority of their shopping time making decisions about what to buy and who to buy from.
DEALERSHIP WEBSITES DRIVE DEALERSHIP VISITS

Nearly half of used car buyers visited the website of the dealership where they purchased a vehicle. When asked to rate how influential the dealer website was on their decision to visit the dealership, 47% of New buyers and 60% of Used buyers gave the dealership site an 8-10 rating on a scale of 1-10. It is critical that dealership websites are user-friendly, consistent across devices and accurately reflect the pricing, incentives, services and amenities that are offered when the consumer visits the brick-and-mortar dealership.

BUYERS ARE LEAST SATISFIED WITH LONG PURCHASE PROCESS

When asked to rate their satisfaction on a scale of 1-10, 79% of car buyers gave the test-driving process an 8-10 rating. However, satisfaction declined to 64% when interactions with the F&I department were factored in. Of the 3-hours average time spent at the dealer during the purchase process, more than half of that time is spent negotiating or doing paperwork. Dealers should strive to shorten the purchase process – particularly through streamlining F&I paperwork and negotiations – in order to enhance customer satisfaction and improve loyalty and retention rates.

### VISITED AND INFLUENCED BY DEALERSHIP WEBSITE

<table>
<thead>
<tr>
<th></th>
<th>USED</th>
<th>NEW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Visited Dealer Website Where Purchased/Leased (% Yes)</td>
<td>47%</td>
<td>50%</td>
</tr>
<tr>
<td>Dealer Website Influenced Buyer to Visit Dealership</td>
<td>60%</td>
<td>47%</td>
</tr>
</tbody>
</table>

### SATISFACTION WITH PURCHASE PROCESS

<table>
<thead>
<tr>
<th></th>
<th>USED</th>
<th>NEW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your overall experience with the dealership</td>
<td>74%</td>
<td>76%</td>
</tr>
<tr>
<td>The test driving process</td>
<td>79%</td>
<td>79%</td>
</tr>
<tr>
<td>Interactions with the dealership sales people</td>
<td>71%</td>
<td>77%</td>
</tr>
<tr>
<td>Interactions with the financing department</td>
<td></td>
<td></td>
</tr>
<tr>
<td>How long the process took</td>
<td>64%</td>
<td>63%</td>
</tr>
</tbody>
</table>

### A FAST, NO-PRESSURE PROCESS HAS THE GREATEST IMPACT ON CUSTOMER SATISFACTION

Dealers are more likely to have higher customer satisfaction if they offer a fast, simple, pressure-free shopping experience, transparent pricing, low financing rates, free service or maintenance; a “No Haggle/One-Price” negotiation model; and a wide selection of inventory. These features should be stressed in advertising, CRM and as part of the sales process.

### DIFFERENTIATOR OVERALL SATISFACTION WITH DEALER*

<table>
<thead>
<tr>
<th></th>
<th>USED</th>
<th>NEW</th>
</tr>
</thead>
<tbody>
<tr>
<td>A pressure-free shopping experience</td>
<td>35%</td>
<td></td>
</tr>
<tr>
<td>A simple, fast purchase experience</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transparent pricing</td>
<td>21%</td>
<td>94%</td>
</tr>
<tr>
<td>Free service or maintenance</td>
<td>20%</td>
<td>89%</td>
</tr>
<tr>
<td>No Haggle, One Price</td>
<td>21%</td>
<td>82%</td>
</tr>
<tr>
<td>Biggest inventory or selection of vehicles</td>
<td>15%</td>
<td>84%</td>
</tr>
<tr>
<td>Lowest financing rates</td>
<td>15%</td>
<td>81%</td>
</tr>
<tr>
<td>Free extended warranty</td>
<td>9%</td>
<td>88%</td>
</tr>
<tr>
<td>None of these</td>
<td>7%</td>
<td>78%</td>
</tr>
<tr>
<td>Not sure</td>
<td>9%</td>
<td>39%</td>
</tr>
</tbody>
</table>

*Percentage of buyers who gave the dealership an 8-10 rating on a scale of 1-10.
GREATER INVENTORY AVAILABILITY HELPS INDEPENDENT DEALERS

As wholesale supplies grew in 2016, independent dealers were better able to secure inventory that met the needs of their individual customer bases. As a result, unit sales grew considerably faster than in the prior two years, and at a pace that was higher than that of franchised dealers. Earlier in this cycle, many independents suffered as a result of a lower flow of wholesale units from franchised dealers, fewer desirable trade-ins, and reduced auction supplies. With all of those sources now growing, independent dealers should have another good year in 2017, if all-important credit conditions remain favorable.

BHPH DEALERS ADAPT TO CHANGING CONDITIONS

One of the biggest challenges for Buy-Here, Pay-Here (BHPH) dealers in this cycle has been deep subprime lenders buying down into the traditional BHPH customer base. The customers left behind were the ones least likely to pay. To handle this and other challenges, individual BHPH operators have developed a multitude of different business models. No longer is there a “traditional BHPH model.” Some operators significantly increased the price point of the vehicles they offer, others kept their price point and built in more goodwill policy work as a reserve, some moved to the Lease-Here, Pay-Here model, others adjusted interest rates to coincide with subprime lenders, and others worked diligently to capture more upfront money in the deal.

In recent years, many BHPH dealers have used down payment deferral programs to get a jump-start on the tax selling season. These became more important in 2016 as the PATH Act required that the IRS hold tax refunds claiming the Earned Income Tax Credit (EITC) until Feb. 15. In recent years, more than $100 billion in tax refunds had already been disbursed by mid-February, with much of that being EITC monies, which have the highest correlation with lower-end retail used vehicle sales.

WHAT $5,000 WILL BUY

Rising wholesale prices have often caused headaches for dealers as they need to find vehicles their customers can afford but that will also be capable of running the term of the note with minimal repairs. To give a sense of just how much wholesale prices have gone up over time in the lower price tiers, we looked at the average mileage on auction vehicles that sold between $4,000 and $6,000 over the past 16 years. As seen in the graphic, if you spent, on average, $5,000 for a vehicle at auction in 2000, you got, on average, a vehicle with 84,541 miles. Average mileage slipped over the following three years as wholesale supplies grew and the overall pricing environment weakened. But between 2003 and 2014, average mileage for the typical $5,000 auction purchase rose every year, except for the recession of 2008–2009. In 2015 and 2016, dealers got a little reprieve when the average mileage on a $5,000 auction purchase fell below 120,000 miles for the first time since 2012.
For vehicles offered for sale at auction multiple times, benchmarking against the Manheim Market Report (MMR) value on the original offer date provides the most effective measurement of depreciation.

Historically, depreciation has been captured based on the sell date MMR value, which is not always the same as the value of the unit the first time it was offered for sale.

Once a unit has been offered more than once, the depreciation trend declines steeply and continues to do so with subsequent offerings. Using initial offering MMR value reveals even more dramatic depreciation and seasonal sales trends that can inform dealers’ holding strategies.

For instance, during the second half of the year, vehicle values achieve a lower percentage MMR value for every subsequent offering for the unit compared to the first half of the year. Based on these findings, dealers should consider revisiting existing strategies from June to December and consider listing “no-sales” on OVE to quickly offer the unit again with high probability of achieving a higher profit. Placing these units on OVE has proved to increase auction values by up to 3 percent. This MMR increase applies to all grade buckets comparing retention gained on OVE versus the second time offering in-lane.

**KEY FINDINGS:**

» For vehicles that have been offered multiple times, the gap between retention compared to MMR the first time a vehicle was offered and sale date retention reveals how much vehicles typically depreciate between offers.

» At second offer, this gap is 0.7 percent. For a $12,000 unit, this equates to approximately $87 of value lost to depreciation.

• By the fifth offer, the gap increases to 1.4 percent. For a $12,000 unit, this equates to approximately $172 of depreciation.

• In general, vehicles depreciate by approximately 0.4 percent per week. Strategies that involve no-selling a vehicle and holding out for a higher price at the next offer must overcome this depreciation to be worthwhile to the consignor.

» Not surprisingly, retention depreciates at a faster rate during the second half of the year, exacerbating the cost of holding vehicles during this season.
According to Black Book, the annual depreciation rate on two- to six- year-old vehicles increased to 17.3% in 2016. From 2011 through 2016, the depreciation rate had remained at 13% or lower reflecting the strength of the used vehicle market. Prior to the recession, annual depreciation of 16-18% was normal. As market dynamics change, driven largely by higher supply, we expect to see a sustained higher depreciation rate over the next three years.

Black Book projects that the depreciation rate will rise marginally to 17.8% in 2017. We experienced several positive trends in the industry that drove used vehicle market strength over the past few years. Several of these trends reached a plateau and have started to turn. Credit availability has been strong driven by low delinquency rates. In 2016, we started to see an increase in subprime delinquencies and losses. Most subprime lenders are now tightening their credit criteria, reflecting a turn in the credit availability cycle. Credit availability in the prime tier preferences and low gas prices. However, the number of models and competition has been heating up among manufacturers to shift production to SUVs, and this has placed increased pressure on the ability to sustain strong retention in recent years.

Smaller cars (Sub-Compact and Compact) saw their depreciation rates rise above 20%. The Full-Size Car segment showed the lowest depreciation among car segments at 15.5%. Small Pickup, Full-Size Pickup and Full-Size Crossover/SUV segments had the lowest depreciation of the year at under 16%.

Black Book Used Vehicle Retention Index Dropped 6% in 2016

The Black Book Wholesale Used Vehicle Retention Value Index is designed to provide an accurate view of the strength of used vehicle wholesale market values. The index is calculated using Black Book’s published Wholesale Average value on 2- to 6- year old used

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**Auto Depreciation Rose to 17.3% in 2016**

**Section 12**

12-Month Depreciation Rates by Segment Jan 1, 2016 – Jan 1, 2016
Two- to Six- Year Old Vehicles

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vehicles, as percent of original typically-equipped MSRP. Black Book’s Wholesale Average is a benchmark value for used vehicles selling in the wholesale auctions with the vehicle quality in Average condition. The index is weighted based on registration volume and adjusted for seasonality, vehicle age, mileage, condition, segment mix and inflation (MSRP).

As more 2- to 6- year-old vehicles return to the market in the coming years, this index provides an overall measurement of strength/weakness in wholesale used vehicle value retention. The index lost 6% in 2016, and is expected to continue its slow decline in 2017 as the used vehicle market loses strength.

Residual Forecasts Lower

In January 2017, a 2014 model year vehicle’s wholesale value, on average, was 52% of its typically equipped original MSRP. Black Book residual forecasts for 2017 model year vehicles in January of 2020 are 4 percentage points lower than the current retention trends averaged across all vehicle models. In three years, the residual values are forecast to drop to 48% of typically-equipped MSRP.

Despite some headlines to the contrary, we do not see that our industry is in a bubble, although the risks are increasing. We expect the market to reach a gradual normalization over the next three years. The biggest concerns include continuously increasing lease penetration leading to residual losses on the returns due to excess supply, higher levels of incentives on new vehicles pushing down used values, and longer loan terms leading to sustained negative equity. Using timely and accurate collateral data, as well as the right analytics to help interpret this data, is key to making better decisions in this changing environment.
Any Time, Any Place, Any Device.

Our Digital Retail Suite delivers a website plug-in and in-store mobile point of sale application that are among many features available to support your customers' growing demands for a seamless sales process throughout their entire F&I experience.

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THROUGH THE GAP TO THE LAND OF LOST LENDERS AND CLASS ACTIONS

Section 13

Everyone in the retail automotive industry, from franchise to independent dealers, is feeling the impact of rising GAP loss ratios. As a smart independent dealer, you’ve probably been wondering what’s behind this trend. To understand that, you need some historical context.

Recently, GPW Actuarial Services shared a trend analysis comparing GAP loss ratios over the last eight years. In 2007 and 2008, GAP losses peaked well above historical norms, at the same time as record-setting new vehicle sales. In 2009, the industry saw significant reductions in GAP losses as new car sales plunged, the used vehicle market surged, used vehicle prices increased, and financing tightened. Since 2014, consumers returned to the new car market, new vehicle prices surged, used vehicle prices dropped, and loss ratios returned to 2007/08 levels.

GAP LOSS RATIOS ARE MOSTLY AFFECTED BY THE RATE OF DEPRECIATION IN COMPARISON TO THE LOAN-TO-VALUE AT THE TIME OF PURCHASE.

A variety of different factors can impact the rate of depreciation, including:

- Weather Events
- The Price of Gas
- Bad Publicity
- Supply and Demand

Based on GPW’s trend lines, one of the biggest influencers to today’s GAP loss ratios seems to be that the rate of depreciation is dropping faster than consumers can keep up with in terms of paying off their loans because of high loan-to-value ratios.

Since 2009, lenders and dealers became more aggressive, as they were eager to see sales and loan volume rise.

- Incentives were offered.
- Loan terms steadily grew longer.
- Lenders became excessively generous, often advancing greater than 100 percent of invoice.

- The used car market surged.

In 2010, lenders began extending those lax lending practices to the new vehicle market. Loan terms lengthened to accommodate a higher price point, and the timeline for customers to file GAP claims lengthened, with potentially larger gaps between insurance payouts and loan payoffs.
What does this mean for you as an independent dealer? It all comes down to compliance. Essentially, when selling GAP policies, making the statement “GAP will pay the difference between a consumer’s outstanding balance and the vehicle’s value at the time of loss” could be viewed as a deceptive sales practice. Why? With high LTV loans and low used car values, it’s very possible that the GAP payout can’t cover the entire amount owed.

Then what happens? An enterprising lawyer gets enough customers together to build an impressive case against your dealership for selling a product that could not deliver the promised benefits. In addition, in an industry that needs strong lending partnerships, it’s very possible that your dealership could lose lenders as more loans become delinquent after a total loss with a limited GAP payout.

So, what can you do to keep this trend from impacting your business? When looking at available rates and LTVs for your customers, take a broad approach to evaluating the best deal, rather than up-front dealer profit. Yes, larger LTVs mean you can sell more products, cover tax fees, and work with customers who have little to no money for a down payment on a vehicle. But, they also correlate with increased default rates and larger GAP claims.
CONSIDER THE FOLLOWING SCENARIO

1. The consumer starts with a $25,000 vehicle.
2. The consumer rolls in $8,000 of negative equity from their prior vehicle.
3. The loan is financed with zero down.
4. The consumer receives a loan for the total amount of $33,000.
5. At 18 months into the loan, the consumer experiences an accident that totals the vehicle.
6. The Actual Cash Value (ACV) of the vehicle is $17,500.
7. The primary insurance settlement is $17,500 less the consumer’s $1,000 deductible.
8. The consumer receives an insurance check for $16,500.
9. Their outstanding loan balance is $26,497, leaving a gap of $9,997.00 that still needs to be paid.

Under the 125% GAP program, the max benefit is less than the total amount owed and only half the deductible is covered, meaning after both the GAP and insurance payments are made, the consumer is still on the hook for $2,250 to pay off the totaled vehicle.

Here is an example of what would happen next if the customer purchased 150% GAP coverage versus 125% coverage.

Under the 150% GAP program, the max benefit is more than the total amount owed and the deductible is completely covered, meaning the consumer’s loan can be paid off, with no money owed by the consumer.
In the independent space, the trend is to sell less expensive F&I products that dealers know their customers can afford. In the case of GAP, that means selling policies that cover up to 125 percent LTV. When looking at available lending options for your customers, it’s important that the LTV is either less than the GAP payout or equal to it. If you close out a loan with a higher LTV than GAP coverage, then the customer could be left in a lurch if they experience a total loss and your dealership could face compliance ramifications due to deceptive sales tactics.

Because of this, it’s important to be very careful on how you present GAP, saying “GAP may cover the rest of what is owed after a total loss.” The key here is the word “may” and not “will”. When presenting GAP on a loan with a higher LTV than GAP payout, you have to inform the customer that the GAP payout could fall short. However, if you always ensure the LTV is either less than or equal to the GAP payout, then your dealership should be in the clear.

Clearly, GAP will remain a staple of the retail automotive industry. But a few adjustments can help insulate you and your business from legal liability. Pull the last month of closed contracts and compare the LTV with the GAP program you sell. Use this exercise to educate your team on how to structure a deal where GAP covers the LTV to keep your dealership protected. Audit your deals on a monthly basis to ensure proper compliance, and remember to coach your team to say “MAY” instead of “WILL”.

### Loan Scenario

<table>
<thead>
<tr>
<th></th>
<th>150% GAP</th>
<th>125% GAP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MSRP</strong></td>
<td>$25,000</td>
<td></td>
</tr>
<tr>
<td><strong>Negative Equity</strong></td>
<td>$8,000</td>
<td></td>
</tr>
<tr>
<td><strong>Tax, Title and License (Paid with Down Payment)</strong></td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td><strong>Total Amount Financed (132% LTV)</strong></td>
<td>$33,000</td>
<td></td>
</tr>
<tr>
<td><strong>Maximum Amount for GAP Coverage</strong></td>
<td>$37,500</td>
<td>$31,250</td>
</tr>
<tr>
<td><strong>Maximum GAP Benefit Available</strong></td>
<td>$12,500</td>
<td>$6,250</td>
</tr>
<tr>
<td><strong>Non-covered Amount by GAP</strong></td>
<td>$0</td>
<td>$1,750</td>
</tr>
</tbody>
</table>

### Day of Loss (DOL)

<table>
<thead>
<tr>
<th></th>
<th>150% GAP</th>
<th>125% GAP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lender Balance</strong></td>
<td>$26,497</td>
<td></td>
</tr>
<tr>
<td><strong>Non-covered Amount by GAP</strong></td>
<td>$0</td>
<td>$(1,750)</td>
</tr>
<tr>
<td><strong>Applicable Balance by GAP</strong></td>
<td>$26,497</td>
<td>$24,747</td>
</tr>
<tr>
<td><strong>Insurance Total Value of the Vehicle</strong></td>
<td>$17,500</td>
<td></td>
</tr>
<tr>
<td><strong>Insurance Deductible (Paid by Consumer)</strong></td>
<td>$(1,000)</td>
<td></td>
</tr>
<tr>
<td><strong>Max Buyback of Deductible</strong></td>
<td>$1,000</td>
<td>$500</td>
</tr>
<tr>
<td><strong>Amount Over Max Buyback</strong></td>
<td>$0</td>
<td>$500</td>
</tr>
<tr>
<td><strong>Total Insurance Payout after Deductible</strong></td>
<td>$16,500</td>
<td></td>
</tr>
<tr>
<td><strong>Amount Owed After Insurance Payment</strong></td>
<td>$9,997</td>
<td></td>
</tr>
<tr>
<td><strong>Non-Covered Balance (Amount over LTV)</strong></td>
<td>$0</td>
<td>$(1,750)</td>
</tr>
<tr>
<td><strong>Amount Exceeding Deductible BuyBack</strong></td>
<td>$0</td>
<td>$(500)</td>
</tr>
<tr>
<td><strong>Total GAP Payment Amount</strong></td>
<td>$9,997</td>
<td>$7,747</td>
</tr>
<tr>
<td><strong>Amount Owed by Consumer</strong></td>
<td>$0</td>
<td>$2,250</td>
</tr>
</tbody>
</table>
INNOVATION is at your dealership door

EMBRACE IT AND PROFIT... or, ignore it and forfeit!

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WHAT LIES AHEAD FOR AUTO FINANCE

Section 14

More Americans have been holding onto their vehicles longer than ever before. In fact, the average ownership is now reaching nearly 12 years according to a new report published by IHS Automotive. And last year, new car loan amounts hit a record high with 17.5 million cars purchased.

As new vehicle sales outpace the number of old vehicles traded in or being scrapped and with the rising demand for newer connected car technology, experts believe we will start seeing the lifetime ownership of a vehicle decline. This is good news for the used car market as a flood of new vehicle inventory will become available over the next few years. And although it’s doubtful that we’ll see staggering growth for the auto market this year, analysts are projecting that sales will hold steady throughout 2017 (1).

As the job market continues to trend upward, automakers have been more eager to increase their share of the loan market for new cars. That’s why we’ve seen some auto lenders expand their financing to subprime borrowers. Did you know that loans to subprime borrowers now account for one in four new auto loans? (2)

But the Tide is Turning

As reported in the latest Fitch Ratings (3), auto delinquencies have been on the rise across the industry. Delinquencies for subprime borrowers who slipped to 60 days or more past due have reached a peak that hasn’t been seen in two decades. Repossessions are also on a rise (4). In fact, it’s estimated that repos will increase up to 1.8 million units in 2017 – 100,000 more than last year. And don’t forget, subprime annualized net losses reached 9.7% in February, which is an 11.6% increase over January’s figure and a 34.1% gain compared to February 2016.

As interest rates begin to climb and larger numbers of delinquencies and losses are being reported (5), many of the U.S. consumer banks are pulling out of subprime and some of the larger captive auto lenders have decided to reduce their number of subprime loans, setting caps. If you dig deeper into the data, it’s equally important to point out that a large portion of the jump can be traced back to the new issuers crowding into the booming industry as indicated by a recently released report published by JPMorgan Chase & Co (6).

Still for Buy Here–Pay Here dealers and subprime vehicle finance companies, it’s music to their ears. With less competition in the market, BHPH dealers and lenders now have a greater opportunity to gain more market share including customers who can no longer find financing from banks or at new-car dealerships.

Seize the Moment

If you’re an automotive lender preparing to capture more of the subprime loan market, we say seize the moment, but make sure you protect your assets and your bottom line in this ever changing economic and political landscape. The best protection you can get to mitigate risks is GPS-based technology with warranty protection for your portfolio against skips. GPS tracking is proven to not only safeguard a lender’s vehicle collateral, but it also gives your customers a chance to turn things around. And of course, when your customers stay on track, your business is profitable.

Finding the right GPS technology provider is essential.

STARS GPS has focused the past 11 years on developing the best risk mitigation toolkit to help auto lenders turn the American Dream into a reality for credit-challenged customers, confidently. Throughout the years, STARS GPS has continued to innovate and evolve its products and services. It’s rewarding to hear our customers say that using something as simple as our technology that has been extremely effective in reducing delinquencies and avoiding the need for repossessions. Nobody wants to see a vehicle purchase end in a repossession, but if that moment ever comes, STARS GPS has your back. That’s because we use the latest GPS technology, partner with industry leaders to ensure you’re always connected and we back up our service with a guaranteed recovery assurance warranty. The STARS GPS vehicle recovery Warranty is insured by certain Underwriters at Lloyd’s of London, another trusted leader we partner with. Our warranty includes:

- 60 days of theft coverage – for vehicle assets on your lot
- Cost saving results – Reduce your

Garage Keepers Insurance Costs
• Added value and protection – instantly increases the value of your portfolio

The Year of SubPrime Auto Lenders?
This may just be the year for BHPH dealers, vehicle finance companies and consumers with less than perfect credit.
• Decrease in unemployment rate
• Surge of new inventory
• Less competition
• Proven risk mitigation tools with industry first Vehicle Recovery Warranty only available at STARS GPS

(6) Tracy Alloway, “This is what’s going on beneath the subprime auto-loan turmoil,” Bloomberg Markets, March 21, 2016.
Imagine Tracking Your Assets Here!

You can with STARS GPS.

There’s no better risk mitigation tool available today. Because we don’t just monitor your assets, we provide the ultimate protection package.

- Real-time, all-time GPS tracking
- Convenient mobile access - anytime, any place
- 5-minute updates - moving vehicles
- Vehicle Recovery Warranty

The STARS Vehicle Recovery Performance Warranty is our guarantee to locate your vehicle or we’ll pay you the value of it up to $10,000.* If you want peace of mind, give us a call. Don’t forget to enter into our Tropical Paradise Getaway! STARS-GPS.com/Paradise

* Contact us for terms of warranty & tropical paradise getaway.

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STARS GPS
REAL-TIME TRACKING SOLUTIONS
1-877-828-4770
Providing You With The Solutions To Better Serve Your Customers

Unmatched Flexibility
AMT Warranty provides vehicle service contracts and ancillary products for business partners in the automotive, recreational and powersports industries. We develop, market and provide innovative programs and administrative services that can be tailored to your individual requirements. Our comprehensive suite of business tools can be included as a full-scale package or individually as a turnkey solution.

Deep Industry Expertise
The AMT Warranty team is comprised of both automotive industry experts and insurance industry veterans. This expertise enables us to uncover hidden growth opportunities and structure programs that offer a high-value proposition for our partners, their dealers and customers.

A Proven Partner
Our partnership with NIADA gives you access to the only nationally recognized, independent CPO program so your customers know that your business and the vehicles you are selling are held to a higher standard.

Let us provide you with a unique, customized solution that fits perfectly with your specific business needs.

Visit amtwarranty.com or call 800.633.8801 for more information.

AMT Warranty is a proud member of the NIADA Diamond National Corporate Partner Program

AmTrust Specialty Risk | NIADA Certified Pre-Owned Program | OwnerGUARD | Warrantech
2016 NAAA Economic Highlights

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**ECONOMIC FUNDAMENTALS**

When you review the statistics of the U.S. economy from 2016 prepared by our economist Dr. Ira Silver for this report, we believe the data reflects an overall optimistic outlook. These highlights show movement in an upward direction last year with many of the closely watched economic indicators pointing to solid, if not exactly strong, general growth for 2017.

Despite the election year’s uncertainty of economic policy changes, encouraging signs of continued improvement could be seen in a steep decline in the unemployment rate, higher stock prices, and an increase in housing starts for the seventh year in a row.

A couple of specific factors of note for our industry can be found in last year’s sharply lower gas prices and that used light vehicle sales increased at a faster pace than new sales — the first time that’s happened since the end of the recession.

We hope you find these facts and figures, combined with the research in this report from the National Independent Automobile Dealers Association, informative in forming your decisions. Of course, predicting the future with 100 percent accuracy is never a sure thing, but one thing we’re confident in is that better business practices always produce a better bottom line. At NAAA, we believe that’s the fundamental formula that continues to benefit all in the industry.

**HONORABLE DISTINCTIONS**

**NAAA HALL OF FAME AWARD**

This award is given annually to an auction executive and industry auction supporter. It is awarded to someone with long-term service to the wholesale vehicle auction industry and to the National Auto Auction Association (NAAA), which has improved the industry as a whole; has worked with other NAAA members and has consistently followed the high standards of the NAAA Code of Ethics.

In 2016, Patty Stanley was inducted into the NAAA Hall of Fame during its 68th annual convention in Las Vegas, NV. Patty was honored as one of the 2013 Women in Remarketing and in 2004 helped to establish the now self-sufficient NAAA Warren Young, Sr., Scholastic Foundation. She has been in the auction industry since 1969, and has been a fixture at the Carolina Auto Auction, which has grown into one of the region’s largest wholesale auctions, where she innovated the auction’s online department and designed it to enhance customer relationships with buyers and sellers.

**INDUSTRY PIONEER AWARD**

The NAAA Pioneer Award is given to person(s) who have worked in the wholesale vehicle industry and/or NAAA. The award represents someone who has innovated or enhanced methods of improving services to remarketers through NAAA member auctions. They have championed a NAAA member auction that provides services for vehicle remarketers unavailable from any other source, and has consistently followed the ethical standards of the NAAA Code of Ethics.

The National Auto Auction Association selected Bob Rauschenberg, ADESA Auctions executive vice president, sales, marketing and special services, as an NAAA Pioneer at its 68th NAAA/NRC Convention in Las Vegas, NV.

Bob has been in the remarketing business since his early teens when, he says, he wanted to purchase a Corvette. He kept buying, reconditioning and selling cars until he ended up with the vehicle he wanted. Now nearly six decades later, he has worked for the nation’s top auction chains and earned some of the industry’s top honors. In 2016, he was honored with the 2016 Circle of Excellence Award by the International Automotive Remarketers Alliance during its convention.

He initially entered the automotive industry as a fleet administrator with Allstate Insurance Co., followed by a move into a managerial role with a major car rental company. He later became vice president of remarketing for two of the largest fleet and lease companies in North America. He has held key positions in the auction industry, including president of ADT Auction Services Division and executive vice president of sales and marketing for ADESA from 1995 until 2000.
HONORABLE DISTINCTIONS

BERNIE HART MEMORIAL AUCTIONEER OF THE YEAR AWARD

The Bernie Hart Memorial Auctioneer of the Year Award honors “the most visible person in the auction industry.” The award is named after longtime NAAA Executive Director Bernie Hart of Lincoln, Nebraska, who served the association for over 30 years before retiring in 1988.

Jack Armstrong received the National Auto Auction Association Bernie Hart Memorial Auctioneer Award for 2016. What started out as a part-time job as a driver at Rea Brothers Mid-South Auto Auction in Jackson, Miss., has grown into a 27-year career for Jack Armstrong.

He graduated from Mendenhall with awards such as “Most Likely to Succeed” and “Best All-Around Student.” His first job following graduation was at Rea Brothers, and then he expanded to auctions in Tupelo, Mississippi, and later, Memphis, Tennessee.

Jack has been actively involved in community activities and charities, and served as sheriff’s deputy with two county departments — Leake County Sheriff’s Department (1990–1993) and Jones County Sheriff’s Department (2009–present). Most of the years as deputy were on a volunteer basis, without compensation.

When the state legislature passed a law requiring all auctioneers to be licensed in 1995, Mississippi Governor Kirk Fordice appointed Jack to the Mississippi Auctioneer Commission representing the 4th Congressional District, a position he still holds today.

AUTO AUCTION OF THE YEAR AWARD FOR EXCELLENCE IN COMMUNITY SERVICE AND CHAPTER AUTO AUCTION OF THE YEAR AWARDS

The National Auto Auction Association established the annual “Auto Auction of the Year Award for Excellence in Community Service” and Chapter awards to recognize the many charitable acts auctions already perform, to show appreciation to auction staff for their volunteer efforts and to encourage even greater public service. The prestigious award goes to the auction with the most outstanding service conducted by members of its auction staff.

West Michigan Auto Auction (WMAA) of Wayland, Mich., earned the 2016 Auction of the Year Award from NAAA. West Michigan Auto Auction was also the winning recipient of the regional Midwest Chapter Auto Auction of the Year, winning $5,000, and as the 2016 Auction of the Year Award winner, West Michigan Auto Auction received an additional $20,000 to be donated to the charity or charities of their choice.

WMAA engaged in numerous charitable and community service activities, not the least of which was an employee who befriended a dealer client and later donated a kidney to the man.

Other efforts include raising $42,000 for the family of a Michigan auction worker who died in a car accident and each year holding a memorial ride for his family’s continued support. WMAA raised $12,000 for a dealer client whose wife contracted terminal cancer, and the amount raised was matched by the auction. Contributions and fundraising activities have been numerous and have not been limited to weeks, but years, of giving. For the past eight years, the auction has donated $100 for each vehicle sold in a special lane for ‘Rights for Kids,’ a service organization that provides underprivileged children with a safe environment and opportunities to develop for future success.

2016 AUTO AUCTION OF THE YEAR

West Michigan Auto Auction
Carl Miskotten, General Manager

2016 CHAPTER AUTO AUCTION OF THE YEAR AWARD WINNERS

EASTERN CHAPTER WINNER
ADESA Winnipeg
Manitoba, Canada

MIDWEST CHAPTER WINNER
West Michigan Auto Auction
Wayland, Michigan

SOUTHERN CHAPTER WINNER
Louisiana’s 1st Choice Auto Auction
Hammond, Louisiana

WESTERN CHAPTER WINNER
Kansas City Independent Auto Auction
Kansas City, Missouri
Another year of relatively low gas prices combined with the positive impact of a strong housing market on sales of pickups, resulted in a second year in a row of record light truck unit volume in 2016. Light truck unit sales increased 700,000 in 2016 to 10.6 million, after jumping by 1.2 million in 2015 and now represent a record 61% share of light vehicle sales. Auto sales fell by 600,000 units in 2016 or 8.6%, the second decline in a row. Last year, autos accounted for less than 40% of light vehicle sales, the lowest share in history.

Housing starts increased for the seventh year in a row in 2016 to 1.2 million units, marginally higher than the previous record year of 17.4 million in 2015. During the early years of the recovery, sales growth was driven by the release of pent-up demand created by the sharp declines during the recession. Growth continued during the early expansion, supported by factors such as; cheap and easy credit, increasing household wealth, and the availability of new safety features. Over the past few years, large employment gains, a steep decline in the unemployment rate, higher stock prices, and sharply lower gas prices have combined to drive light vehicle unit sales to new record levels in 2015 and 2016. Sales appear to be topping out and will not likely move far from around 17 million in the next couple of years. Anticipated stronger growth in the economy should preclude any collapse in the new sales rate.

In past economic cycles housing starts and light vehicle unit sales plummeted during the recession and turned up sharply early in the recovery. Light vehicle sales did show a sharp upturn early in the recovery and continued rapid growth into 2015, slowing down in 2016 when sales increased less than 1%. Housing did not follow its typical surge during the initial stages of the economic upturn and has remained relatively low throughout the expansion. At 1.2 million in 2016, housing starts still remain significantly below their 50-year average of 1.5 million. This weakness in housing construction has been a significant factor in the below average overall recovery and expansion. However, because of its weak recovery housing does have more potential to add to overall growth than would be typical at this later stage of the expansion.

SOURCE: U.S. Department of Commerce
The labor market continued to show strength in 2016 as employment increased by more than 2 million for the sixth year in a row. 2.2 million jobs were created and the unemployment rate dropped to 4.7%, the lowest since 2006. New jobs create income and improve consumer attitudes leading to higher spending. In 2016, more jobs, a pick-up in wage gains, and sustained low inflation resulted in a 2.8% increase in real disposable income and a 2.7% rise in real consumer spending.

At 4.7%, the unemployment rate is near the full-employment level. However, the labor force participation rate is down significantly from before the recession and it is likely that a stronger economy and higher wages will attract workers back into the labor market this year. This will help support the acceleration in economic growth we expect in 2017 and 2018.

In 2016, weakening demand for new light vehicles kept new vehicle price increases below 1% for the second year in a row. Rapid growth in used supply from off-lease, off-rental, and other off-fleet vehicles resulted in the largest price decrease for used vehicles since the recession related decline in 2009.

After growing in every year of this recovery/expansion, business fixed investment declined in 2016, a surprising and significant swing from a positive contribution to a drag on overall growth. For the second year in a row exports were essentially flat, as a stronger dollar associated with higher relative U.S. interest rates made our exports more expensive and thus less attractive. Also, contributing to the economic slowdown was weaker housing growth, a lower increase in consumption, and a smaller gain in state and local spending. The only major sector showing an improvement was real federal spending with the first increase since 2010.

Real GDP growth in 2016 was an anemic 1.6%, tied for the lowest gain in this recovery/expansion. Real economic growth continues to be trapped in a subpar 1.6% to 2.5% range as different headwinds each year prevent the economy from reaching the normal post-recession 3%-plus growth. Last year an unusual decline in business investment and a second year of weak exports related to ongoing strength in the dollar constrained economic expansion.
THE TRUSTWORTHY BRIDGE BETWEEN BUYERS & SELLERS

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Just a decade ago, many in the industry thought Twitter was a fad, LinkedIn was just a business version of Facebook and social media was just a craze for millennials.

Now those online media icons dominate the marketing of our industry – and independent auctions are an established and viable part of those media.

With increasing volumes of wholesale vehicles becoming available, independent auctions are positioning themselves for expansion. Independents are building up and branching out with increased acreage, new and upsized facilities and, of course, upgrades in technology.

In 2016, IAG refreshed its brand and web presence by launching a new responsive website that is easier to read and navigate across a wide range of devices (from laptops to desktop computer monitors to mobile phones) and minimizes the need for resizing, panning and scrolling.

The IAG member auction map is larger and more accurate, and the directory and map are both searchable with multiple ways to search – by auction name, by state and by clicking on the map.

During the industry’s most recent awards season, IAG again received multiple accolades from our commercial consignors and industry media.

More than 40 awards were presented to independent auctions between September and March, including the induction of Carolina and Indiana Auto Auction’s Patty Stanley into the NAAA Hall of Fame and the Nichols Family being honored as Remarketer of the Year by Bobit Media at the CAR.

IAG’s mission has always been to promote independently owned auctions and to sustain an alliance within the industry to give its membership a group conscience and voice.

Continuing our partnerships with industry governors NAAA, NIADA and IARA strengthens our position and increases our reach throughout this industry to better opportunities for us all.

Lynn Weaver is the 2016-17 co-chair of IAG, the Independent Auction Group, and is general manager of America’s Auto Auction-Harrisburg, Pa.
INDEPENDENT DEALERS CAPITALIZE ON MARKET SHIFTS

It’s only natural that more than a few dealers entered 2017 with a little bit of trepidation and caution. After all, analysts have been warning for years that a bubble in auto lending would soon pop. In early 2017, the alarm bell rang even louder as several large lenders reduced loan originations in the face of rising delinquencies and lower recovery rates.

To top it all off, there was renewed commentary about both a current, and coming, collapse in wholesale values.

Wise dealers, however, took a deep breath, considered where we are in the automotive cycle, analyzed the many opportunities – and seized them. They knew this is the point in the cycle where used vehicles perform better than new and independent dealers gain market share from their franchised brethren.

The reasoning is simple – new vehicle sales are more volatile than used and they are an early cycle mover. Furthermore, independent dealers typically gain market share as wholesale vehicle supply opens up.

Those supplies are definitely opening up. From a cyclical trough of 4.3 million in 2012, the combined number of off-lease, off-rental and repossessed vehicles entering the wholesale marketplace will rise to 7.8 million by 2018. That’s 3.5 million more vehicles that will need to be – and will be – subsequently retailed.

Then add the growing number of trade-ins, as most retail used vehicle sales beget another used vehicle transaction in relatively short order.

Those are not forecasts. They are facts – and the cycle has already turned.

In 2016, total retail new vehicle sales were down marginally, while retail used vehicle sales rose 3 percent, with franchised dealers up 2 percent and independents up 4 percent. Independents posted another 4 percent gain in the first quarter of 2017.

But what about collapsing used vehicle values and a contraction in retail financing?

For one, wholesale values are not in freefall. They are holding up quite well. More important, dealers adopting the velocity mindset of inventory management are impacted little by modest shifts in wholesale prices.

The future availability of retail financing is more important – and potentially more problematic. But, there too, there is hope.

So far, precious few independent dealers have suffered ill effects from the pullback by major lenders because small and midsize lenders have filled the void. Financial markets in general, and the auto loan ABS market in particular, are still in a position to provide adequate funding.

And as new vehicle loan originations slow, that will provide lenders a greater opportunity to provide used vehicle financing.

Tom Webb is chief economist for Cox Automotive. Contact him at tom.webb@coxautoinc.com or follow him on Twitter at @TomWebb_Manheim and read his blog at www.manheimconsulting.typepad.com.

PRICES STILL STRONG, BUT EXPECT A FALL

The used vehicle market in 2016 continued to shake off the downward pressure of supply growth and sustained wholesale values at unexpectedly high levels.

True, much of the uptick in average wholesale prices can be explained by the strength of truck prices and the growth in off-lease volumes that contribute younger, lower-mileage, higher-priced units to the mix.

But strong retail demand, especially from record CPO sales, and the gradual – and therefore manageable – growth in supply have limited price declines primarily to the car segments.

Also helping diffuse the impact of supply growth was the use of upstream remarketing channels and vehicle redistribution away from regions such as the Northeast, where off-lease volumes are highly concentrated.

All those factors might have less of an impact in 2017, as the remarketing industry faces further supply growth and potentially higher new vehicle incentives.

In January, for example, pockets of supply-driven weakness did appear in rental program and risk units, and younger vehicles in general. Further concrete evidence of price softening appeared in February, as prices uncharacteristically, and unseasonably, softened rather than firmed versus January.

Prices fell for virtually all model years and all model classes. Prices were still up on a year-over-year basis, but that was again primarily due to the influx of younger off-lease units.

The tale of two markets resumed in March, as wholesale prices were below year-ago levels for cars and above prior year for trucks. Nevertheless, both groups showed price increases versus February’s unseasonably soft results, as retail sales and wholesale activity showed signs of the traditional spring/tax season market typical for used vehicles.

Breaking the data down by age showed prices were down 2.5 percent year-over-year for current and one-model-year-old units (typically off-rental units) and down 2.6 percent for three-model-year-old units (a good proxy for off-lease units).

The wholesale used vehicle market has been remarkably resilient despite growth in supply, but that will become increasingly difficult as time goes on. And the deeper one looks, the more the signs of price-softening appear.

Tom Kontos, executive vice president of customer strategies and analytics for ADESA Inc., has more than 25 years of experience in market research, financial analysis and strategic planning. Follow his monthly Kontos Kommentary, offering analysis of the wholesale used vehicle market, at www.adesa.com/kontos-kommentary.
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ServNet continues to build on a legacy, now nearly 30 years in the making, as a group of the best independent auctions in the nation.

Fortifying its presence in the marketplace with new auction locations as well as improved and expanded auction facilities, ServNet has demonstrated its strength, leadership and dedication to the remarketing industry.

Recognizing its responsibility to support many commercial customers, ServNet is focused on building a strong and thriving culture of compliance among all its member auctions.

In spite of the challenges we face in instituting the procedures and reporting a comprehensive compliance program requires, ServNet has as a group found our efforts to support our financial institution customers have not only made us better business people, but have improved our facilities and made our operations stronger.

While many of our competitors have established the position of compliance officer within their corporate structure, ServNet has multiple compliance officers – the individual owners of each of our auction facilities. It is the owner on the ground at each location who makes sure things are done right – every time.

The focus on a culture of compliance is part of ServNet’s ongoing commitment to identify, implement and refine best practices. Another outgrowth of that process is the recent formation of the Client Advisory Board, which will build even stronger relationships, enhance communications and streamline processes for our customers.

Made up of representatives from key commercial accounts and institutional consignors, the Client Advisory Board will give ServNet auction owners the opportunity to meet directly with representatives from our national accounts to discuss their challenges and develop solutions that will lead to even greater success at the auction level.

ServNet’s legacy of excellence, now decades strong, is also generations deep. The standard set by the ServNet auction founders is being passed on to second- and even third-generation owners who are continuing a tradition of accountability and leadership that not only shapes their own operations, but is felt throughout the broader auction industry.

The continued leadership of the ServNet auction owners will ensure the continued success of the independent auction community.

Kevin Brown is the 2016-17 ServNet president and owner and general manager of Missouri Auto Auction in Columbia, Mo.
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