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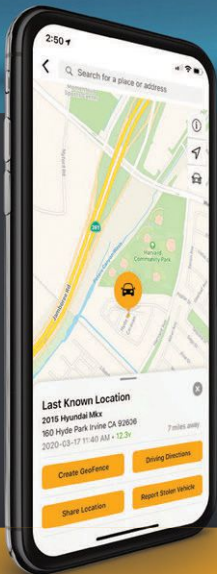
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SCAN ME



The bright lights of Las Vegas will be shining on independent automobile dealers at NIADA Accelerate 2023. Get a full preview of this year's convention and expo.

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MORE THAN 2.5 MILLION VEHICLES TAGGED FOR DO NOT DRIVE OR PARK OUTSIDE REMAIN ON ROAD

Early in May, BMW joined, Ford, Honda and Fiat Chrysler in issuing a “Do Not Drive” warning for 90,000 vehicles built between 2000 and 2006 for the recall of defective Takata air bags. Two weeks later Chrysler announced a “Park Outside” warning with the recall of 2014 to 2016 Jeep Cherokees due to a fire risk.

Unfortunately many of the dire warnings of life- and property-threatening defects are not being heeded. A new study released by CARFAX, shows more than 2.5 million vehicles tagged with “Do Not Drive” or “Park Outside” safety recalls remain unrepaired as of May 1.

“Do Not Drive” and “Park Outside” notifications are recalls issued by automakers and federal safety officials. A “Do Not Drive” recall advises drivers not to operate their vehicles because a serious safety issue could lead to an accident or physical harm. A “Park Outside” recall is issued for vehicles with a high risk of causing a fire, and owners are advised to park these vehicles outside of garages and parking structures and away from buildings.

“It’s heart-breaking. On average 20 to 25 percent of these vehicles are not getting fixed and the need is so urgent,” said Patrick Olsen, Editor in Chief at CARFAX. “CARFAX is working to raise awareness and trying to bring those numbers down.”

CARFAX studied five years of recalls and painstakingly went through individual registrations and safety inspection reports to see if consumers had the repairs made to the vehicles.

“We were startled by the numbers we found,” Olsen said.

Olsen added there could be a variety of factors to why the repairs were not made, including the notices being required to be sent through first-class mail or consumers dismissing the notices as scams.

“There’s also a significant portion of people that don’t have the time or the ability to give up their vehicles for a period of time. It’s how they get to work and is part of their livelihood,” Olsen said.

Under a “Do Not Drive” order, the National Highway Traffic Safety Authority (NHTSA) states repairs are free and the dealership and manufacturer will tow the vehicle for free.

In the CARFAX study, six states had more than 100,000 unrepaired vehicles, with California leading the way (245,000). The other state with more than 100,000 recall vehicles still on the road were Texas (242,000), Florida (237,000), New York (118,000), Pennsylvania (106,000) and Ohio (101,000).

In November, the NHTSA reported a person being killed by an airbag rupture in a Ford Ranger under a “Do Not Drive” warning.

“These are real concerns and could unfortunately have real consequences if they are not worked out,” Olsen said.

Consumers can check for free to see if their car has any open recall at Carfax.com/recall or by entering their VIN on the NHTSA website. ■



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Benchmarking – Be Yourself!

Everyone Else is Already Taken

BY GARY PAGE

When I first started in the buy here-pay here industry, I always looked over my shoulder to see what everybody else was doing.

Call it insecurity or just the need to know that our business was unique. I collected every brochure I could that detailed my competitors' offerings. I felt I was always the underdog and had to be less expensive and more aggressive. It took a few profitable years to begin focusing more on our own strategy than our competitor. As Oscar Wilde once said, "Be Yourself, every one else is already taken."

So why read this edition of BHPH Dealer, which is all about benchmarking?

Despite all the above insecurities, benchmarking has a place in every business. Every successful company in the world collects competitive intelligence and factors that into their thinking and operation. Whether this information is used to define your strategy or simply influence it, is up to you.

We use the information to help us shape our policies and procedures. The information is valuable in helping us identify trends leading to both good and non-performing accounts and dealerships.

Benchmarking is like an X-ray, providing a very clear black and white picture of the business structure with clues as to what is broken. Like having an X-ray, it may be helpful to use a professional to assist with the process, however there is plenty of information available to help get you started.

The Value of Benchmarking

Benchmarking your dealership can cover almost every aspect of the business from financial measures, collections practices to sales trends and inventory management. The process starts by collecting data at a high level and comparing it to industry data.

Care must be exercised as industry data can be simple averages of all participating dealerships, mixing both top and bottom performers in the same numbers. What really matters is not just knowing how your data stacks up to both the industry averages but also to the industry's top performers. The second key area of caution is to make certain that the data being collected is well defined and understood so that you are comparing "apples to apples".

The value of this benchmarking exercise provides multiple benefits to the dealership, but for simplicity let's review the top three: identify best practices, discover gaps, and confirm your advantages.

Identifying Best Practices – Best Practices must first be defined as a dealership that exceeds industry averages by a large margin (often more than 20 percent) with such a gap translating to higher profitability. For example, if the industry sells 46 percent of their vehicles in the first 30 days and your dealership sells 58 percent of inventory in the same time period, then you may be in the "best practice" category. This is an advantage that should translate to the bottom line, if not, further benchmarking should be conducted around inventory management to investigate issues. While inventory turnover is excellent, you may discover that the remaining 42 percent is more than 100 days, offsetting the best practice. Once best practices are identified, find ways to leverage this in your overall strategy.

Discover Gaps – Similar to best practices, benchmarking will also identify where you have operational or financial gaps that require equal attention. Imagine discovering that your bad debts to total vehicle sales for the year is 21 percent as compared to industry average of 15 percent. Typically, this will hit the bottom line hard unless time is spent to understand the root cause. While best practices tend to focus on the positive elements of the operation, gap analysis should discover the leaks in the profits.

Confirm Your Advantages – Dealers often describe their advantages around their ability to purchase cars at a lower ACV, the low cost of reconditioning, or their speed of turning over inventory. Although it is great to know your advantages, it is even better to back it up with the facts. Benchmarking can also help you identify your advantages. Conduct the exercise frequently to confirm your position and leverage that in your business strategy.

Personalizing Your Benchmarking Findings

Lenders use key benchmarking data to sort through top performing dealerships and weed out those barely getting by. For years, this data has proven very valuable to adjust data with

recent industry trends. Global and economic conditions have had profound implications on almost every industry and business.

As part of the review of every new dealership looking for capital, the lenders evaluate several factors and have proprietary benchmarks to identify sound dealers.

"Cash throughput" is key to see how much cash is moving through the business as compared to outstanding receivables. Dealers with high receivables and high cash throughput are very attractive. This is a good indicator of collections efficiency.

Dealers need cash flow to pay their employees and daily operating expenses. The percentage of encumbered accounts is a key indicator of how much of the cash flow is going to third party lenders, floor plan companies, and capital providers. Although this is a necessary part of managing leverage, too high a percentage of encumbered accounts can impede cash flow.

Account collections is as important – if not more important – than sales itself. Collection rates are key to any BHPH operation. Positive collection rates translate to lower bad debt and overall profitability. Conversely, poor collection rates are a red flag to any capital provider.

Like an annual physical for your health, invest in the X-ray of your business known as benchmarking. Determine your best practices and your gaps and actively manage them. You can really leverage your advantages and create your unique brand.

Once you find your advantages and address your gaps, emphasize those elements in everything you do – even if it is different from the others. Remember, no two dealers are alike. Having a different location from all other dealers also makes you different. Benchmarking is just an X-ray; it does not make any changes by itself. Chart your own course and note that what may work for one dealer doesn't mean it will work for you.

Be yourself – everyone else is already taken. ■

GARY PAGE IS FOUNDER AND CEO OF SDA, A SDA IS A CAPITAL PROVIDER FOR THE BHPH INDUSTRY, WHICH HAS HELPED THOUSANDS OF DEALERS GROW THEIR RECEIVABLES AND BUILD WEALTH.



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DEALER 20 GROUPS

Shop class

Building a strong service department

BY RICHARD GREENE

For a buy here, pay here dealership, the service department is the glue which holds the dealership together.

It efficiently and cost-effectively reconditions vehicles to meet the dealerships' standards and then provides post-sale repair work to protect the company's initial investment.

During his 12-hour course in April in Irving, Texas, NIADA 20 Group Senior Moderator and trainer Ben Goodman helped attendees, including owners, general managers and service managers with unlocking the keys to improving the shop and reducing costs. Goodman, who has spent nearly 30 years training and leading high-achieving sales teams in the subprime and BHPH markets, including 11 years with the nation's largest BHPH franchise, covered every aspect of the service department from a staffing model, acquiring inventory, inspections and hiring and retaining personnel.

"I hope you are all taking a lot back with you that will help your dealership," Goodman told the class.

Goodman pointed out the age of the vehicles on the road — 13.1 years for sedans and 11.6 years for trucks. With today's inventory supply issues, many dealers are having to adjust buying plans to include older vehicles with higher mileage.

He highlighted that BHPH service departments differ from retail shops and are a cost center instead of a profit generator. Repairs are paid for by the company and the customer base has a limited ability to pay for repairs.

Controlling service and reconditioning costs starts with acquiring inventory. Focus on dependable, affordable transportation and

vehicles with good mechanical reputations. Goodman suggested putting together and maintaining a no-buy list, avoiding European and luxury vehicles, sports cars and vehicles featuring "bells and whistles."

In setting up your shop, Goodman suggests one tech for every 10 to 12 sales or 275 accounts. For a shop averaging 30 sales, he presented a model with three techs. The first tech does all inspections and splitting their role 50 percent reconditioning and 50 percent post-sale. The second tech is 100 percent recon and a parts hanger. The third tech is 100 percent post sale.

The recon process has a 10-step process, which includes checking the car in; completing the vehicle inspection; creating a repair order estimate; establishing an approval process; ordering parts; receiving and verifying parts; hanging parts; performing a quality control check; detailing the car and finally turning it over to the sales lot.

Inspecting a vehicle will take approximately an hour to get through the checklist. After the inspection, the service manager delivers the facts about the vehicle to the sales manager and buyer to decide how to proceed — make repairs or reject it.

Throughout the recon process, the focus needs to be on providing a safe and reliable vehicle. Factors to consider are the customer's driving habits and how far into the contract will it need service.

"We're not rebuilding," Goodman said. "We don't want to fix something that the customer is OK with."

Goodman also suggested developing a script for sales and service staff to make sure the message is consistent on service.



▲ NIADA 20 Group Senior Moderator and trainer Ben Goodman helped attendees, including owners, general managers and service managers with unlocking the keys to improving the shop and reducing costs.

"It's not verbatim. It's getting the message across using people's own words," Goodman said.

He also suggest establishing at the point of sale the expectations, including setting service appointments. The appointments help with same-day repairs.

Several attendees pointed out the shortage of technicians. Goodman pointed out the issue will only worsen due to the age of the workforce and the lack of potential new techs in schools.

Goodman said techs are looking for benefits, less stress, stability and comfort when moving jobs.

"We sometimes neglect our shops. Technicians want to work in nice shops," Goodman said.

Throughout the class, attendees took active roles, asking questions and contributing helpful information.

"I learned a lot more than I thought I would. There's been a lot of discussion and that's made a big difference," said Bill Clark of First Choice Motors in Abilene, Texas. "I came to understand the importance of employee retention and parts control."

David Bearley of Dave's Greenlight Auto Sales in Greenville, Ill., added he picked up several nuggets to help him.

"There's more service work that needs to be done at the time of sale to set customers' expectations," Bearley said. "If you educate at the time of sale, it can help you later. When I sell a car, we need to take them through service bay. There needs to be uniform training to make sure every customer is handled the same. Also I'll be retraining the inspector to look for safety and reliability." ■



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Getting customers to participate in repairs

Five tips to get more customers to help with maintenance

BY DAVID BROTHERTON

BHPH dealers are discovering that this year is going to be different than the previous ones.

The economy is slowing, inflation is remaining persistent and borrowing and inventory acquisition costs remain elevated. We all know this. In fact, it is because we have been dealing with these factors for some time that we find ourselves in the position that we are in now.

After three years of record portfolio and collections performance, which seemed to balance the scales against the increase in cost and time in acquiring and reconditioning appropriate inventory, we are rapidly approaching pre-pandemic levels of portfolio performance in which the industry is seeing increased repossession and charge-off rates and more stress on delinquency and cash flow.

We have made judgments involving inventory in response to market conditions. Every dealer has paid more for their inventory in the past few years with many looking to expand their inventory standards to accept older and/or higher-mileage units to mitigate supply shortages and cost overruns.

Cash-in-deals are at an all-time high, pushing out every dealer's break-even point. The only way to mitigate this increased risk is with improved performance.

Maintaining your collateral recovery rate and internal ROI in the face of increased costs means that our portfolios must carry the burden. The notes need to pay. In fact, they need to pay on time for longer just to keep business performance even. How do we do this with inflation putting unprecedented pressure on our customers' finances? We should commit to the principles of maintenance and not just collections.

Customers who financially participate in their maintenance and repairs also tend to be better payers on their contracts. Part of this has to do with ability to repay. But the bigger part is that if you take care of your car, it will generally take care of you.

I've outlined five general recommendations for pushing forward with an improved repair and maintenance commitment for dealers.

1. Collections and Service Have the Same Goals

It's critical that the collections and service teams work together toward the same goal: keeping the customer paying. We need to retain some flexibility in handling repair scenarios with everyone working to maximize the customer's financial participation given the circumstances of the moment. This means charge what we can reasonably be expected to collect, make the best deal possible for all parties and be prepared to continue to invest in post-sale repairs as an on-going commitment to the health of the portfolio. There are no problems that are "your problem." Your customer's problems are "our problems," and we need to use every tool available to resolve them.

2. Don't Finance Something You Don't Intend to Collect

Service sidenotes are generally a good idea depending on your state laws and licensing requirements. A good idea, that is, provided that they are done in a systematic and compliant manner and are structured in such a way that you have a reasonable expectation of repayment. Financing an engine replacement on a low-balance customer with a very high payment, for example, is probably not the best approach, if you're expecting to be paid for the repair eventually. Set standards for financing

and keep payments reasonable and enforce a collections policy that collects all amounts due as they come due. Don't try and wait until the note is paid off to collect a service receivable.

Financing something you don't intend to collect is not just a waste of time and resources. It is a mistake that will come back to haunt you throughout the life of the contract. Your customers will take what they're given. Don't send the message that what you finance isn't important.

3. Stay in Front of the Customer

We can take a huge lesson learned from the healthcare industry. No one – and I mean no one – is as good at setting and following up on future appointments as your local dentist or eye doctor. Have you ever noticed that you never leave the dentist's office without your next visit already scheduled? Have you ever paid attention to the phone, text and email follow up that is standard practice for healthcare providers for these appointments?

Dealers should schedule the first oil change appointment 90 days from delivery and follow up on this appointment via phone, text and email just like we would a pending sale appointment or a promise to pay. Getting the customer in for their first service is how they can be trained to maintain their vehicles. Once they are in for the first appointment, we know how far they've driven and can tailor their future appointments accordingly.

I understand that the standard "rental car" mentality of so much of the BHPH customer base can make this challenging. But we used to tolerate much higher delinquency in the past than we consider normal today, so customers can be taught.

4. Marketing

We need to use technology to our benefit here, and there are at least two tools already in widespread use that can benefit us: CRM and GPS.

Your CRM can be used to execute a maintenance reminder campaign for all of your customers, and thanks to modern GPS technology, you can even set up a campaign for your high-use/high-mileage customers so you can focus more repair and maintenance attention on these critical accounts. The best part is that, once established, these campaigns are automated and don't take more of your collection team's precious time.

5. Post-Sale Repair Commitment

You won't get very far in today's environment without a commitment to post-sale repairs. If the car stops running, the customer stops paying. Remember that we purchased, in many cases, older, higher-mileage units due to the overall shortage of used vehicle inventory and passed the increased costs along to the customer. This is not a BHPH phenomenon but an auto financing paradigm shift that is already being felt as subprime lenders tighten up their lending requirements and/or leave the market entirely.

We're going to be paying the price for higher balances on older inventory. Don't make the mistake of paying for it with increased charge-offs. ■

DAVID BROTHERTON IS A 20 GROUP MODERATOR, TRAINER AND CONSULTANT FOR NIADA.



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Recovery industry changes for lenders, dealers

Climate change in repossessions

BY RICHARD GREENE

With closing in on four decades of automobile recovery experience, Vaughn Clemmons knows the trends of the industry.

Usually around tax season there's a dip in the number of assignments, and it starts to tick up after refunds are spent and consumers fall behind on payments to creditors. That's why this spring sounded alarms to the President of the Automobile Recovery Bureau in Houston, Texas, and also the current president of the American Recovery Association (ARA) about what could be coming in the near future.

"Already [in May] we are probably 15 percent ahead of what we normally are in recoveries and assignments," Clemmons said. "That tells me that we're making a turn toward that moment in this industry where it's going to be like in 2008. It hasn't got crazy yet, but it's coming."

The numbers show the demand for repossessions and recoveries may be even higher than in 2008, the height of the Great Recession. Even with the help of tax refunds, 60-day delinquencies on automobile contracts in April were up 18.6 percent year over year, according to Cox Automotive. With 1.6 percent of all auto contracts severely delinquent, it was the highest rate for April dating back to 2006. Of subprime contracts, 6.18 percent were severely delinquent, also tied for the highest April numbers since 2006.

But while demand may be getting ready to peak, Clemmons cautions that dealers may not have someone to answer the call for recovering vehicles or will see longer waits.

"It's affecting us even now because the agents

we've lost. We've lost anywhere from 25 to 40 percent of agents in this market," Clemmons said. "I don't believe that they're going to be replaced unless we do some serious things to strengthen the industry. That's going to have to come from all sides, especially the lending side."

Puzzling piece of industry

Repossessions are a complicated. Dealers should know it's not as easy as someone misses payments and you go get the vehicle.

Hudson Cook attorney Eric Johnson compares it to solving a puzzle, with varying laws and regulations from state to state. Johnson points out that in most states, the Uniform Commercial Code (or, "UCC"), Article 9, allows a secured party to repossess collateral without notice or judicial process, as long as the secured party does not breach the peace. Additionally, the Retail Installment Sales Contract (RISC) that the customer signed may provide for the secured party's right to repossess the vehicle in the event of the consumer's default under the RISC.

Creditors may be required by the UCC to give pre-repossession notices; post-repossession or pre-sale notices; and/or post-sale notices. Requirements of the notice(s) and the rights of the debtor may vary from state to state. Additionally, law enforcement may be required to be notified of the repossession.

There are also rules on recovering vehicles based on the percentage owed by debtor.

"A secured creditor can't accept the vehicle in full satisfaction of the debt owed if the debtor has paid 60 percent of the cash

selling price of the vehicle that secures the debt. Instead, the secured party must dispose of the vehicle in the same manner as its other repossessions within 90 days of taking possession of the vehicle," Johnson explains.

"However, a creditor may obtain a waiver of this mandatory disposition requirement from the debtor after the default. If you obtain that waiver, you can follow the strict foreclosure process for acceptance in full satisfaction of the debt, even though more than 60 percent of the cash selling price of the vehicle securing the debt has been paid."

Johnson advises dealers and creditors to consult with knowledgeable counsel before starting recovery of assets. See Johnson's full column in the June issue of *Used Car Dealer*.

Need for professionals

Les McCook grew up in BHPH dealerships and understands the tight margins and the stresses of the industry. But as the Special Projects Manager for the American Recovery Association, he knows and explains to dealers the importance of compliance and contracting with quality, licensed and insured recovery agents.

"I really care about the BHPH world. It helped put me through college," McCook said.

"When we go and speak at events around the country, it's surprising the dealers that don't know the requirements. If they are in Texas, and they've got a car that skips off to Oklahoma, Missouri or somewhere, what are the notification laws? What are the recovery laws? What qualifications should the agent have? How do we find them?"

McCook stresses the need for education for dealers on the recovery requirements to be in compliance with Federal Trade Commission and Consumer Financial Protection Bureau requirements.

“The laws and regulations on recovery and breach of the peace change a little bit in different states, different counties and even different cities,” McCook said. “Before you assign out a repossession to somewhere, it’s a great idea to find a resource that can help you at least try to make the best effort to document that you’ve made the effort to make sure that it’s compliant, and they meet the federal and state requirements to do that service in that state.”

Clemmons points out American Recovery Association member agents are trained each year for changes in laws and regulations. They also have extensive training in de-escalation.

Clemmons and McCook warn BHPH dealers that cutting corners can be costly — especially in the case of a mishap, which could lead to a claim against them.

“Paying what would be a standard repo fee to most clients is high for them. But one loss, one claim, all you’ve made in your lifetime won’t pay for one loss.”

McCook suggests reaching out to your state associations for leads on recovery agents, along with the American Recovery Association. Another good resource are some of the GPS companies.

Dealers choosing to do their own repossessions are urged to get training from a recognized program.



“The training program teaches and educates on the federal and state laws,” McCook said.

McCook adds, “There’s not an insurance policy in the world that covers a dealer general liability that allows for self-help repossession by a dealer.”

How to get your recoveries covered

With less agents available, recoveries are going to take longer. Creditors and dealers will also see themselves competing to stand out to get at the top of the pecking order for repossessions.

“There’s going to be a bottleneck. That’s going to change how the clients are going to be proactive in their approach,” Vaughn said. “They can’t sit back and go, ‘Well, things are good. I’m still getting my cars picked up.’ Who makes it the most beneficial to the agent community and has contracts that are not one sided will be the ones serviced.”

The costs are high for the agents and their firms. Vaughn said their fees are line with those elevated costs of insurance, equipment and fuel.

“We have tools that costs literally hundreds of thousands of dollars,” Vaughn said.

Due to those costs and the potential revenue and safety, compared to arriving at a person’s home to repossess a vehicle, many agents are leaving the field to go into roadside assistance.

“A lot of folks have gone into the towing and recovery, not repossessions, but roadside assistance. And what they’re saying on that side is they’re making more money with less wear and tear on their equipment than they ever did repossessing cars,” Clemmons said. “If this continues, the repossession industry is going to find itself in a serious shortfall.”

With today’s technology, agents can score clients and make certain ones priority. Clemmons said along with financial incentives, taking possession of the recovered vehicles quickly and not using agents for storage is another consideration in making your assignments a priority.

Now is the time to educate yourself on the laws and plan for expenses as delinquencies are expected to spike later this year and demand for recoveries will be strong and agents will be short supply. Clemmons said there were 800,000 assignments nationwide in January with 200,000 repossessions. He expects by next January the assignments to topple 1 million.

“With what I see in the economy, with people defaulting and people overextending their credit, it’s only going to get worse,” Clemmons said. “If you want to be on the front line as a priority client, you can’t do business like you did in 2019.” ■

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Power to Win

Throughout his storied boxing career and later as an entrepreneur, Sugar Ray Leonard relied on the same defining characteristics to achieve greatness.

Presented by CARFAX in his keynote address, “Power to Win,” Leonard will share his six qualities that drive success as an athlete and in business — discipline, focus, determination, preparation, the right attitude and setting fear of the unknown aside — at National Independent Automobile Dealers Association’s Accelerate 2023 Convention and Expo at the Wynn Las Vegas.

Leonard will share his powerful case for his principles of success with a sense of humor and a smile that lights up the room at 4:30 p.m. June 20, as one of the many sessions at the largest expo and convention for the independent auto dealer. Registration is underway at niada.com/convention.

A gold medalist and the first boxer to win championships in five weight classes, Leonard is considered one of the top pound for pound fighters to ever lace up the gloves.

Leonard began boxing at 14, winning three Golden Gloves, two Amateur Athletic Union and the 1975 Pan-American crown, before capturing the gold medal at the 1976 Olympic games in Montreal.

To help his family defray mounting medical costs due to his father’s illness, he turned professional following the Olympics.

At 20, he won his first professional fight to start his stellar career, which included winning welterweight, junior middleweight, super middleweight, and light heavyweight titles. He fought and won legendary bouts against Wilfred Benitez, Roberto Duran, Thomas Hearns and Marvelous Marvin Hagler in his 20-year career.

After retiring from boxer, he provided expert ring commentary on NBC, ABC, FOX, HBO and ESPN. He was also the featured international commentator for the record-breaking Mayweather vs. McGregor fight.

He hosted the Emmy-nominated “The Contender” and competed on “Dancing with the Stars.”

In 2011, Leonard published his autobiography “The Big Fight: My Life In and Out of the Ring.” In his memoir, he describes his greatest competitor, himself and confronts his personal battles with depression, rage, addiction and greed.

Leonard started the The Sugar Ray Leonard Foundation in 2009 with his wife, Bernadette. Since its inception, the foundation has funded countless research projects and offered life-changing patient care for children living with type 1 and type 2 diabetes. The foundation is also committed to helping children lead healthier lives through diet and exercise, equipping them with the tools to be successful in health later on.

Press the gas on building your business

The bright lights of Las Vegas will be shining on independent automobile dealers at NIADA’s Accelerate 2023 June 19 to 22 at the Wynn.



BY RICHARD GREENE

The largest expo and convention for the independent auto dealer is the perfect opportunity to accelerate your business by meeting and learning from the top industry leaders and networking with dealers from across the country.

During the convention and expo there will be 77 education sessions to provide helpful information for everyone from rookies to industry veterans.

The brightest minds in the independent auto industry — including independent dealers and NIADA 20 Group moderators — will provide information on everything from reconditioning, inventory, finance to marketing. The many breakout sessions will allow you plenty of chances to pick the brains of these leaders over the four days in seven different areas — BHPH, dealer operations, leadership, CPO, data and analytics, marketing and compliance.

This year dealers will get the rare opportunity to hear first-hand from representatives from the IRS, Federal Trade Commission and Consumer Financial Protection Bureau, and how compliance is viewed by the regulating agencies.

The popular service bay demonstrations will return. The focused 20-minute sessions give independent dealers insight into products and solutions designed to improve profitability.

Service bay sessions will be held June 21-22 following lunch.

You will also find more than 200 solutions from providers in the expansive expo hall. Also lenders will be on hand to visit with during the finance fair.

Dealers will hear from a pair of excellent keynote speakers. CARFAX will present boxing legend Sugar Ray Leonard. Michael Cirillo, the host of the Dealer Playbook Podcast, will be the keynote for the National Quality Dealer award presentation Thursday afternoon (See story on 2022 NQD winner on page 28).

Throughout the four days, connect with independent dealers from across the country to share ideas and best practices, while connecting with solutions providers that can help you access the products, services and resources you need to elevate your business.

Reserve your spot today at Accelerate 2023 at niada.com/convention. ■

continued on page 16



CAR SCORES

BUY HERE PAY HERE UNDERWRITING PLATFORM

FOR THE

**BUY HERE
PAY HERE**

DEALER

With the moral decay of today's society, the me first or me only generation and let's not forget those who are entitled to get something just because they exist, financing the right customer is more important than ever before. Having a subprime underwriting system that

works for you to identify problem customers in advance is something every Buy Here Pay Here dealer needs.

Do you want better collection ratio? If so, then our underwriting platform is built for you. This platform will make your whole dealership uniformed, thinking and

responding in the same way. It makes it easier for you to decide who you will approve and who you will deny.

Our scoring system gives customers a visual, so if you turn them down, it's easier for them to see and accept it, this leads to less customer complaints. Makes it easier for

your sales team to turn down customers or steer them into a car that is more suited for their risk.

With so much concern about equality, it helps to have a system that allows you to explain why you gave one person a loan, but not the other person.

When do you need an underwriting system?

When you-

Are selling cars, but your revenue is staying the same?

Are getting too many missed payments or too many repossessions?

Are not sure if you should extend credit to a customer or not.

Or your staff is unable to determine if this is a good customer or not.

Are not sure what price point you can lend a customer

This is a subprime credit platform with alternative credit options. As a buy here pay here dealer we deal with people with bad credit, but some people with bad credit are ok people, they just might have put themselves into a

bad situation and need a new start, many times, we the buy here pay here dealers are just what that customer needs. How can we determine if the customer we have in front of us is a person who got themselves into a temporarily bad situation

or is a customer who will take advantage of you as soon as you give them a chance. Our underwriting platform is made just for that, we deal with bad credit people, we help you find the diamond in the rough, we can identify the

honest people we want to deal with, from the dishonest ones. Helping you make a decision to both increase your sales and improve your collections.

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Keynote Speaker **SUGAR RAY LEONARD**

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Leonard also raises money for Children's Hospital Los Angeles (CHLA) and other children's charities through his annual "Big Fighters, Big Cause" Charity Boxing Night.

The charismatic Leonard will share stories of what it took to make his dreams of an Olympic gold medal come true and what it took to reach the top of the boxing world. He will also share his journey from a world-class athlete to entrepreneur.

Making dreams come true and adapting to change are themes that will resonate with people from all walks of life, especially the independent car dealer. Leonard and CARFAX hope to leave you with a renewed enthusiasm and commitment to engage your Power to Win. ■

Who should attend?

Independent dealers

Leverage solutions for financing, operations, legal, hiring, training.

Managers and F&I

Hone leadership skills and learn best F&I practices.

Sales and Marketing

Learn how to make your brand stand out and the latest marketing tactics.



National Quality Dealer Keynote Speaker

MICHAEL CIRILLO

Building stronger relationships

Cirillo to keynote NQD presentation with message about growing people

A few years ago, while hiking high above the alpine in the mountains of Jasper, Alberta, Michael Cirillo noticed a tiny flower growing out of the rock. After noticing another one of the flowers growing in such harsh conditions, he became intrigued to learn more about this curious flower.

Once arriving back at the visitor's center, he learned because of the challenges of air pressure, soil and altitude, the flowers took 25 years to bloom. The astute host of the Dealer Playbook podcast and the CEO of FlexDealer found a useful lesson from how the flower overcome the great odds to bloom.

"When you think of us as people, when we're not in the right environment or the harshest conditions, it doesn't mean we won't bloom. It may just take longer than we want," Cirillo explained.

"Leaders have to set the climate where happiness can exist and people can grow. But on the other side, the flower still took responsibility to grow regardless of the circumstances."

The story and lesson relates to the common theme he's found among successful dealers in the auto industry during his time hosting the top rated podcast for auto dealers — they care about people.

Cirillo calls it the "law of reciprocity" where people return good deeds.

"You care for your employees, and they care for your customers," Cirillo explained.

In his address "The Power of Building Relationships of Trust," Cirillo will be sharing anecdotes from his visits with dealers and employees in the car business and lessons he's picked up, as the keynote speaker during the National Quality Dealers presentation 4 p.m. June 22 at National Independent Automobile Dealers Association 2023 Accelerate Convention and Expo at the Wynn in Las Vegas.

Cirillo, a Canadian who now lives in North Texas, speaks to groups around the world each year, providing lessons and thoughts on personal connections and how they impact businesses. He's grateful for the opportunity to speak to independent automobile dealers and provide them advice and tips to pivot their businesses.

"It's humbling. I have a deep sense of gratitude for the industry at large," Cirillo said about his appearance at the NIADA Convention.

Over the years, Cirillo has witnessed a shift in the industry past the focus of moving metal to growing people to meet the desired results.

"We're thinking more about people and it's contributing to profits," Cirillo said. "But it's not just people, happy people."

Cirillo said his own business is an example of the change in the employer-employee relationship. He explains when he started it was transactionary, they worked, and performed and he provided a check. He grew to realize the stewardship he must have to help employees develop along with providing grace when they fail.

"What I see too often is we're highly leveraged and don't take the appropriate time to pour into people, especially onboarding," Cirillo said. "We all feel we're running out of time. The real issue is we don't take the time for success."

He points out the successful dealers are providing a pathway, which start with building stronger relationships.

"We've moved to a new place, where people matter," Cirillo said. "When we pour into our people, they pour into our communities."

Cirillo singled out the work of the Carter Myers Auto Group in Virginia, which started the Moving Lives Forward campaign, which sought out to identify, recognize and reward individuals in the Charlottesville community who are making a positive impact

ASOTU, where he is also the chief of staff, is launching a new video series "More than Cars," which focuses on the real-world human experiences that unfold in car dealerships.

"When we explode the dealership and zoom in on it, what motivates people and why are they choosing this line of work? At the foundation of it or any retail, it's people focused," Cirillo said. "Thus people matter."

"We're highlighting real people who happen to be in the car industry. It really hits at the humanity of the industry."

His address will conclude four days of learning, including the 77 education sessions to provide helpful information for everyone from rookies to industry veterans. ■



SCAN ME

Breakout sessions

TUESDAY, JUNE 20

10:15 A.M.

- From digital to physical, verifying the identity of the car shopper early on is job one
- Subprime Auto Finance trends
- 2023: The year of the process buyer
- Hiring the right people and managing staff in an uncertain financial climate
- Let's underwrite for better marketing and portfolio success, then have quality over quantity in collector (account manager) activities.

11:15 A.M.

- Who makes more money, you or your lender?
- Combat challenging times with strategies to source core inventory and retain higher margins
- Force-placed insurance simplified
- Relationship and personalization marketing
- Technet: Protecting the motorist and growing your business with CPO 360
- The evolution of sales calls, from amateur to expert.

2:30 P.M.

- How to build a successful BDC
- Turn-downs to turn-ups. How to properly set appointments and close subprime buyers. What we learned from 10,000 mystery shops and 20-plus years in dealerships.
- How to drive more sales: Spending more time, not money
- GPS solutions: Potential 'blind spots' and limitations dealers must be prepared for
- Create a high performing sales culture: Managing activity and attitudes

3:30 P.M.

- How to get your staff engaged in your marketing
- A better way to arbitrage in the lanes and beyond
- Rise up: Early morning routines by highly successful dealers
- Vehicle buying centers: Leadership, how to bridge the gaps in 2023 through education, mindset coaching and collaboration.
- Position yourself for the next market shift with a lease-here, pay-here program
- Watch your language...It matters dealer mastermind

WEDNESDAY, JUNE 21

10 A.M.

- Increase your leads with these website and search marketing optimizations

10:15 A.M.

- A check-up for your reinsurance company
- Basic anatomy of accounting
- Increase technician productivity by 50 percent or more to reduce cycle time
- Forward-thinking strategies for independent dealers
- You can't post to Facebook Marketplace anymore. Long live Facebook advertising instead.

2:15 P.M.

- Are you dating your internet leads? Approaching your internet leads is more similar to online dating than you think
- Best practices and compliance for managing your GPS and starter interrupt devices— the numbers don't lie!
- Wholesale and used retail market post-pandemic: Return to normal or emergence of the new normal?
- Fireside compliance chat
- Desking and F&I integration - credit first vs. credit last
- Get a grip on your business
- From felon to fortune. How a broke drug addict became a million dollar dealer and realized the American dream

3:15 P.M.

- CFPB Update: Trends in the Auto Finance Market
- How to prepare your dealership for the FTC Safeguards rule
- A candid chat with an independent dealer on how to recession-proof your business
- Prescription without diagnosis is malpractice — tying sales and marketing together
- Why consumers pay late and how to encourage more on-time payments
- Recon for profit

4:15 P.M.

- Next generation inventory management
- Having a bad sales month won't kill you. Not knowing why will.
- Reduce your term by up to 21 percent using the Irregular Payment.
- Hudson Cook: CFPB and FTC regulatory, litigation and enforcement updates
- How to stay relevant in the new age of online retailing
- Disconnection between leaders today and the workforce that has come
- Market alert

THURSDAY, JUNE 22

9 A.M.

- CFPB Update: Trends in the Auto Finance Market
- End-to-end digital customer experience
- 10 steps for properly managing consumer complaints
- How to make your first-party data actionable to drive profits
- Could you sell? How to create marketable enterprise value in BHPH
- Unleashing the power of marketing strategy: ditching guesswork for data-driven results
- Surviving and thriving through economic uncertainty

10 A.M.

- DMS vertical integration: Choosing the right solution that will save you time, improve processes and lead to accelerated growth to increase sales
- Maximizing F&I income with reinsurance or a retro profit sharing program
- How to create the best audience for your dealership - go where the shoppers are
- Navigating turbulent regulatory waters
- How to get and maintain lenders
- My customer filed bankruptcy: Do i need to return a repossessed vehicle?
- A "check-up" for your reinsurance company

2:45 P.M.

- Inflation reduction act tax provisions related to auto dealers increase your leads with these website & search marketing optimizations
- Unlock the power of tech to crush the competition - low overhead strategies for used car dealers in the post-pandemic market
- How to pass a financial audit
- Create more profitable sales today, with a subscription to ownership program
- How to maximize your entry into the economic recovery

Let's Underwrite For Better Marketing and Portfolio Success, Then Have Quality Over Quantity in Collector Activities

10:15 A.M. TUESDAY, JUNE 20

Underwriting the correct accounts is critical in the current economy, as delinquencies arise and consumers battle inflation in their daily lives.

Gene Daughtry, a senior consultant at AMS Consulting, has been inside and worked with at least 100 dealerships in the past three years on software training, operations auditing, procedure writing, collections and shop training.

"I always have dozens of questions when I go, so I can understand what the dealership does, how and why," Daughtry said. "It seems simple that underwriting and Collections go together but there seems to be a disconnect in many operations."

Daughtry said the big disconnect is whether the down payment is underwriting or cash flow.

"Underwriting should be about the customer. Do we like him/her as a risk and what can they afford, then let's talk about down payment," Daughtry said. "Underwriting should not be discussed in marketing or by salespeople when a customer calls. So many dealership employees and managers want to Columbus qualify so they only have pre-approved, laydown deals coming inside the dealership. That works against your success."

He also warns against the philosophy of believing anyone can be a collector. Collectors need a specific temperament for dealing with customers and training.

"Understanding but not soft," Daughtry said of collectors. "Dealers need to be sure collectors have a clear understanding of what they can and cannot do in every scenario that comes up. Collectors cannot be nervous or 'hate' calling because they won't be thinking clearly about the objections/excuses customers throw at them."

Collectors should have specific groups to be contacted each day, not just making 100 calls today.

"I also like a coaching meeting each morning between the manager and the collection staff as a group where examples of good and bad calls are discussed, talking about 'Promise to Pay' importance and more ways the dealership team can help, in a positive way, so everyone learns the thinking the team should share," Daughtry said.

Forced-placed Insurance Simplified

11:15 A.M. TUESDAY, JUNE 20

With the costs of today's vehicles, car dealers need to protect their valuable investments. Forced-placed insurance is a way to guarantee the vehicles are protected once they leave the lot, as consumers make payments.

Eric S. Hurst, Chief Operating Officer of Empire Indemnity Insurance Company Risk Retention Group, Inc., will moderate a five-person panel of industry experts to get their unique perspective on force-placed insurance.

Hurst has more than three decades of experience in the industry.

The panel will include Eric Johnson, Nehad Dwikat, Mark Baran, Richard Tucker and Bret Pangborn, answering questions and sharing specific examples from their experience, shedding light on the benefits and pitfalls in implementing forced-placed insurance.

Johnson is an accomplished financial services attorney and partner at Hudson Cook's Oklahoma City branch. Johnson has helped automobile finance firms in development of auto finance initiatives. He also provided DMS providers guidance on federal and state regulations.

Dwikat is the president of the MEI Group in Arlington, Texas. He plays a pivotal role in driving the company's growth and success, elevating it to one of North Texas' most prominent enterprises. Nehad's represents the MEI Group dealerships at NIADA 20 Group dealership roundtables. In April, he led dealers in a tour of several of the companies dealerships.

Baran is an actively licensed Ohio attorney and Arizona Certified Public Accountant with GPW and Associates, Inc. He is a renowned expert on taxation, law and accounting.

Tucker is the founder and chairman of Customized Dealership Financial Solutions and has provided BHPH dealerships for 20 years with reliable underwriting predictive modeling; strategic advice to increase profitability; and sourcing acquirers that follow the CDFS structure of optimizing the proceeds for dealers that wish to sell their dealership.

Pangborn is the Chief Operating Officer at Nevada West Financial/Right Size Funding, where he has a long and illustrious track record of developing and implementing innovative credit and risk management strategies.

With their experience and knowledge, the panel hopes to leave the audience with a better understanding of force placed insurance, what it is, the problems it solves, and why lenders providing lines of credit, and bulk purchase finance companies like to see it in a dealers BHPH portfolio. Dealers can find provide clarity on a critical insurance product for BHPH dealers at a critical time in our economy.

Why Consumers Pay Late and How Economic Uncertainty Impacts Bill Pay Behavior

3:15 P.M. WEDNESDAY, JUNE 21

Why do customers struggle to pay bills on time? What can you do to encourage them to pay on time to help with cash flow?

PayNearMe conducted an online survey to determine perceptions and preferences for how U.S. consumers want to pay their bills. The research uncovered why consumers pay bills late and dove deeper into the payment preferences of younger payers.

Bruce Gaskill, Sr. Director of Integration Partnerships will discuss key themes revealed by the research and uncover trends and attitudes around late bill payments, as well as mobile payment options. He'll also explore how high inflation and economic uncertainty are causing consumers to question their ability to pay bills on time.

The overall cost of living is increasing, leaving consumers with less money each month to meet all of their financial obligations. Of respondents, 74 percent said inflation had impacted their ability to pay moderately or to a great extent and 72 percent have cut discretionary spending. One in six respondents have delayed paying bills due to inflation.

The session will conclude with practical recommendations on how to drive more on-time payments and increase customer satisfaction in the process.

Reduce Your Term by Up to 21 Percent Using Irregular Payment

4:15 P.M. WEDNESDAY, JUNE 21

The dealer-led class will teach other dealers on how to reduce their term on their contracts by up to 21 percent using the irregular payment.

You may ask, what is an irregular payment? The irregular payment is a balloon payment scheduled in the middle of the contract which coincides with tax season. It is Reg Z compliant, the payments are in the contract/amortization schedule and these payments accrue interest.

If a customer is getting a \$6,000 refund and they buy a car in June, they may have \$100 weekly payments but their payment for March 5, 2024, will be \$1,400. Then their payments continue on for \$100 per week. Implementing this can reduce the term of the contract by up to 21 percent. Imagine reducing a 50-month term to 40 months. It is a gamechanger, according to Bill Neylan, President/CEO of Tax Refund Services. The dealer wins and the customer wins.

In today's environment, car dealers have to deal with rising interest rates, inflation in their business, rising cost of cars, and rising cost of labor. As a result, dealers are selling cars at record prices.

On the consumer side, consumers are facing the same issues. With rising interest rates, rising rents, rising food prices, rising cost of utilities and inflation in their day to day lives, consumers can not afford to put down a larger down payment and they can't afford much more of a higher car payment. The answer to these problems for both the dealer and the consumer was to extend the term of the loan. Some dealers are putting consumers into a car that is 10 years old with 150,000 miles with a car loan term length of 60 months. Will the car last another 5 years for the consumer to even pay on?

Dealers are turning to the irregular payment to solve the problems of both the consumer and the dealer. Reduce that 60-month term to 48 months, or 50-month term to 40 months.

The program is easy to implement. The only thing a dealer needs is to have a tax season partner that is familiar with the car business. The tax season partner will estimate a customer's future tax refund, will provide guidance on how much the irregular payment should be for each customer and most importantly, verify that there are no garnishments against the refund such as delinquent student loan or back child support.

Learn during this session to collect more money faster and put the customer into a car loan that makes sense. Put them in a loan with a reasonable term and a payment that they can afford.

FTC, CFPB, IRS to provide insight at NIADA Accelerate 2023 Convention and Expo

With the Federal Trade Commission's Safeguards Rule deadline looming June 9 and various proposed rules affecting the auto industry currently being discussed, independent auto dealers will get a rare opportunity to hear straight from members of three federal agencies during the NIADA Accelerate 2023 Convention and Expo.

Representatives from the Federal Trade Commission (FTC), Consumer Financial Protection Bureau (CFPB) and Internal Revenue Service (IRS) will hold sessions during the four-day event at the Wynn in Las Vegas, June 19-22.

Dan Dwyer, an attorney in the Division of Financial Practices at the Federal Trade

Commission will hold two sessions, 2:15 p.m. Wednesday, June 21, and 10 a.m. Thursday, June 22. Dwyer, who has worked on a variety of consumer credit and financial services issues, including debt collection, mortgage advertising and automobile sales and financing, will be available to address questions on the Safeguards Rule and other rules affecting the industry.

Chris Kukla, Senior Program Manager for Auto Finance at the CFPB, will be discussing trends of note in the auto finance market and holding a question-and-answer session about the agency. The federal agency develops and enforces rules for the consumer finance market. The CFPB

sessions with Kukla are 3:15 p.m. Wednesday, June 21 and 9 a.m. Thursday, June 22.

Derek Ganter, Director, Stakeholder Liaison at the IRS, will be addressing questions about tax requirements for the motor vehicle industry and providing the latest details on the most recent changes from the IRS during a single session at 2:45 p.m. Thursday, June 22.

This is your opportunity to get accurate, first-hand information on compliance from three federal agencies, as part of four days of learning, including 77 education sessions to provide helpful information for everyone from rookies to industry veterans.

Exhibitors

More than 200 industry partners will be in the expansive NIADA Exhibit Hall during 2023 Accelerate ready to assist you and your business with solutions.

Partners in attendance as of April 10.



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 SiriusXM
 Spartan Financial Partners
 Spyne
 STARS GPS
 Strategic Dealer Services
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 Tax Refund Services Tax Max
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 Williams & Stazzone
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 Withum
 Work Truck Solutions
 Yooz



Bringing a voice to the industry



Watson helps dealers learn with
podcast

BY RICHARD GREENE

Listening to podcasts served as an enjoyable and necessary distraction for Jeff Watson when traveling to auctions from his 4 Seasons Auto Sales dealership in St. George, Utah.

It was on one of the drives when it struck him there needed to be a podcast to help and educate his fellow dealers.

“I’m a big fan of podcasts because it’s something I can do on the way to the auction,” Watson said. “So I listened to a lot of podcasts, and I just thought, ‘Man, there needs to be some sort of an education for dealers.’”

continued on page 22

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We had the association. We have print magazines. But we didn't have anything that was kind of a passive education. I just thought, 'What an unique situation when you're a dealer?' I'm curious. I love learning. I want to ask these questions of these vendors and experts and other dealers. What a great platform, just record it and then share it with everybody. Dealers, we all love to learn what other people are doing."

Closing in on 300 episodes with co-host Luke Godwin, owner of Godwin Motors in Columbia, S.C., The Independent Dealer podcast has brought together dealers to share thoughts and practices. The weekly show has garnered a sizable following in the industry.

"When we go places like the Buy Here Pay Here United Summit, we run into

people who say, 'Hey, I listen to you ever single Thursday. I don't miss it. I run my whole dealership based on what you guys say,'" Watson said. "It's flattering. Here, I was thinking I was having a conversation with my buddy and people were listening. But if people are making real business decisions off our information, that's just a little scary. It's not a production. We're not trying to sell a product, and we're not professionals. This is a hobby. But it does make you look at it. We've got to be professional and make sure we're giving out good information because people enjoy listening."

At heart, Watson admits he is not a car guy. He entered the business as a subprime lender, buying paper from local car dealers.

"The unbankable, the folks who couldn't get a car loan from anyone else would call me up, and I would show up with my little briefcase and checkbook," Watson explained. "I would look over the deal, look over the application and cut a check."

At the start of the Great Recession, Watson came to the realization he needed his own place, which put him in control of the quality of car and customer.

"I decided I needed to control the whole process from start to finish," Watson said. "So in 2009 is when I opened the doors to the dealership and started selling the cars, as well as financing.

"It was different. I'm not really a car guy. I'm not the kind that geeks out over the old classics or the difference between this engine or that engine. I joke around, if I could do loans on toasters with this kind of return, I'd probably prefer toasters and refrigerators. They're not driving around blowing themselves up all the time."

He grew to love the industry and the service it was providing customers. His slogan at the dealership has been, "We give you the green light." He sees it as freedom for his customers.

"Transportation is freedom. Mobility is freedom," Watson said. "Without it, you can't get places and do things. You can't see your family, go to work, see the world and explore. Having a reliable car is freedom.

"We deal with a group of people in the subprime area who don't have a ton of options. They don't have the means to just call an Uber to rent a car. Their vehicle is their means to freedom and somebody's got to help them out."

Watson adds that while government programs provide assistance for purchasing homes, cell phones, internet and health insurance, there's not any for car ownership.

"We provide a service that obviously nobody else, even the government, wants to get into," he said.

Since starting his dealership, one of the biggest impacts to Watson in Southwestern Utah has been the changing banking industry. Mergers and buyouts have forced him to change lenders multiple times, as the new bank decides it doesn't want to be a part of subprime paper.

"You learn not to be overleveraged and not to be super beholden to these banks," Watson said. "They are your best friend at one point. Then when push comes to shove, or if your connection there leaves the bank, all of a sudden the next guys up or whoever bought the bank doesn't want anything to do with you."

It's one of many lessons he's learned in the business. The desire to learn and grow led him to join NIADA 20 Groups when he started his dealership and he's remained a member since. He's credited 20 Groups with helping him price his vehicles more accurately.

He said it's 70 percent for the education and networking and 30 percent for the legal work and legislative activism.

"My real interest, passion and enjoyment is just chatting with other dealers, meeting other dealers, comparing business models, best practices and just seeing the lifestyles that some of these guys create and live for themselves," Watson said. "Then taking the best part of those and trying to put them in mine."

Through operating his dealership, visiting with dealers at 20 Groups meetings, or on his podcast, he's picked up plenty of tips and advice. His top tip for someone new to BHPH is to build your business with intention and know what you want to do.

"Do you want to be a hobbyist? Do you enjoy selling cars on nights and weekends? Do you want to run a full-scale business? Do you want to have generational wealth that your kids will live off forever? What is your ambition or gameplan? Then build your dealership to that," Watson offered. "For some, being a mom-and-pop car lot is fine, selling 10 cars a month. You can make money and provide for yourself. Other guys need 10 dealerships and they want to sell 150 to 200 per month. It's determining where you want to go. That would be my advice."

And more advice from him and other dealers can be heard each week on The Independent Dealer. It's a place to learn and be curious. ■

A More Affordable Option

LPHH providing an assist to customers in current market



Another year in the books and 2022 will no doubt hold the record for quite a few key metrics for years to come.

Record increases in car prices, followed by record decreases in car prices (in the same year!), inflation, interest rate acceleration from the Federal Reserve, the subprime consumer delinquency rebound, repossessions, \$7 eggs, and so much more. Last year brought a little of everything and had many people reminiscing on the good ol' days of 2020 and 2021.

continued on page 24

BY TREVOR WATSON

continued from page 23

While each year seems to bring something new and unexpected, the first half of 2023 has seen most of the trends remain similar to 2022 at this point. ■

In the meantime, this perfect storm of factors created an environment where used car leasing proved to offer some respite and value for the subprime consumer trying to stretch every dollar to its maximum.

This year's benchmarks of LHPH dealer averages present a snapshot of the trends the used car leasing market has encountered over the last four years. This data is a composite of approximately \$700 million in leases originated over that period.

Leasing dealers have encountered the same challenges as BHPH dealers in the last year with the average ACV and Gross Cap Cost (sales price plus adds) increasing as used car prices reached their crescendo in the third quarter of 2022. We saw the average ACV increase more than \$1,000 from 2021 prices on the same average 2014 model year unit, up to \$10,153 in 2022. Interestingly, the average Gross Cap Cost increased by nearly \$2,000 (\$16,050 for 2022) in the same period, outpacing the increase in acquisition cost, perhaps a function of dealers recouping increased costs associated with reconditioning over the past year.

However, despite the increase in prices, the consumer experienced limited impact to their increasingly strained budget thanks to the lease structure. The average weekly payment in 2022 increased by only \$3 dollars, up to \$107 per week, from the average of \$104 in 2021. In fact, the average weekly payment on leases has increased only \$14 per week (\$61 per month) since 2019, while the average Gross Cap Cost (sales price + adds) has increased a whopping 33 percent, or \$4,000, in the same period. This has been accomplished without stretching term and injecting additional risk into a dealer's portfolio. We have seen only a 3.2 months increase in the length of the lease term over the past four years, with an average increase of only one month between 2022 and 2021. The current average term on leases originated in 2022 was 38.3 months. The residual value built into the lease structure has been increasing modestly each year, providing the dealer a lever to maintain consumer affordability throughout this wild period.

While each year seems to bring something new and unexpected, the first half of 2023 has seen most of the trends

remain similar to 2022 at this point. Used car prices found a floor and rebounded early in the year and now appear to be settling back near the initial floor again and we anticipate this to hold for the remainder of the year. Down payments appear to be reducing somewhat as our subprime customer sees their savings eroded to inflation and interest rates. We anticipate down payments will continue to shrink as we move further into 2023 and these forces continue to bite.

With rates increasing, it is likely the money factor on this year's lease originations will climb and may bump the customer payment up. However, some dealers are offsetting that lift with a small increase in the residual value, bringing the payment back down, as the consensus seems to be used car values will remain elevated for the foreseeable future due to the dearth of inventory that was never produced between 2020 and 2023. Affordability will remain a challenge for non-prime used car customers for at least a few more years and leasing will be one opportunity to assist those customers with finding quality transportation. ■

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5 benefits for adding LHPH

Lower payments, flexibility lead advantages of LHPH

BY BILL ELIZONDO

Buy Here Pay Here (BHPH) and Lease Here Pay Here (LHPH) are both very lucrative business models.

But with the costs of vehicles rising and affordability becoming an issue for more and more consumers, LHPH offers additional benefits and thus potential profits with its model.

Here are five of these benefits:

- **Lower monthly payments:** With the economic uncertainty many individuals want to keep their cash outflow as low as possible. LHPH, may times, offers lower monthly payments compared to traditional BHPH, making it a more attractive option for the buyer and the seller. Lower monthly payments mean buyers are less likely to miss payments.
- **More flexible options:** Depending on the amount of the residual (amount of money needed to purchase the car at the end of the lease), individuals may not want to commit to a long-term financing option. LHPH offers more flexibility, allowing individuals to lease a vehicle with the option to buy it at the end of the lease term, trade it in for a newer model, or simply walk away.
- **Competitive market:** Dealerships offering LHPH as an alternative financing option are more competitive. This means that individuals may be able to find better deals on more later model vehicles and again more affordable payments.
- **Repossessions:** The lease is not normally offered to redeem in a Chapter 7, nor is there a reduction in value on a Chapter 13 and in most states. Thus, there is no hesitation when securing a vehicle for a repossession. (Always check with your

Knowing the advantages and disadvantages that come with the LHPH and BHPH models is essential to understanding how each might compliment your business model. ■

legal counsel for specific laws in your state.)

- **Pay as you go States (31):** Still one of the top reason dealers convert from BHPH to LHPH, or add LHPH as an option, is because of the cash flow benefit. It allows the dealership to pay sales tax on the money you receive from the customer not the full sales price.

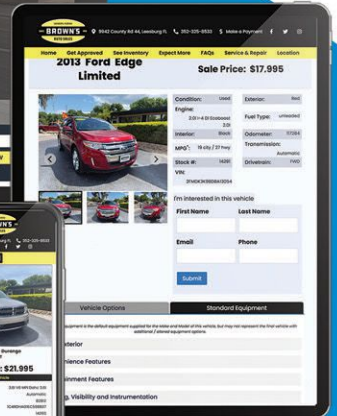
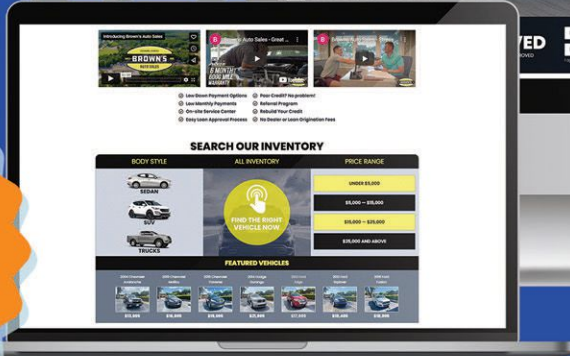
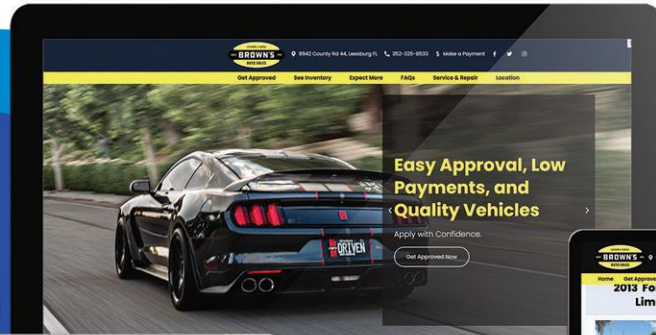
Knowing the advantages and disadvantages that come with the LHPH and BHPH models is essential to understanding how each might compliment your business model. ■

BILL ELIZONDO IS A 20 GROUP SENIOR MODERATOR, TRAINER AND CONSULTANT FOR NIADA. ELIZONDO'S EXPERIENCE THE BHPH INDUSTRY GOES BACK MORE THAN 30 YEARS.

	JAN	FEB	MAR
Product A	12,897	17,283	45,875
Product B	979	38,394	325
Product C	9,873	8,475	1,475
Product D	5,435	8,735	22,598
Product E	1,267	9,655	1,475
Product F	14,853	45,881	2,658
Product G	3,762	56,984	25,894
Product H	355	251	21,478
Product I	9,865	10,028	54,786
Product J	27,364	4,687	2,542
Product K	65,342	36,598	15,478
Product L	2,893	1,475	1,634
Product M	99	3,250	225
Product N	36,274	1,475	26,588
Product O	39,465	2,689	12,478
Product P	763	250	2,548
Product Q	65,342	9,347	5,678
Product R	5,844	56,988	54,788
Product S	75,845	14,756	22,699
Product T	13,365	2,589	1,248
Product U	12,893	1,475	1,475
Product V	4,967	858	288
Product W	3,938	4,258	2,546
Product X	3,906	3,583	14,875
Product Y	2,934	20,483	2,538

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CPO sales slow down in April

Inventory, interest rates cause decline

BY RICHARD GREENE

Inventory, interest rates cause decline
 After a strong start to the year, certified pre-owned vehicle sales took a step back in April. CPO sales were down 4.2 percent or 9,000 vehicles from April 2022, according to data from Cox Automotive. April's estimated 214,684 CPO sales were down 6 percent or 15,000 vehicles from March. Through March, CPO sales were up 10 percent, 59,000 units, compared to the first three months of 2022. "April CPO sales took it on the chin compared to March, but the pace was healthier than either January or February," said Chris Frey, senior manager of Economic and Industry Insights at Cox Automotive in the report. "The current year-to-date sales pace of 213,000 is about 7,500 better than last year, but it's also down by 21,000 from the pre-pandemic monthly average."

High interest rates, above 12 percent, and low inventory, less than a 45 day supply of used vehicles, contributed to the lagging CPO sales. "Higher interest rates and the looming concerns of a recession likely contributed to the CPO sales decline, with buyers pulling back from last month," Frey said. "We still think the strategy shift mentioned last month will pay off, with older units entering the mix, but after April's sales decline from March, it looks to be a bit longer before we see sustained sales improvement from the larger pool of CPO-eligible units." To compete with the franchise dealers' programs, NIADA launched in January the Certified 360. The CPO program helps independent dealerships increase buyer confidence and their profitability.

"The independent world never had a true CPO program. This is a true CPO limited warranty program," said NIADA Vice President Jeremy Beck. "It allows the independent dealer to be on par with manufacturers and have a leg up on other independent dealers." NIADA developed Certified 360 working with the top administrators in the industry AUL, GWC Warranty, ProGuard and Southwest Dealer Services. NIADA also partnered with Carketa to provide a completed digital 200-point inspection to help dealers streamline their inspection process. "We put together highly respected administrators known for their claims and customer service experience," Beck said. "They provide a level of confidence for the independent car shopper. These administrators are respected by dealers and known by customers." The program is easy to implement and affordable. The NIADA Certified 360 covers vehicles up to 10 years old with up to 125,000, offering three term and mileage offerings:

- 3 months or 3,000 miles for \$199
- 6 months or 6,000 miles for \$299
- 12 months or 12,000 miles for \$399

For information about the NIADA Certified 360 and connect with an administrator, visit niada.com/certified-360. ■



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Back to the future

BY RICHARD GREENE

Through the first quarter of 2023, the used vehicle market and the buy here, pay here sector are reminding many industry leaders of 2011.

Inflation continues to plague consumers, as delinquencies are rising sharply. Credit is also tightening, as banking institutions and lenders have been hampered by rising interest rates.

“There’s a lot of things we’re seeing specifically as it relates to the buy here, pay here sector, where we’re starting to see a lot of the same trends we saw toward the end of the economic crash of 2008, ’10, 2010 and coming out of it in 2011,” said NIADA Vice President of Dealer Services Jeremy Beck. “We’re really starting to see this in the data as we get into 2023.”

Beck presented the first quarter industry update from NIADA at a 20 Group meeting in Dallas in early April. The data was compiled from 20 Group composites, and outside sources, including Cox Automotive and Morning Consult. Beck said the information is to help dealers making decisions in their individual businesses.

Consumer sentiment and spending is on the rise, according to Morning Consult. Real spending across all income levels is up for discretionary services, discretionary goods and nondiscretionary goods by at least 5 percent from December 2022 to January 2023.

“Consumer sentiment is important because it tells us what is the consumer willing to spend. How is the consumer looking at the current economic conditions compared to are they feeling positive about the future, positive about the current conditions or, and positive about the future, which ultimately translates into are they gonna spend their money,” Beck explained. “We’ve been in a tick down the past couple of years. It was originally driven by the pandemic. Now, it’s being driven by inflation and the cost of goods and services. However, over the last several months, we’ve actually started to see it tick up, which is a good thing. It means that consumers are starting to see or realize there’s something to be positive about in the economy.”

The employment numbers are primary cause of optimism and the rise of consumer sentiment. U.S. Bureau of Labor statistics show a steady increase in jobs across many industries, especially in hospitality.

Numbers Beck pulled from Morning Consult show unemployment claims are down across all sectors and wages continue to

Economic condition simulate 2011

increase via changes in jobs.

“What we’re seeing is [people] are leaving that job they’ve had for 10 years, and they’re going over here, and they’re getting that wage increase,” Beck said. “The wages are increasing, but it’s because of job switches.

“Unemployment claims actually have been decreasing overall. This is why consumers still feel optimistic about the current economy. It continues to drive that optimism because they’re not losing their jobs.”

Economists share concerns that could change in the second half of the year. In announcing the latest federal target interest rate increase last month, Federal Reserve Chairman Jerome Powell noted a possible rise in unemployment later in the year due to inflation, tightening credit lines and rising interest rates.

“Once you start to see some losses in jobs, you’re going to see consumer sentiment tick down,” Beck said.

Numbers show some consumers are struggling to make ends meet in the current economy. Delinquencies continue to rise, especially auto loans. Equifax numbers show a 0.6 percent decrease in the number of auto loans from January to February and 4.4 percent decrease in the past year. But the amount borrowed is up 7.9 percent. Sixty-day-plus delinquencies are up 33.8 percent from February 2022 and 1.8 percent from January to February. The debt write-offs are up 1.2 percent from January to February and 49.5 percent year over year.

“The number of vehicle loans continues to go down and the reason that it continues to go down is because we’re seeing a 33 percent increase in 60-plus delinquencies,” Beck said.

Equifax data shows a rise of deep subprime auto originations. Beck said that trend is likely to continue, as delinquency number go up and credit scores come down.

Vehicle prices have bucked many predictions and stayed elevated through the first quarter. Cox Automotive numbers show wholesale prices are nearing 140 percent on the wholesale index and 120 percent on the retail index.

“Against all predictions, vehicle valuations continue to still go up,” Beck said. “We all predicted, myself, Jonathan Smoke, that vehicle valuations were going to go down.”

“Jonathan and I were having this conversation just yesterday. Everybody keeps continued to say, when are we going to get back to normal. You’re never going to get back to normal. You’re never going to get back to vehicle valuations where you believe they should be and we’re used to seeing. This is kind of the new normal. But we do believe vehicle valuations will come back down anywhere from 5 to 8 percent over the remainder of the year.”

Dealertrack numbers show a rise in retail sales to start 2023 though the days of supply of vehicle has dropped below 40 days.

Beck expects the used vehicle inventory to increase as new car inventories return. The

number of new car incentives have been on the rise, which is expected to increase the trade-in market.

“What we’re seeing over the last couple of months, 45 days to be exact, is more manufacturers are coming out with 0 percent offerings,” Beck said. “When those higher dollar amount of incentives come into play, it drives the market into buying those vehicles, which feeds the used car inventory.”

In the NIADA curated data, specifically for BHPH, inventory was up at the end of 2022 compared to the end of 2021, with an 81 days supply. The average age of vehicles was up from 45 days to 56. The percent of vehicles on the lot less than 30 days was at 32 percent down from 46 percent the year before. Beck said the overall data shows that percentage has increased in the first quarter of 2023.

The amount financed grew from slightly more than \$11,800 in 2021 to \$12,200 in 2022.

“We saw that actually went up in the first quarter \$98,” Beck said.

The deal structure changed dramatically with the cash in the deal growing from \$6,852 to \$7,891 and the cost from \$8,233 to \$9,117.

Dealers saw a significant increase in reconditioning costs in 2022, with the average recon going to \$1,160. In the first quarter of 2023, the costs are north of \$1,300.

The gross cost per unit continued to trend up to \$6,110 from \$5,897.

Like the overall market, BHPH delinquencies are rising. The average loss per charge off was \$7,913 at the end of 2022, an increase from \$5,423 from the end of 2021.

“We’re encouraging our buy here, pay here dealers to really tighten up on their collections and their recency processes,” Beck said. “Because the more and more that you can tighten up on that process, communicating with your customers, making sure that they’re paying some amount toward their balance, the more you can continue to affect this as well as your recency data, which will help your overall portfolio.”

Beck reiterated the economy is in an unprecedented territory with the high costs of goods, inflation, but stable job market. He encourages dealers to focus on their underwriting and collections moving forward.

“We do believe independent dealers and buy here, pay here dealers are going to continue to see increased foot traffic and increased web traffic on your lots and digital spaces,” Beck said. “That is because of the quality of the vehicles you continue to offer and the lack inventory and affordability of new vehicles and the overall credit scenario of a lot of our consumers.”

He added that lenders will be tightening their underwriting and credit criteria. There will also be some stores closing.

“We do believe that there will be some independent dealers that close their doors, as well as some of the smaller franchise rural stores that will close their doors as we go into 2024,” Beck said. ■

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Industry Calendar

The slate of nominees for the NIADA Board of Directors was finalized Friday, May 25, 2023, and will be voted on at the 2023 NIADA Annual Meeting June 19, 2023, during the NIADA Convention and Expo at the Wynn in Las Vegas.

The 12 members nominated for the NIADA Board were announced in April. The Board is responsible for all policy and financial oversight of the Association. It also hires and provides oversight of its CEO, who manages day-to-day operations.

To fill these positions, the Board appointed a Leadership Development Committee Chaired by the NIADA Board Chairman. The committee reported its recommendations to the past presidents who set the final nomination of Board candidates and notified the membership per NIADA bylaws.

May 19, 2023, was the deadline, 30 days prior to the annual meeting, for members not nominated by the past presidents to petition for a nomination. No petitions were received.

NIADA Board of Directors 2024 nominees include:

President, Gordon Tormohlen
President-elect, Michael Darrow
Senior Vice President, Don Griffin
Treasurer, Darla Booher
Secretary, Dan Johnson
Vice President Region 1, Chris Maher, Sr.
Vice President Region 2, Ken McFarland
Vice President Region 3, Greg Zak
Vice President Region 4, Brenna Stansberry
Vice President At Large (2 positions), Bentley Nolan and Nick Markosian
Chairman of the Board, Scott Allen

The Board members will start their terms at the convention and represent the Association at events throughout the year, including the Policy Conference and BHPH Super Forum. ■



June

TUE June 6-8 Automotive AutoTech	MON June 19-22 2023 NIADA Convention & Expo	THU June 22-24 Women in Automotive Recharged 12:00 AM	SUN June 25-26 New Hampshire ADA Annual Convention 5:00 PM - 6:00 PM
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July

MON July 10-11 Colorado IADA Golf Outing	THU July 13-15 Georgia IADA Trade Show & Expo	WED July 19 Alabama IADA Convention 12:00 AM	SUN July 23 Texas IADA Convention 12:00 AM	SUN July 23-25 TIADA Conference & Expo 8:00 AM - 5:00 PM
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August

THU August 3-6 Carolinas IADA Convention	THU August 10-13 Mississippi-Louisiana IADA Convention	SUN August 13-15 Arizona IADA State Convention 12:00 AM - 5:00 PM Developing your Market for Success	MON August 21 Michigan IADA Golf Outing	MON August 21 MIADA Golf Outing 2023 8:00 AM	TUE August 22-24 CAR Summer Roundtable 12:00 AM	SUN August 27-28 Indiana IADA Golf Outing
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September

FRI September 1 ASOTU Conference	WED September 13 Hawaii ADA	MON September 18-20 2023 NIADA Policy Conference 12:00 AM	TUE September 19 Tennessee IADA Convention	FRI September 22 Oregon IADA Fall Conference 12:00 AM	SUN September 24-26 PA - MidAtlantic Regional IADA State Convention 12:00 AM	TUE September 26-28 NAAA Convention
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DEALER 20 GROUPS

A hand is shown pointing to a large gear labeled "PARTNERSHIP". Surrounding it are several other gears of varying sizes, each labeled with a benefit: "Growth", "Trust", "Benefit", and "Support". The background is a dark blue gradient with a subtle pattern of gears.

NIADA's 20 Group program offers independent dealers an opportunity to solve problems together by connecting non-competing peers together to collaborate and learn what is possible.

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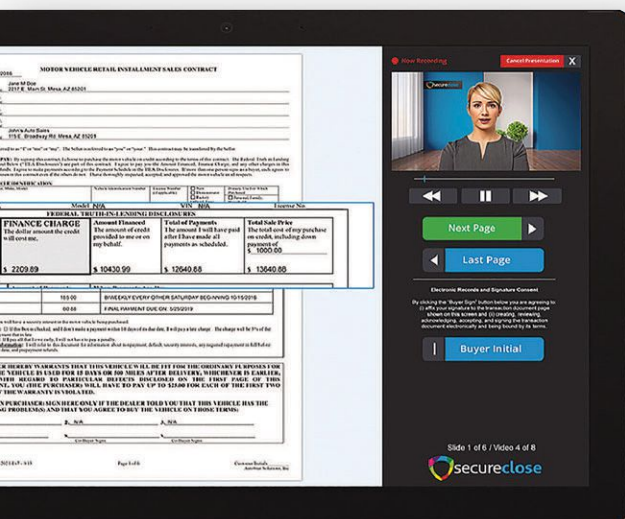
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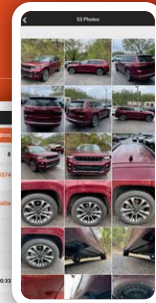
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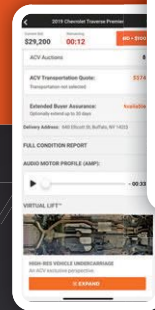
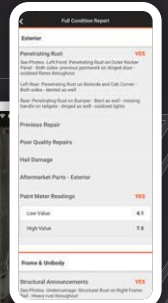
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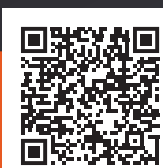
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