

Payment Devices – Inside The Numbers!

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Understanding Portfolio Metrics Terminology





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Loss to Liquidation Analysis

Origination Month	Inception		Performance Since Inception			
	Units Booked Per Period	Dollars Booked	Dollars Liquidated	Loss Units Per Period	Loss Dollars Per Period	Losses to Liquidation
Jan 2005	76	\$623,527	\$552,962	64	\$227,064	41.06%
Feb 2005	74	\$563,609	\$474,006	60	\$219,811	46.37%
Mar 2005	53	\$395,740	\$339,392	45	\$146,868	43.27%
Apr 2005	38	\$326,029	\$223,563	25	\$109,257	48.87%
May 2005	61	\$534,163	\$346,766	36	\$139,954	40.36%
Jun 2005	68	\$571,195	\$395,739	44	\$148,404	37.50%
Jul 2005	72	\$648,549	\$394,014	40	\$145,273	36.87%
Aug 2005	49	\$392,917	\$190,010	20	\$64,395	33.89%
Sep 2005	50	\$435,502	\$194,001	19	\$40,044	20.64%
Oct 2005	77	\$652,717	\$289,244	29	\$62,836	21.72%
Nov 2005	48	\$422,052	\$171,872	16	\$21,267	12.37%
Dec 2005	76	\$761,749	\$188,680	15	\$51,308	27.19%
Total for Year	742	\$6,327,749	\$3,760,251	413	\$1,376,483	36.61%
ANNUALIZED DEFAULT RATE						55.66%



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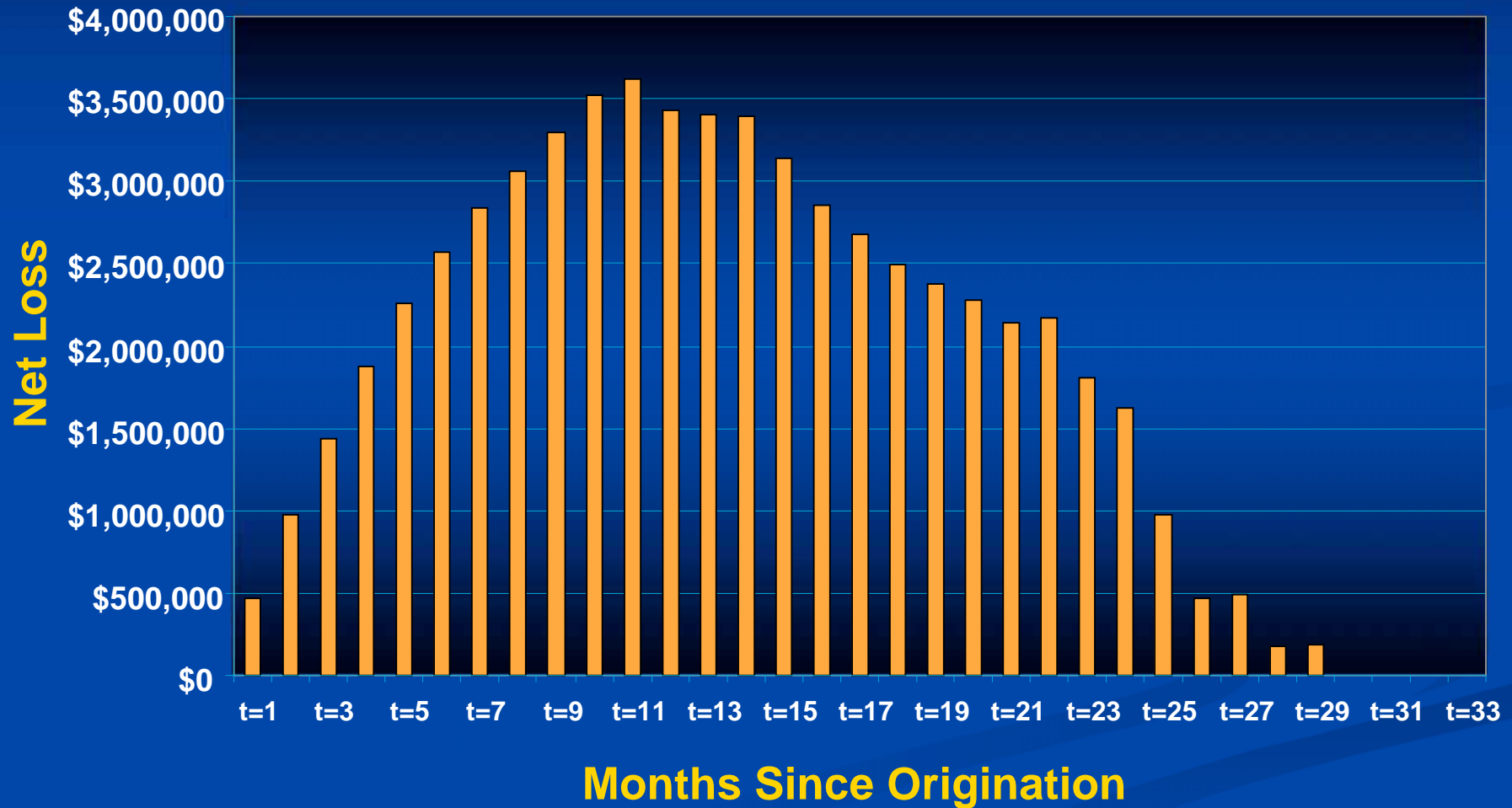
Static Pool Loss Analysis

Origination Month	Inception		Performance Since Inception		
	Units Booked Per Period	Dollars Booked	Loss Units To Date	Loss Dollars To Date	Static Pool
Jan 2005	76	\$623,527	64	\$227,064	
36.42%					
Feb 2005	74	\$563,609	60	\$219,811	
39.00%					
Mar 2005	53	\$395,740	45	\$146,868	
37.11%					
Apr 2005	38	\$326,029	25	\$109,257	
33.51%					
May 2005	61	\$534,163	36	\$139,954	
26.20%					
Jun 2005	68	\$571,195	44	\$148,404	
25.98%					
Jul 2005	72	\$648,549	40	\$145,273	
22.40%					
			Annualized Default Rate		
Aug 2005	49	\$392,917	20	\$64,395	



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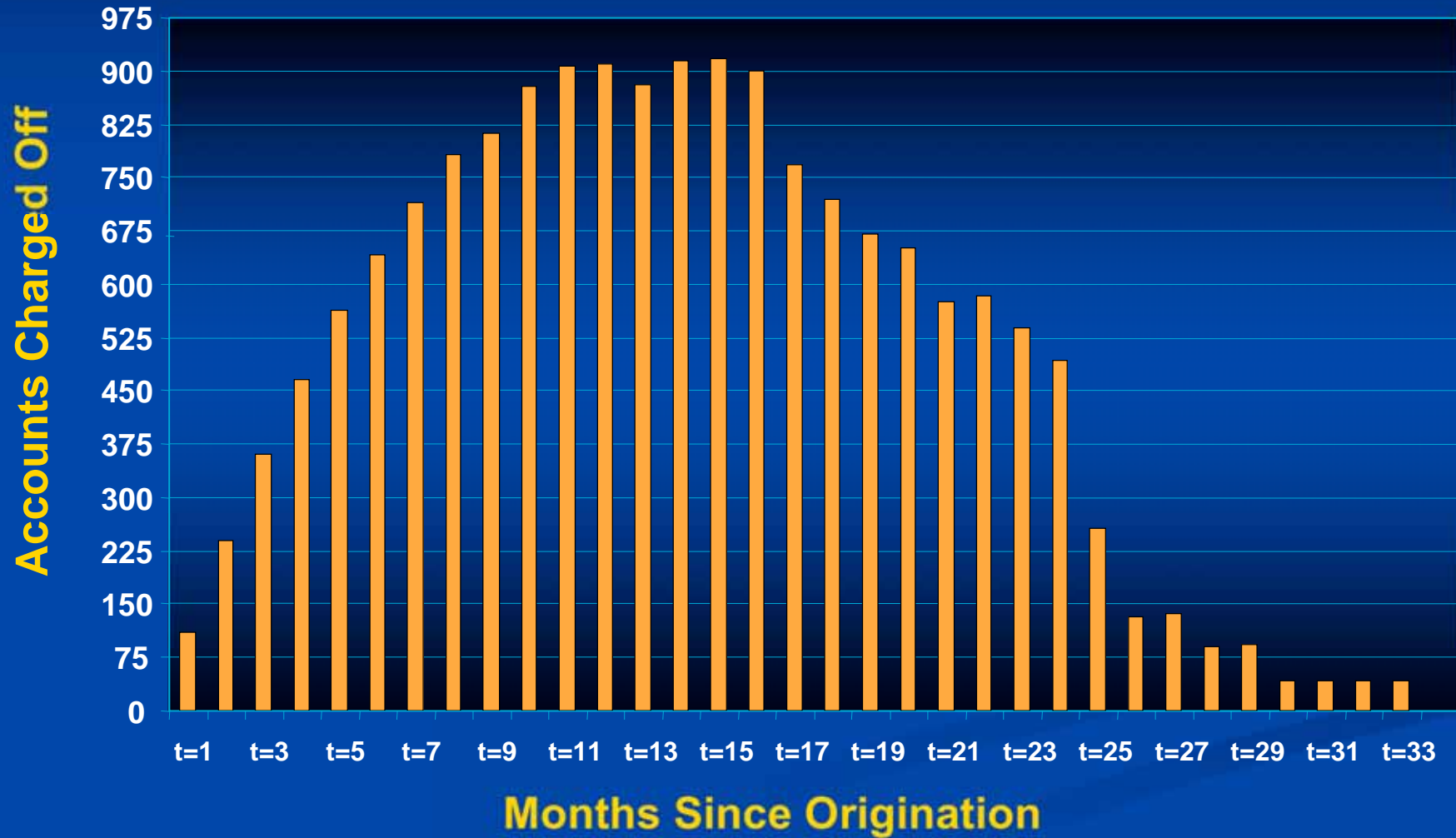
Static Pool Net Loss (Dollars) By Period (Measures Severity)





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Static Pool Defaults By Period (Measures Frequency)





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How Do Code Based Systems (CBS) Affect Defaults?





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CBS Payment Devices' Affect on Default Rate

Default

Rate

With CBS Device

28.0%

Without CBS Device

29.4%

*In addition, these devices improve
delinquencies and reduce collection costs!*

(Sample Size: 67,000 originations with devices.)

Source: Subprime Analytics





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How Do Code Based Systems (CBS) Affect Bad Debt Losses?





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CBS Devices / Loss to Liquidation Rates

	<i>With</i>	<i>Without</i>
Gross loss / liquidation rate: before recoveries	<u>39.23%</u>	<u>34.69%</u>
Net loss / liquidation rate: after recoveries	<u>24.20%</u>	<u>25.63%</u>

(Sample Size: 67,000 loans with CBS devices.)

Source: Subprime Analytics





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CBS Devices / Static Pool Loss Rates

	<i>With</i>	<i>Without</i>
Gross static pool loss rate: before recoveries	<u>19.24%</u>	<u>21.65%</u>
Net static pool loss rate: after recoveries	<u>11.87%</u>	<u>16.00%</u>
Avg. Loss Per Default (Excluding recovery costs)	<u>\$4,600</u>	<u>\$5,000</u>

(Sample Size: 67,000 loans.) (Avg. amount financed \$10,795.)

Source: Subprime Analytics





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What Benefits do CBS Devices Provide?





CBS Benefits to Collections

- CBS devices do cause customers to prioritize their car payments. This reduces delinquencies.
- Operators advise that collectors can potentially handle twice as many accounts with CBS devices. This improves collection efficiencies.
- CBS devices make operators more consistent in their collection efforts. Lower gross losses. Pro-active tool.





CBS Benefits to Collections

- CBS devices reduce net bad debt losses after recoveries.
- Alters customer behavior by making the customer call the lender rather than vice versa!
- Code-based systems facilitate regular collection interaction with customers.



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How Do GPS Devices Affect Defaults?





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GPS Payment Devices' Affect on Default Rate

Default

Rate

With GPS Device

27.0%

Without Device

29.4%

(Sample Size: 15,000 loans with devices.)

Source: Subprime Analytics





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How Do GPS Devices Affect Bad Debt Losses?





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GPS Devices / Loss to Liquidation Rates

	<i>With</i>	<i>Without</i>
Gross loss / liquidation rate: before recoveries	<u>31.74%</u>	<u>34.69%</u>
Net loss / liquidation rate: after recoveries	<u>20.18%</u>	<u>25.63%</u>

(Sample Size: 15,000 loans with GPS devices.)

Source: Subprime Analytics





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GPS Devices / Static Pool Loss Rates

	<i>With</i>	<i>Without</i>
Gross static pool loss rate: before recoveries	<u>20.18%</u>	<u>21.65%</u>
Net static pool loss rate: after recoveries	<u>12.83%</u>	<u>16.00%</u>
Avg. Loss Per Default (Excluding recovery costs)	<u>\$4,700</u>	<u>\$5,000</u>

(Sample Size: 15,000 loans.) (Avg. amount financed \$9,889.)

Source: Subprime Analytics





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What Benefits do GPS Devices Provide?





GPS Benefits to Collections

- **GPS devices produce lower default rates because they deter customers from “walking away” from the deal!**
- **GPS devices produce lower default rates because they allow operators to keep communication with the customer when they don't pay. Re-active tool.**
- **GPS devices increase recoveries thereby reducing net bad debt losses.**
- **GPS devices facilitate tracking recoveries thereby reducing recovery costs.**





GPS Benefits to Collections

- **GPS devices are newer in usage to the industry so more data is needed to truly measure their impact on collections and recoveries.**
- **We found that operators activate these devices differently in their application. This impacts results.**
- **GPS seems to impact recoveries more than delinquency.**
- **GPS technology has a definite “wow” factor for the capital markets.**





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How Do CBS Devices Affect Customer Behavior?





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CBS Devices' Affect on Customer Behavior

- Customer must call the lender instead of vice versa.
- Operator is able to pay closer attention to each customer's payment patterns.
Allows operators to be pro-active rather than re-active.
- Forces customer to have regular interaction with the lender.





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CBS Devices' Affect on Customer Behavior

- **May allow lenders more flexibility in their finance approval decisions.**
- **Allows customer a better opportunity to repair their credit by establishing a habit of consistent payments.**



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How Do GPS Devices Affect Customer Behavior?





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GPS Devices' Affect on Customer Behavior

- Psychologically deters customer from thinking they can just “walk away” from a deal.
- Enforces the collection theory that customers who don't pay “can run but they can't hide!”
- Facilitates retrieval of the vehicle in the event of theft or disappearance. Customer may perceive it to be a form of BHPH “OnStar.”





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What Do Users / Experts Say About These Devices?





Payment Devices Quotes

“We have been using code-based SI devices since 2007. More recently we have been using dual devices. These devices have positively impacted the delinquencies in our portfolio and reduced our losses. The use of these devices has been beneficial.”

**- *Dwight Cope,*
*President, Western Funding***





Payment Devices Quotes

“Nine years ago we decided to require code based SI devices on all loans we originate. That has been one of our most profitable decisions. By installing such devices, it encourages our customers to maintain a good payment history, which assists them in improving their credit scores. It has allowed us to save a significant amount in collection expense and has drastically reduced our repos. A code based SI device makes us a priority to the consumer, allowing us to fund more dealers.”

**- *John D. Troxell, Vice President
ACC Motor Acceptance Corp.***





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Payment Devices Quotes

“Code-based devices can be preset by the manufacturer specifically to abide by state default, right-to-cure and repossession laws and to automatically disable all vehicles in default. As designed, these devices arguably pose less risk of a discrimination claim than a GPS device that would allow a dealer to pick and choose which vehicle to disable.”

***-Tom Hudson, Attorney
Partner, Hudson Cook LLP***





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Delinquencies by Device

	<u>Total Customers</u>	<u>Total Late</u>	<u>Late %</u>
Under 30 Days Past Due:			
With Dual Devices	7,184	420	<u>5.85%</u>
With CBS	<u>11,533</u>	<u>1,927</u>	
<u>16.71%</u>			
<hr/>			
	19,717	2,347	
30-60 Days Past Due:			
With Dual Devices	6,918	119	<u>1.72%</u>
With CBS	<u>11,972</u>	<u>371</u>	<u>3.10%</u>
<hr/>			
	18,890	490	

Source: PASSTIME





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Payment Devices Quotes

“CAR Financial has been using starter interrupt GPS devices since early 2006. We have seen dealer clients migrate from starter interrupt to either GPS or the combination devices over the last 18 months. We feel that the future will be these multi-function devices due to their ability to assist collection practices and to locate the vehicle for repos. In terms of delinquency CAR Financial has seen starter interrupt portfolios perform 14-18% better overall than portfolios without them. From a loss perspective we have seen this gap shorten due to earlier stage repos. A clear benefit is the reduction in collection costs. However, we have seen instances whereby dealers use a device in place of structured underwriting, which clearly doesn't work.”

-Rick Potter

President, CAR Financial





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What Further Analysis is Needed to Evaluate the Use of These Devices in the BHPH Industry?





Further Analysis Needed

- Need a select sample of dealers to provide data for analysis.
- Need to understand how operators differ in their application of these devices.
- Need to survey failure rate of these devices. Believed to be relatively small.
- Need to survey tampering rate of these devices.



Further Analysis Needed

- Need to evaluate impact of dual device technology which is still relatively new.
- Need to understand which devices work best in differing geographic regions.
- Need to identify whether the amount financed should impact which device should be used.
- Other questions?



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Our Conclusions / Suggestions:

- Both code-based CBS and GPS devices have collection merits.
- These devices do impact customer payment behavior both psychologically (GPS) and in actuality (CBS).

(Continued)





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Our Conclusions / Suggestions, cont.:

- The devices have proven benefits:

CBS

1. Improve efficiency and reduce collection costs.
2. Reduce delinquency.
3. Change customer payment behavior.
4. Reduce defaults.
5. Reduce bad debt losses.

GPS

1. Reduce recovery costs
2. Increase recoveries
3. Are psychological deterrent
4. Reduce defaults
5. Reduce bad debt losses

(Continued)





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Our Conclusions / Suggestions, cont.:

- **Dual technology appears to offer the combined benefits of both types of devices.**
- **Further studies are needed!**
- **You should consult with a competent attorney before using these devices.**
- **You should evaluate the operational challenges of implementing them and the new technology.**
- **Do a cost / benefit analysis in deciding how to implement them.**



Questions...

At this time
you are welcome
to ask questions
on anything covered
in this presentation...

