

Learn From Your Losses –  
*Matching the Right Customer  
to the Right Vehicle!*

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Three Elements to  
Every Deal

- 1)The Customer
- 2)The Vehicle
- 3)The Deal Structure

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Loss Information  
Compiled By



**Subprime Analytics**

*Finding Portfolio Analysis Solutions  
For The Subprime Market...*

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## Subprime Analytics

*Finding Solutions For The Sub-prime Market*

### What Subprime Analytics Does?

- 1) Performs Static Pool Loss Analysis!
- 2) Graphs loss trends to help you identify meaningful patterns!
- 3) Stratifies your losses so that you understand what causes them!
- 4) Helps benchmark your portfolio results against a regional and national database!
- 5) Works with most major dealer management software applications!

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### What We Did...

- 1) Electronically performed loss analysis on loans originated since January 2001 of approximately 280,000 subprime loans aggregating approximately \$2.1 billion to identify loss rates and to understand why they occurred!
- 2) Electronically performed portfolio analysis on these loans to identify loss patterns, the amount of recoveries, and how loans which defaulted differed from loans which paid out!

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### What We Did...

Analyzed (“drilled down into”) the database to identify key factors (called “drivers”) which directly affect performance, including...

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## What We Did...

- a) Sales Price
- b) Weighted Average Down-Payment Amount
- c) Deal Markup
- d) Amount Financed
- e) Vehicle Cost and Other Characteristics (mileage, manufacturer, age, model, cars vs. trucks, etc.)
- f) Payment Amount
- g) Loan Term and Number of Payments
- h) Other

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## What We Did...

- 3) Our analysis included portfolios using most all of the dealer management software systems.
- 4) Dealers surveyed charged-off loans consistently.
- 5) Covered loans originated since January 2001!

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## The Focus of Subprime Analytics To Date...

- 1) Find the right vehicles for your customer base.
- 2) Help you structure the deal properly to maximize cash flow and profitability.

***Customer Information Has Not Been Analyzed!***




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### Why Information About Customers Has Not Been Available for Data Mining...

- a) Most credit applications are manually prepared.
- b) Dealers don't always gather and verify the customer stipulations (time on job, income, actual expenses, debt, time in residence, etc.)
- c) Sales people get paid to sell cars, not gather underwriting info.

*(continued)*

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### Why Information About Customers Has Not Been Available for Data Mining...

- d) Dealer management software programs don't require that all customer information fields be completed.
- e) It's quicker and easier to sell a vehicle if you don't obtain this customer information.

***The Devil Is In The Details!***




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### Excuses for Not Analyzing Customer Information...

- a) Our customers all have bad credit records so what difference does getting their information make?
- b) We sell to everyone and we repo them when they don't pay!
- c) What could I learn from this information anyway?
- d) I'm too busy selling cars, I don't have time to gather customer information.
- e) I do gather the info, but I don't analyze it!




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Everyone Makes Mistakes,  
**Fools Repeat Them!**



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What Good Underwriter's Do?

- a) Verify Customer **C**apacity
- b) Verify Customer **A**bility to Pay
- c) Verify Customer **S**tability
- d) Verify Customer **H**istory



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How Can You Gather Customer Information Efficiently?

*Answer:*

**Use Online Credit Applications and verify the info being gathered at point of sale.**



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### What Portfolio's Were Analyzed?

Loans Analyzed -	<u>Approx. 282,000</u>
Dollars Analyzed -	<u>Approx. \$2.1 Billion</u>
Total Loans Charged-Off -	<u>Over 74,000</u>
Total Gross Dollars Lost -	<u>Over \$433 Million</u>
Total Net Dollars Lost -	<u>Over \$322 Million</u>
Additional Net Losses Expected -	<u>Over \$237 Million</u>

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### Our Findings...Loss Rates

	<u>2006</u>	<u>2005</u>
Average Gross Loss \$ (before recoveries)	<u>\$6,025</u>	<u>\$6,432</u>
Average Net Loss \$ (after recoveries)	<u>\$4,370</u>	<u>\$4,952</u>
Average Default Rate (% of Loans Written Off)	<u>26.2%</u>	<u>25.6%</u>

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### Our Findings...Loss Rates (Continued)

	<u>2006</u>	<u>2005</u>
Average Gross Dollar Loss Rate (% of Principal) Worst - <u>59.7%</u>	<u>36.72%</u>	<u>32.97%</u>
Average Net Loss Rate: (% of Principal) Worst - <u>50.9%</u>	<u>26.63%</u>	<u>25.15%</u>
Average Recovery As A % Of Principal Charged-Off (Excluding Repo Expenses)	<u>25.70%</u>	<u>23.30%</u>

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*Our Latest Finding:*

*Over 50% of All  
BPH  
Installment  
Contracts Don't  
Pay Out!*



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Current Economic Factors  
Which Could Impact Future  
Collection Performance

- a) Gasoline Prices
- b) Heating & Fuel Oil Prices
- c) Increasing Electric Costs
- d) Inflationary Cost Increases of Staples
- e) Increasing Health Care Costs



*You must fight for every  
consumer dollar!*

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Putting the Customer in  
the Right Vehicles...

**If you sell them a vehicle,  
make sure they can  
afford the one they are  
buying!**

***Underwriting NOT Undertaking!***



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### What We Learned From Analyzing Customer Info...

- a) Many dealers don't gather or verify customer income.
- b) Many dealers gather income but don't verify or analyze it.
- c) Many dealers don't gather expense and debt information.
- d) Some dealers don't run credit bureaus.
- e) Dealers use different maximum debt / income ratios in underwriting.

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### What You Can Learn from a Customer's Credit History... *(Running Credit Bureau's!)*

- a) Anticipate bankruptcies.
- b) Identify important credit history changes.
- c) Loss rates do improve with credit scores.
- d) Number of items in collection matters!

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### Losses Based on Credit Bureau Scores...

	<u>Default Rate</u>
Unscored	<u>30.4%</u>
400 – 545	<u>32.3%</u>
545 – 600	<u>29.5%</u>
600 – 645	<u>23.0%</u>
645 +	<u>16.8%</u>

**Average Loan Default Rate 26.2%!**

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### Number of Items in Collection...

<u>Items</u>	<u>Default Rate</u>
<b>Under 10</b>	<b><u>24.5%</u></b>
<b>10 – 15</b>	<b><u>26.0%</u></b>
<b>Over 15</b>	<b><u>31.0%</u></b>

*(Includes Medical Claims)*

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### Verifying Income Levels...

<u>Monthly Income (Net Pay)</u>	<u>Default Rate</u>
<b>Less than \$1,000</b>	<b><u>31.0%</u></b>
<b>\$1,001 - \$1,600</b>	<b><u>26.9%</u></b>
<b>Over \$1,600</b>	<b><u>19.0%</u></b>



**Net Pay Level Is More Important Than Debt / Income Ratio!**

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### Verifying Time on Job...

<u>Years</u>	<u>Default Rate</u>
<b>Less than 1</b>	<b><u>23.6%</u></b>
<b>1 – 2</b>	<b><u>29.7%</u></b>
<b>Over 3</b>	<b><u>26.2%</u></b>



**Average Loan Default Rate 26.2%!**

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### Customer Age...

<u>Years</u>	<u>Default Rate</u>
1 – 25	<u>30.4%</u>
25 - 30	<u>29.8%</u>
30 - 55	<u>25.2%</u>
Over 55	<u>17.3%</u>



**Over 65 Population Expected To Double By 2030!**

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### Our Conclusions...

- Analysis of customer info is needed to effectively manage portfolio risk!
- Verification of income, debt and expenses is critical to good underwriting.
- Using technology is the only efficient way to gather and analyze customer information.
- The more you learn about your customers, the more you will earn!

**Take the *CASH* approach to underwriting!**

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### Who Are the Best Customers?

	<u>Default Rate</u>
Professionals	<u>14.2%</u>
Technical Specialty	<u>14.3%</u>
Supervisors	<u>16.4%</u>

**Average Loan Default Rate 26.2%!**




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 Who Are the Worst Customers?

	<u>Default Rate</u>
<b>Unemployed</b>	<b><u>65.8%</u></b>
<b>Unskilled Labor</b>	<b><u>41.5%</u></b>
<b>Military - Retired</b>	<b><u>41.5%</u></b>

 **Average Loan Default Rate**  
**26.2%!**

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 Do You Know How Your Customer's Compare With This Information?

Studying Your Losses Can Give You The Answers!

 **The Collection Department Should Be the Underwriting Watchdog!**

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 *Questions...*

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



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## Subprime Analytics

*Finding Solutions For The Sub-prime Market*

*Visit Us In Booth # 619  
During the Convention!*

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