

# THE CAPITAL MARKETS



What are the capital markets doing? How tight is credit? My bank just notified me that they no longer want to fund my buy here-pay (BHPH) here operation. What are my options? Unless you've been living under rock without access to the Internet, you know capital is hard to come by. If you have a line of credit with a local bank or credit union, you're among the few and fortunate. If you're like most buy here-pay here dealers, you're actively considering your options when it comes to finding capital. We spoke with some of the nation's biggest note buyers and asked them what they see coming down the pike in 2011.

**Gary Page, president  
SDA Inc.  
Atlanta, Ga.**

Prior to the recent downturn in the U.S. economy, buy here-pay here dealers had far more options to find capital than they do today. While there is capital available, those providing it can be very choosy, according to Gary Page, president of SDA Inc. based in Atlanta.

Page said dealers with stronger operations and personal wealth are less leveraged and thus in far better shape to secure funding to run a buy here-pay here operation.

"As a result the little guys are getting squeezed out," Page said. "Let's put it this way. Even though there are fewer dealers, there are less rocks to look under for cash and the rocks are heavy so you better be in good shape to lift them."

One of biggest changes Page has seen in terms of credit applications is the shift in opinion of real estate. Several years ago the majority of dealers listed real estate mortgages on their applications.

"This was seen as positive," he said. "Guys were putting cash into what was seen a solid investment. Obviously, that is no longer the case. Today real estate mortgages on non-operational properties are seen as a liability. Numerous outside factors have intervened with the credit quality of the dealer personally.

As a result SDA, which provides capital to qualified

buy here-pay here dealers by purchasing their notes in deals from \$100,000 to about \$1 million, , now does more thorough credit checks on dealers' personal history than it did several years ago.

"We regularly run credit bureaus on our dealer clients," he said. "For the most part, if they've weathered the storm, they're in pretty good shape."

Just as important as the personal wealth of the dealer is the fiscal soundness of the buy here-pay here operation itself.

"If you were undercapitalized several years ago it was a bad thing," Page said. "Today, it's a really bad thing and negatively affects your ability to acquire new capital."

He said that holds true with most capital providers except the U.S. government. A record number of Small Business Administration loans were approved for the Atlanta area in the past 12 months.

"It's pretty amazing to watch," he said. "The government backs the loan at 90 percent. The banks then take the loan the flip it for 10-11 percent. They've got no risk on the deal only profit. That's not going to happen for most buy here-pay here dealers."

Page anticipates another good year for buy here-pay here dealers in 2011. While unemployment will likely remain high throughout the year, there will be a greater customer pool for buy here-pay here dealers and more federal tax breaks giving those with jobs a little more money in their pocket.

"As the economy and fiscal situation for buy here-pay here dealers improves, advance rates which had tumbled over the past 24 months are starting to increase," he said. "Competition and the improving economy are combining to inch advance rates upward."

Buy here-pay here note default rates have been pretty low and seem to be staying there, Page said. Successful dealers have learned the critical importance of collections and have adopted the newest technologies in software, GPS and starter-interrupt devices, text messaging, ACH and other forms of electronic payments to keep customers paying.

"When we look at putting together a deal these technologies are an important piece of the puzzle," Page said. "The more savvy a dealer is, the more he's willing to look at every opportunity to increase efficiencies, the more we are willing to consider working with him."

SDA also looks at dealers willing to invest in themselves and their operations in terms of personal growth and employee training.

"We like the guys who are in Twenty Group," Page said. "They all have a very good grasp on their numbers. We see them at conventions and attending training sessions. They're obviously not living hand to mouth. A dealer who is educated about his business and his industry is always considered a better potential client for us."

Page said SDA will fund lease here-pay here notes, but is not doing rent-to-own deals at this time. With any note, he said, SDA closely examines the paperwork to make sure the contract wording is "up to snuff."

What about capital for SDA?

Page said SDA has been providing capital to dealers for 20 years and it has never been an issue.

"Our capital is not tied to Wall Street demand and quotas," Page said.

Page said his program offers dealers the ability to maintain control of the collections and the customer.

"We feel no one collects better than the dealer and we stand by that," Page said. "Our advice is if you can maintain control of that customer, don't give it up. You can keep the customer paying better than anyone, and when it's time for that customer to buy again, you'll have the first shot."