

Reflections // A perspective on how remarketing has changed

How BHPH Became a Service

I remember the first time I heard the term "tote-the-note." I was getting my feet wet in the used-car industry by working with the National Independent Automobile Dealers Association when I asked what the term meant (after making sure I had heard it right). It was explained that certain used-car dealers — nearly all of them independents — were "note dealers," meaning that when they sold a car to a customer they did the financing themselves.

My tutorial on this market segment introduced me to an entire spectrum of new terms: "tote" was the term for "to carry," as in a dealer who held the car as collateral to cover the loan to the customer to purchase the vehicle; "paper" was the term used in dealer-speak for the retail financing contract; "skip" was the term used for a customer who quit making payments and could not be found; "on the street" was the total amount of loans the dealer had as receivables. The list of colorful terms went on and on.

Throughout my 30-year career as an industry observer, I have always been enthralled by this industry segment. It has evolved, changed and become more mainstream. I don't hear the term "note dealers" much anymore as the activity has morphed into the buy-here, pay-here terminology. Thanks to the professionalism and expertise provided by the National Alliance of Buy-Here, Pay-Here Dealers (NABD), the NIADA and others, this complicated industry segment, fraught with very tough

regulations and restrictions, has become more of a major weapon for all dealers than ever before. I think this journey is fascinating, so let's take a minute to review how I have seen it change.

In the late '70s, a note dealer was perceived by the public at the bottom of the public-relations scale. They were seen as businessmen selling older cars at very high interest rates to customers who sometimes had no credit score or history — not just those with bad scores. This definitely raised some questions. Why would a legitimate dealer be involved in such transactions? Why would customers participate? Why is there a market for this type of car deal?

I came to realize and appreciate the valuable role BHPH plays in the industry lifecycle.

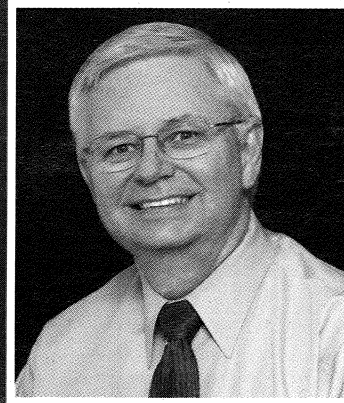
To understand the premise upon which BHPH is built, I had to understand the fundamental issue and that is that these customers cannot finance the purchase anywhere else. In nearly all cases, these customers ruined their credit through decisions of their own. It's not the dealer's fault this credit was ruined. The dealer wants to sell the car, but the customer cannot get it financed, and even if he or she could, the interest rate would be very high because the customer is such a bad credit risk.

In my illustration of BHPH, the dealer looks across the desk at the customer and sees only two options; the customer will walk (in most cases quite literally)

away from the purchase, or the dealer must loan the customer money to buy the car. No one else will finance the deal. The customer has a job and income, but he'll lose that job if he cannot obtain transportation. From where he lives, public transportation is not an option. He is tired of bumming rides from friends and relatives.

The dealer assesses the risk and decides to loan the money to make the purchase, using the vehicle as collateral. This is the same basic concept a bank would use. Like a bank, the credit risk determines the interest rate. And since the risk is so high (remember no one else would finance), the interest rate is also high to compensate for the risk — just like any other business making a loan to a credit-impaired individual.

Publisher Ron Smith has been affiliated with the used vehicle industry since 1979 and started the publication *Auto Remarketing* in 1991. He has been a strong voice in promoting the industry's professionalism not only through the print magazine, but also through conferences, online newsletters and Webinars. Prior to launching *Auto Remarketing*, he launched and was editor of NIADA's *Used Car Dealer*. As part of *Auto Remarketing*'s 20th-year celebration, Ron is sharing some insights on how he has seen the industry change in his 32-year career.



BHPH has changed significantly over the years. Back when I was introduced to the "tote-the-note" term, the typical dealer would keep records of who owed what on index cards in a little green file box. Customers would come in every Friday and make their payment (I once asked why weekly and was told the typical note customer got paid on Friday, and you wanted to get your money first and before the weekend!). Repossessing cars ... often called re-poing, another colorful term ... was a fact of life because these were high risk customers who often failed to pay. (A funny story came from one Oklahoma dealer who said he did a lot of re-poing on Christmas Eve and Christmas Day because he always knew his car would be at Mama's! He did say he returned the presents.)

The BHPH business today is fundamentally the same. Dealers are taking on those high-risk customers financial institutions turn down flat. A major change is today's BHPH dealer is much more professional and modern, thanks in large part to the efforts of NABD, NIADA and organizations like the Leedom Group. Gone is the little green box, replaced by computers and analytical programs. Did you know that BHPH dealers were among the first to embrace personal computers? Now there are numerous more tools to be utilized like starter-interrupt devices, GPS, loss-ratio analysis and more.

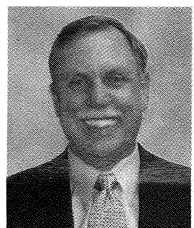
Although BHPH dealers are sometimes cast in a negative light, nothing could be further from the truth. Oftentimes, these dealers are providing a valuable service that no one else wants to do. Without them, the unemployment rate would be much higher.



"A 20-year anniversary is a big event for any business, but when you have been in the forefront of an industry

providing valuable information and extraordinary support for the people in the industry for 20 years, that is special. Congratulations to Ron Smith and his entire team of professionals at Auto Remarketing. You are in a class of your own, and we are honored to have the opportunity to work with you on a daily basis."

Larry Dorfman
chairman/CEO, APCO/EasyCare



"Auto Remarketing has played a vital role in educating operators on matters of importance in the automotive industry. They

are an important communication link to the industry. My sincere congratulations to Ron and the excellent team he has built for a 'job well done.' I look forward to 20 more great years!"

Ken Shilson
president and founder,
National Alliance of
Buy-Here, Pay-Here Dealers



"Congratulations to Ron Smith and the staff of Auto Remarketing on the 20th anniversary of their publication. In those 20 years,

Auto Remarketing has earned a well-deserved reputation as the go-to and quality source for the remarketing community!"

Tom Hudson
chairman and senior partner,
Hudson Cook, LLP