

A POSITIVE PERFECT STORM?

ALL THE STARS SEEM TO BE ALIGNING TO MAKE 2021 A STRONG YEAR FOR BHPH



I recall speaking at the NIADA Convention and Expo in 2011 regarding the then-current state of Buy Here-Pay Here dealers in the financial recovery.

At that point, the Fed had already cut interest rates by half, provided banks liquidity, bailed out major employers – including General Motors and Chrysler – and created Cash for Clunkers.

For BHPH dealers, it was in many ways a “perfect storm” – and not in a good way.

Cash for Clunkers eviscerated a substantial portion of BHPH-type used inventory while forcing sales of new vehicles.

OEMs heavily incentivized bloated existing inventories of new cars, which, along with consumers’ natural tendency toward used in tough times, caused a rise in wholesale used prices that squarely hit BHPH dealers.

In auto finance, out of necessity and opportunity, much of that new liquidity added to the coffers of captive lenders and banks was quickly allocated to buy deep into the credit spectrum to achieve their growth objectives and fill the void in dried-up subprime lending.

As a result, market share of reporting BHPH dealers contracted by about 35 percent, though most agree the contraction was greater, with many smaller, non-reporting BHPH operations shutting down permanently.

The remaining BHPH dealers were left to their own devices to address a somewhat different market demand and gauge creditworthiness.

At the time, e-commerce was just gaining significant market share, social media was still in its infancy, search queries were 20 percent of today’s, and the iPhone was only a year into changing our lives.

Use of those platforms and/or their data for marketing was sparse, as conversion attribution was difficult to track or mark.

Fast forward to 2021.

It’s a far different scenario with different challenges.

But perhaps we now find ourselves in a positive “perfect storm” for Buy Here-Pay Here.

More market need. More ability to pay. More data. More options to reach and align with customers.

Market segment for BHPH dealers will be quite larger when we emerge from this crisis. There have been 10 million more immigrants added over the past 10 years, populating areas with good BHPH dealer penetration.

But recent immigrants remain difficult for subprime lenders to find and score by traditional means. Add in consumers ages 18-39, who are being denied credit at record rates despite their average scores being up an average of 11 points.

Auto lenders have adjusted to this environment with “axe surgery” – simply raising their allowable credit score range by 20 points and requiring verification on everyone for everything.

Maybe that’s expeditious, but it doesn’t fit with the touchless, automated, speedy process now demanded by consumers and dealers. And that alienates opportunities.

Just as auto lenders recognized job tenure and income modeling as valuable predictors, there have been some 70 million lost or changed jobs due to COVID-19, a number unprecedented since the Great Depression.

Recent consumer mobility options, such as Uber and Lyft, that challenged for BHPH customers are down 55-75 percent, and experts consider their recovery questionable as consumers voice concerns about traveling with strangers.

That same dynamic is squeezing ridership on public transportation, with many riders now opting for cars.

Fuel prices, averaging \$3.70 per gallon at their peak in the post-recession years, have cratered to as little as half that in some areas, while the miles per gallon of the average car up 20 percent.

The average miles driven was already down more than 2,200 miles per year and it’s expected go even lower – then solidify – as working from home becomes permanent for a significant portion of the workforce.

Using those numbers, some quick back-of-the-napkin math points to good news for BHPH dealers.

Customers’ lower monthly fuel spend with fewer miles driven can mean as much as a \$75 per month savings in cost of ownership. And BHPH dealers can expect a slower depreciation rate of the vehicle asset if it’s returned.

The new COVID relief bill passed in December will give qualified recipients up to \$600 per person, \$1,200 per couple and \$600

per child – and at press time, proposals to raise that payment to up to \$2,000 for individuals were under consideration by Congress. The bill also includes extensions of some bankruptcy relief.

Given all that, BHPH customers’ ability to pay might be as strong as it has ever been.

With interest rates holding steady at incredibly low levels, the BHPH ecosystem could be in the midst of its most favorable environment ever.

So how do BHPH dealers approach this clearly bigger, more able but largely “invisible” BHPH consumer market?

Today’s marketing should be carefully planned, even for the savviest BHPH dealers.

Subprime and bankruptcy mailing lists or leads – often derived from bureaus and public records – might not be very accurate, producing weaker conversions.

Alternative, online behavioral, mobile and social data, on the other hand, are overflowing as people stay at home, and have been used successfully in reaching those folks, particularly in tandem with traditional BHPH marketing.

The second part of the equation is being able to accurately score and acquire a level of confidence around verification of income, employment and identity.

Restrictions on reporting derogatory credit status and moratoriums on evictions and repossessions have left credit reporting bureaus hamstrung to maintain reliability and predictability.

As a result, “unscorable” have risen almost 50 percent, to 91 million, in just a couple of years.

To their credit, bureaus have been quite transparent in voicing their concerns about their reliability and predictability, strongly suggesting many times over that lenders augment their decisioning data with alternative data sets, and implement faster, more automated loan adjudication processes.

Use of artificial intelligence and a machine learning platform can uncover “invisibles” and “unscorable” while aligning alternative data, social data, banking data and more with the very data sets used in capturing your market, as well as assessing creditworthiness.

On top of solving all the aforementioned challenges, the conversion loop will close and provide the optimum ROI for your marketing.

The end is in sight, and I believe it signals a bright future, chock-full of opportunity for BHPH dealers who seize it. ■



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