



Is there really an opportunity in Special Financing?

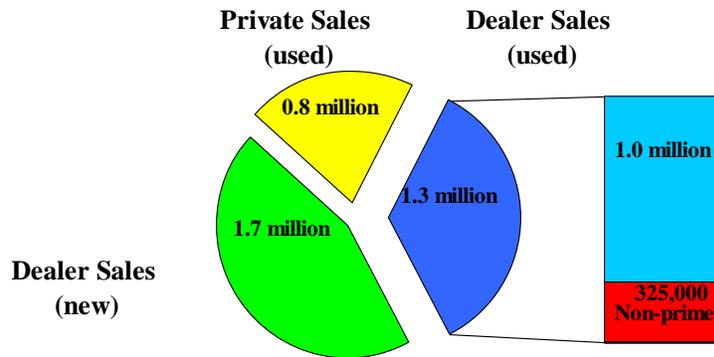
by Hector Bosotti

There is no generally accepted definition of what Special Finance is -you may have heard it referred to as “Sub-Prime” or even “Non-Prime” financing. Special Finance deals are generally associated with customers who are credit challenged and do not ordinarily meet with the lending policies of prime lending institutions or that of the manufacturers’ finance divisions.

Individuals with Beacon Scores of less than 650 will find it difficult to obtain an approval at a “Prime” lending institution or at a manufacturer’s finance division. This is merely a guide line however; you will discover that Special Finance lenders will look at circumstances that will support an approval as opposed to looking at declining an individual solely based on any rigid formula, score or lending criteria. A credit score in fact, may many times be completely ignored.

According to Desrosiers Automotive Reports, New vehicle dealers account for 1.7 million units, private used vehicle sales account for .8 million units and 1.3 million used vehicles are being sold through dealers. Of these 1.3 million, 325 000 units are considered to be non-prime.

Alarming as it may be, Special Finance customers make up 25% of the market and it continues to grow.



Source of sales data: Desrosiers Automotive Reports

There are two types of credit-challenged customers:

- 1. The credit criminals**
- 2. The victims of circumstance**

There are undoubtedly people who will continue to abuse the privileges of credit and there is little that anyone can do for this group of individuals. The opportunity lies with customers who are victims of circumstance. The 3 most common causes of poor credit experienced by this group are:

- Divorce**
- Unexpected job loss**
- Health problems**

With 2/3rds of marriages or relationships now ending in separation or divorce, the burden of legal fees cripple many individuals. With the growing trend of credit line usage, we see another type of customer starting to fall out of grace that will experience credit challenges. Credit lines require financial discipline and the uncontrolled use of credit lines have crippled

many ethical individuals and families. According to Smart Money Magazine, Canadians are now spending 120% of their disposable income which simply means that collectively, Canadians are getting into debt at an alarming rate. With low interest rates on the horizon and the ease of securing credit lines, this trend is likely to continue for many years to come and the resulting after-math will also continue to fuel the non-prime market.

Other common reasons for credit problems:

- **Bankruptcy / Credit Proposal**
- **Write offs, collections, judgments**
- **Slow payment history**
- **High Total Debt Service Ratio (the more you make, the more you spend)**
- **No payment history**
- **Excessive negative trade equity**
- **Older vehicle with high maintenance costs**

Who are these individuals?

- **Doctors**
- **Lawyers**
- **Engineers**
- **Teachers**
- **Government employees**
- **Forklift operators**
- **Labourers**
- **Your service customers**
- **And yes...your next door neighbour**

Some more interesting facts:

- **Statistics Canada reports a 20% increase from 1997-2006 of consumers filing personal bankruptcy.**
- **Almost an equal number registered consumer proposals.**
- **More men than women find themselves in this predicament.**
- **SPECIAL FINANCE is one of the fastest growing segments and profit centers in dealerships today.**
- **Only 10% of the dealer population actively markets to this consumer base.**
- **Research indicates that any market that can support a franchise can generate 15 non-prime contracts per month for that store.**
- **Pay advance stores such as Money Mart etc... that have cropped up in our neighbourhoods and on-line sources are too numerous to mention.**

What does this tell us?

- 1. Special Finance customers are here NOW!**
- 2. The Special Finance market continues to grow!**
- 3. Either you're in the game or just watching it!**

These “high-risk” credit profile customers still need automobile financing and are usually financed by some type of non-prime finance source. Studies show that 89 percent of these customers purchase a used vehicle versus a new vehicle. To maximize the potential of the used vehicle department, a dealership must be able to provide financing for a wide range of buyers. Consequently, Special Financing represents a substantial profit opportunity.

BENEFITS OF SPECIAL FINANCE

If you are not securing Special Finance business or are just dabbling in it, developing or increasing your focus could represent up to a 25% increase in pure volume and a tremendous gross earning opportunity. Here are the benefits that dealers have achieved:

- **Saves declined regular finance deals**
- **Helps customers with “special needs”- I.e. better terms for prime customers on older models**
- **Accommodates for large negative-equity trade-in situations**
- **Allows you to buy trade-ins more aggressively**
- **Increases new and used volume**
- **Helps eliminate aged inventory**
- **Fuels reconditioning for the fixed operations**
- **More front-end gross profit**
- **More back-end gross profit**
- **Breeds a new brand of loyal customers**
- **Breeds referrals**

Let's put some numbers together. If your operation were to deliver

→2 SF Deals/week = \$5,000/week or \$250,000 per year

→20 SF Deals/month = \$50,000/month or \$600,000 per year

Where can you fit in?

Can you imagine a new vehicle dealer who doesn't offer leasing today? Dealerships that develop Special Finance Services will

have an immediate competitive advantage and reap immediate and long term profits.

Special Financing is what leasing was to the automobile industry 20 years ago.

The opportunity is here so; decide if you want to be a spectator or if you want to get in the game!

Hector Bosotti is a consultant and trainer for the Wye Management Group and has over 23 years of retail automotive experience whose success has been founded on 3 key elements: People, Process & Training.

For more information on the workshops, visit www.wyemanagement.com or contact their toll-free number 1(888) 993-6468.