

Recovery Industry 2021 Update

Mitigate Risks with Modern Analytics

 **Advantage**[®]
Automotive Analytics



FALCON INTERNATIONAL

MODERN ANALYTICS IS VITAL TO RISK MITIGATION AND OPTIMIZING PORTFOLIO PERFORMANCE

NUMEROUS HEADWINDS FACE BHPH, SUBPRIME FINANCE MARKETS; WORKPLACE DIVERSITY IMPORTANT IN TODAY'S MODERN ECONOMY

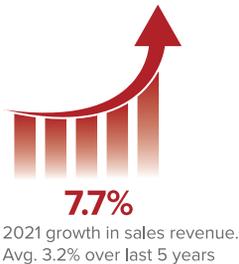
Auto loan debt is now the third-largest source of consumer debt in the U.S. While the average credit score is at an all-time high, delinquencies are rising. There's much to consider when supplying affordable transportation to the underbanked and credit-challenged consumer. Given automotive supply chain issues,

inventory costs, and a renewed focus on state and federal collection regulations, integrating modern technology and predictive analytics into your operations could be the difference between profit and loss. Advantage continues to build a culture of collaboration and compliance to provide the data finance professionals need

to be successful today and to meet the challenges to come. The following data focuses on these key areas to help optimize lender's portfolio performance:

- Inventory Acquisition
- Collections
- Workplace Diversity

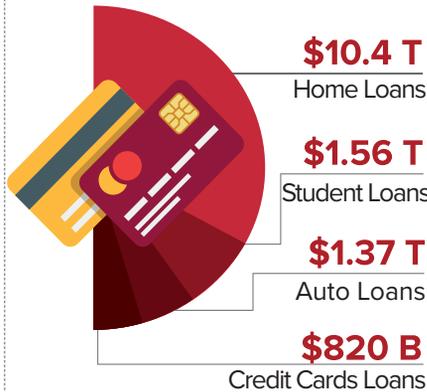
STATE OF THE USED CAR INDUSTRY 2021



*Source: April 6, 2021, "Used Car Dealers in the US - Market Size 2003-2027", IBISWorld

Consumer Debt Reached \$14.56 T After Q4 2020

There has been consistent growth in these four main areas of debt:



*Source: May 13, 2021, Key Figures by American's Consumer Debt", Debt.org

Change in Total Average Debt by Fico Score Range

Range	2019	2020	Change	
Poor	300-579	\$38,324	\$36,185	-5.6%
Fair	580-669	\$63,060	\$63,364	+5%
Good	670-739	\$91,186	\$89,585	-1.8%
Very Good	740-799	\$100,263	\$99,471	-0.8%
Exceptional	800-850	\$136,801	\$133,446	-2.5%

Auto Loan Delinquency Rates

Delinquency Period	2019	2020	Change
% of Accounts 30-59 DPD	2.11%	1.56%	-26.1%
% of Accounts 60-89 DPD	0.65%	0.51%	-21.5%
% of Accounts 90-180 DPD	0.33%	0.36%	+9.1%

*Source: April 6, 2021, Consumer Debt Study, Experian.



SUPPLY CHAIN ISSUES, DEMAND DRIVES UP USED CAR PRICES

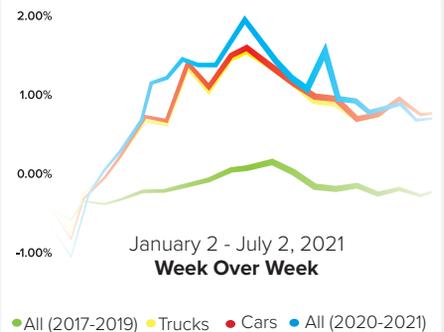
New vehicle supply chain issues, including the global computer chip shortage, has prompted demand for used vehicles. Used inventory is hard to locate, especially for BHPH dealers who need vehicles with an ACV that fits their business model. It has forced them to acquire vehicles via online auctions, off the street, and from further away than they like.



Extreme shortage of rental returns and limited inventory of new vehicles drive values up.

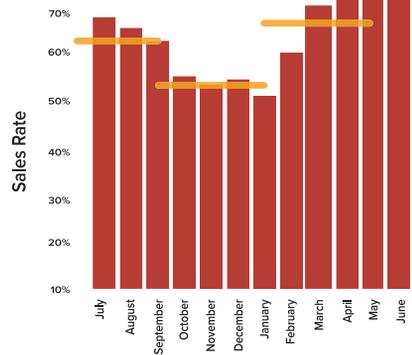
*Source: April 26, 2021, Used-Vehicle Inventory, Cox Automotive

WHOLESALE PRICE CHANGE



*Source: June 6, 2021, Covid Updates, Black Book Report

ESTIMATED AUCTION SALES



Despite the limited inventory on dealer lots, dealer lanes continue to have higher volume at auction, while manufacturers' remarketing lanes are dwindling down. Many dealers are finding higher profit margins in the wholesale channel as opposed to their own retail lots.

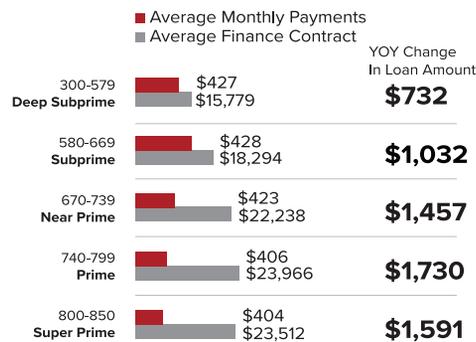
FINDING NEW SOURCES OF INVENTORY

- 1 Post signs, use social media, tell customers you're ready to buy their existing car
- 2 Incentivize dealership team members to find used inventory
- 3 Expand auction search beyond normal search radius and borders
- 4 Use online tools to reach out to private listers

THE STATE OF THE RECOVERY INDUSTRY

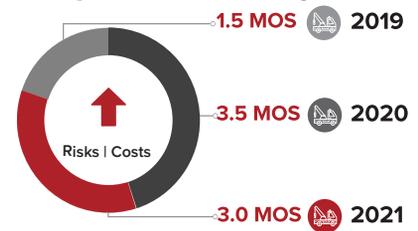
The average finance contract and month payment have reached all-time highs. Mitigating risks to dealer capital is a paramount concern. Using modern analytics to mitigate risks and integrating best practices to ensure compliance may mean the difference between success and being forced out of business, as the result of expenses, fines and lawsuits.

AVERAGE LOAN AMOUNT



*Source: State of the Automotive Finance Market Q1, 2021, Experian.

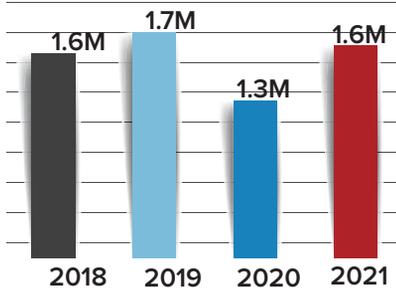
Average Recovery Time for Liquidation Backlog



Risk mitigation optimizes portfolio value. GPS, modern analytics, and best practices critical to avoid fines and lawsuits and promote success.

*Source: Working Through the Liquidation Backlog, Kroll Bond Rating Agency, Auto Loan ABS.

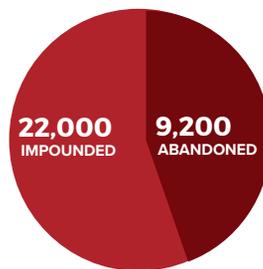
REPOSSESSION TRENDS



Declines in defaults observed in the Equifax data for 2020 is expected to result in an increase of repos to around 1.6 million in 2021.

*Source: 2021 Cox Automotive

ABANDONED | IMPOUNDS



The longer it takes to recover, the more likely a car will sustain costly damage. GPS can help lenders avoid losses.

*Source: 2021 Advantage Automotive Analytics

ADVANTAGE AUTOMOTIVE ANALYTICS

Pioneers of Connected Car Technology



Our proprietary data collection and analysis provides clients with powerful tools to improve operations and increase profits.

GENDER DIVERSITY IN THE WORKPLACE

The current economy requires businesses to address equality in the workplace. Gender equality should be a priority.

Women are:



DIVERSITY OF THINKING IN BUSINESS ENHANCES INNOVATION



SHIFT WORKPLACE DIVERSITY INTO HIGH GEAR

- Setup Internal Processes
- Establish Mentoring Programs
- Encourage Ambition
- Learn from Others

ABNORMAL

Summer Trends



Vehicle Inventory



Days-to-Turn



Wholesale Prices



Record High Retail Prices

RECOVERY INDUSTRY

Outlook



Challenges of the Recovery Lag

Depending upon the state, there are only 1-3 collateral recovery Insurance Carriers writing the coverages needed for this Industry vs. 8-10 Carriers in 2016.

● **Since 2016**

- Wrongful Repo claims are **↑200%**
- ≈ 35% from Title Loan companies

● **2020 Challenges**

- **↑74%** in claims that have **No Right to be Repossessed**
- **↑54%** in claims where **Agents says Gate was Open, Debtor says it wasn't**

● **2021 Challenges**

- **↑33%** of claims received have **No Right to be Repossessed**
- Invalid orders are being assigned with **NO** repercussions either from or to the lender because of Unfair, One-Sided contracts - A **BIG** reason for fewer Carriers and increased insurance premiums
- In certain states, you must go to an Excess Lines Carrier for Repossession Coverage (higher premiums)

REGULATORY CLIMATE

Industry Watch List





Legislation to Watch

Hunstein v. Preferred Collection and Management Services, Inc.

The U.S. Court of Appeals for the Eleventh Circuit's recent ruling in *Hunstein v. Preferred Collection and Management Services, Inc.* may upend the long-standing and rather routine business practice of financial services companies using third-party vendors to manage, service and collect on outstanding debt.

The Eleventh Circuit reversed the lower court, holding that when a debt collector provides an outside letter vendor with personal account information relating to the collection of a debt, it rises to the level of an impermissible communication with a third party to which there is no exception if there is no consumer consent.

If left unchecked, the opinion will significantly broaden the scope of the FDCPA.

H.R. 2547

Imposes several new restrictions on private debt collection. Specifically, title VI would require federal agencies to wait 90 days after a delinquency or default to turn over debt to a private collection agency (PCA).

If this bill passes, repossession activity may become extremely complicated and even legally risky.

Statute of Limitation

Many financiers wrestle with the question of which statute of limitations to apply when collecting a deficiency balance on a retail installment contract.

In recent rulings, the courts' focus on the "predominant purpose" of the contract—the sale and purchase of a vehicle—highlights a clear path to deciding which statute of limitations to apply when faced with a mixed-purpose contract like a RIC that includes both a sale component and a financing component.

That determination has implications beyond whether a deficiency collection case will be dismissed.

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CONNECTED CAR Privacy Concerns



Data Privacy Regulations

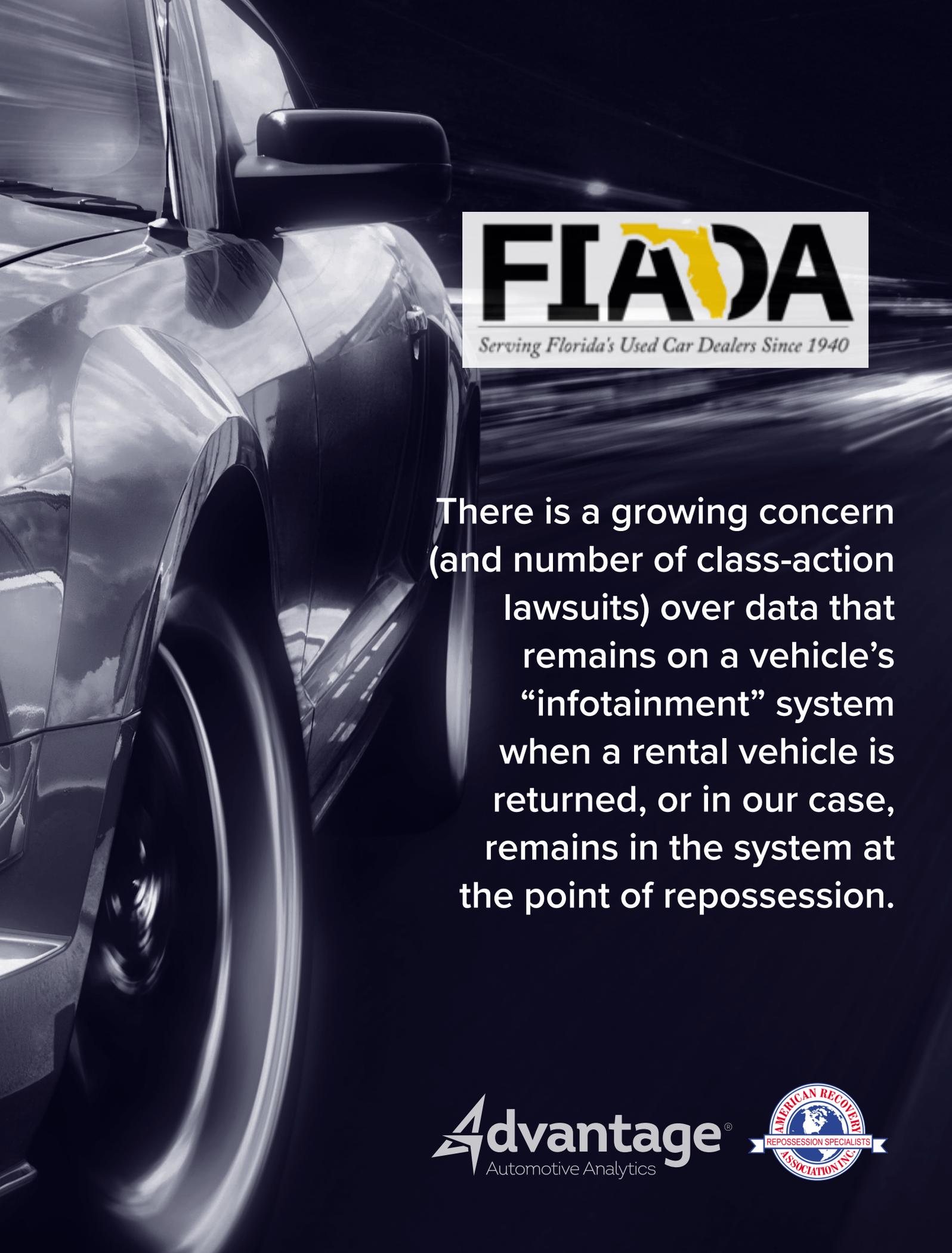
Regulators are on high alert when it comes to consumer data privacy and security when it comes to motor vehicles. The recovery industry should be aware of and pay close attention to existing or potential laws and regulations that require a business to:

- Destroy identifying information left on vehicles from previous customers or owners
- Provide notice of a breach if personally identifiable information is accessed by unauthorized third parties; and
- Implement reasonable measures to prevent unauthorized access to the information of past drivers contained on vehicles.

The industry should likewise keep the following compliance considerations at top of mind now, irrespective of the current state of the law (regulations are coming):

- Who in the chain of custody and control should be responsible for deleting consumer information from vehicles
- What contractual protections should be implemented to mitigate risk (e.g., hold harmless clauses)
- How to properly access and destroy the personally identifying information left on vehicles from previous owners
- Developing measures to prevent unauthorized access to personal information
- How to identify and respond to breaches when they do happen.

NOTE: States including California, New York, and Virginia have already passed laws that may impact the recovery industry when it comes to connected car data privacy laws.



FLADA

Serving Florida's Used Car Dealers Since 1940

There is a growing concern (and number of class-action lawsuits) over data that remains on a vehicle's "infotainment" system when a rental vehicle is returned, or in our case, remains in the system at the point of repossession.

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Training & Licensing in Florida

- Recovery Agents must be licensed
- Florida lenders should be concerned about the proper handling of property found in repossessed vehicles, both from a state level, and federal level.
- Note how Florida's Statue 501.171 defines unauthorized access of data in electronic form
- Congress is toying with the idea of making all repossession activities fall under the auspices of the FDCPA

RECOVERY Toolkit

**Documented Collections Process –
The Cobb Notice Applies in Florida**

**Access to Certified, Bonded
Recovery Agents**

**Technology that Provides Location
Intelligence and Predictive Analytics**



A Repo Is The Last Thing You Want

If you must, you need a smart, fast solution.



We provide all the recovery tools you need to mitigate losses:

- Real-Time Monitoring
- In-App Database of Certified Repo Agents
- In-App Recovery Assignments
- Recovery Agent Portal
- Smart Analytics to Avoid Future Repos

Portfolio Intelligence. Smart Protection.

1.800.553.7031 | [AdvantageGPS.com/Recovery](https://www.advantagegps.com/Recovery)





As the industry continues to evolve following a turbulent year, leveraging data and analyzing trends is one of the most powerful tools automotive lenders can use to inform their decision making.

It can provide insight on a macro-, micro-, national, and regional level—something that can make a big difference when it comes to strategy.



Mitigate Risks with Modern Analytics

Best Practice Tips



Integrate Modern Analytics To Monitor Your Collateral



Stay Updated on Legislation (FIADA CED, NIADA, NABD, Advantage & ARA)



Document & Audit Collection Process



Train Collectors & Establish Consistent Practices



Hire Bonded, Certified Licensed Recovery Specialists



Build Relationship & Over-Communicate with Your Recovery Specialists



Provide Location Intelligence to Assist in Fast Recoveries



GPS Predictive Analytics to Guide Future Funding Decisions



Support Associations in Educating State & Federal Legislators



Build a Culture of Compliance Internally & with Your Partners



Quick Links

- Advantage Automotive Analytics
- American Recovery Association
- Falcon International
- NIADA
- NIADA PAC
- NABD
- FIADA
- 501.171 Security of Confidential Personal Information - Florida
- Cobb Notice - White Paper
- Hudson Cook Insights
- Data Protection & Connected Car - White Paper
- Kroll Bond Rating Agency
- CFPB Areas of Focus - White Paper
- Covering Your Contractual Bases - White Paper
- Credit Chronometer
- HR 2547

ABOUT THE **PANELISTS**



MICHELLE JACKSON

Vice President, Sales
Advantage Automotive Analytics



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Michelle Jackson has over 15 years of sales leadership excellence and recognition in the subprime vehicle finance industry and serves as the Vice President of Sales for Advantage Automotive Analytic today.

Jackson has come up through the ranks and now leads a dynamic, successful team of automotive finance professionals. She's never forgotten her roots and leads with a deep understanding of the needs for whom she's responsible.

Early in her career, Jackson supported a 200-person call center while securing new business partnerships within the automotive sector. Jackson's industry knowledge and leadership skills along with her ability to establish strong connections with her customers is what caught the attention of Inilex's senior management team. In 2012 Inilex, one of Jackson's former customers, recruited her for the specific purpose of building a subprime vehicle finance division. While there, she successfully established the division, guided the product development, and was instrumental in building a profitable reseller/agent channel. When Inilex was acquired by Spireon in 2015, Jackson joined the vehicle finance team as a Senior Director of Sales. During her tenure there, she successfully leveraged her subprime automotive financing experience contributing to the company's rapid growth and market expansion.



ABOUT THE **PANELISTS**



Cecil Les McCook

Executive Director
American Recovery Association



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Les McCook has served as the executive director of American Recovery Association (ARA) since 2006. With more than 40 years in the recovery industry and strong relationships within the recovery and lending community, McCook has forged numerous industry partnerships and programs to the benefit of the ARA membership.

Prior to joining ARA, McCook founded Preferred Adjusters, Inc. in Austin and Temple, Texas and served as president for more than 25 years. As a business owner, McCook was an active board member and member of ARA for 23 years. McCook brought innovation and forward thinking to the association by overseeing the implementation of the ARA recovery management software. He also led the way for ARA to bring the License Plate Recognition (LPR) cameras to the recovery industry and he is responsible for establishing the association headquarters to Dallas, Texas. While in the recovery business, McCook also served in the United States Army.



ABOUT THE **PANELISTS**



Patrick Altes

President
Falcon International



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Patrick Altes started in the repossession business in 1974, shortly after high school, as a part-time employee at his father's repossession business. Initially, he had planned to get a "real job" after graduation, however, as many of us know, his dad, Harvey C. Altes, was quite a legend in the industry and he was quickly drawn into the family business.

Altes was able to pick up some of his father's skills along the way and the father-son duo worked together working for some interesting non-repo-related clients on investigation and research, including nationally-known attorneys and celebrities. For many years they worked as researchers for CBS TV's "48 Hours" TV show.

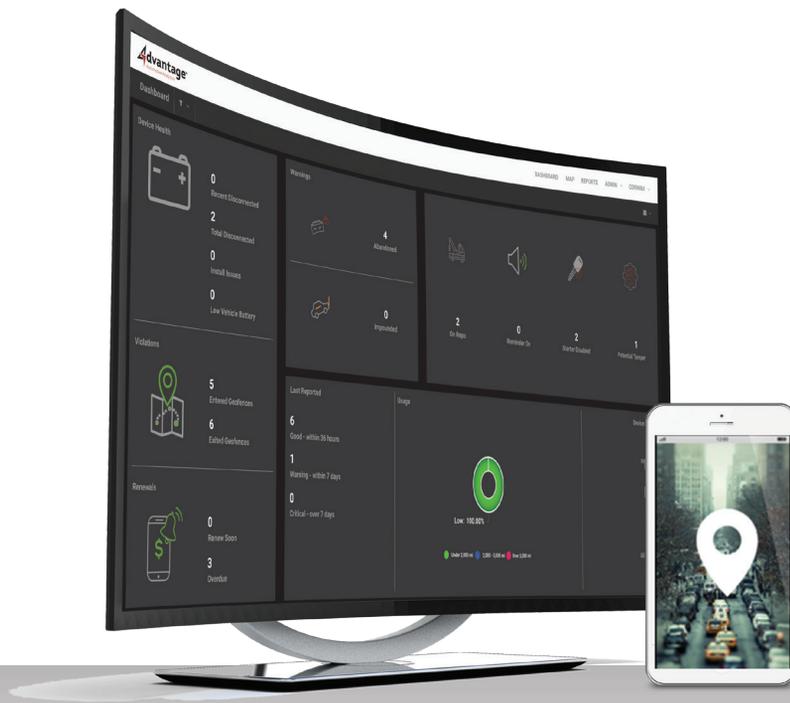
Over the years, Altes developed the "international" aspect of his repossession agency, Falcon International while also working with Time Finance Adjusters, helping his sister, Nicki Merthe, with the management of that great organization. Altes' main role there was that of an industry advocate. He has been a writer, blogger, and point-of-contact for the mainstream media, to advocate for the professional repossessioner and the worth and value of their services. Altes has fought hard against practices, like contingent repossession work, which he believes to yield dangerous, unprofessional results that don't best serve the lender, their proxies, or the consumer. After having done this for so many years with TFA, it is especially exciting for him to now partner as a board member with the "new" ARA in being a united, single voice for the industry.

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Collateral Protection Is What We Do

Today, you have more at risk than ever.



LEARN MORE

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Portfolio Protection with Modern Analytics



Risk Portfolio
Monitoring



Predictive
Analytics



On-Demand
Location



Instant Risk
Notifications



Compliance
Recovery Toolkit

Be vigilant with your collateral. Get Advantage Protection.