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REMARKETING

HOOK OF LAST RESORT

FINANCE COMPANIES EASE POLICIES TO
PREVENT REPOSSESSIONS

Page 4



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3RD QUARTER
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- 3** The ramifications of Cash for Clunkers
- 6** The hottest auctions nationwide
- 8** How to make consumers fearless
- 9** Used prices surge again
- 10** What's hot in transportation logistics
- 11** News of rental fleets and collector auctions



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REMARKETING

LEADERSHIP



THE REST OF THE STORY OF CASH FOR CLUNKERS

If the auto pundits are correct, the next chapter of the Cash for Clunkers saga may not be written until 12 to 18 months from now. That's when solid loss data from those purchases may rear its ugly head in lenders' portfolios nationwide.

Why the negative speculation? One indicator is the number of consumers suffering from post-Clunker "buyer's remorse." According to CNW Research, typically somewhere in the neighborhood of six percent of new car buyers ultimately decide that they have made an unwise purchase. For Cash for Clunkers buyers, however, that number is nearly three times as great – in an August CNW survey, more than 17 percent of new car buyers report having doubts about the purchases they made.

That means that about 106,000 of the 625,000 people who bought vehicles using the program may be worried about making their car payments (which average \$317 for 49 months). According to William Jeanes at AOL Autos, when CNW asked their survey respondents how they would cover the cost of their newly-acquired auto debt, the participants said they would offset the expense by paying less on their credit card balances, putting off home improvements and taking money out of their savings accounts.

What's more, a recent Cars.com survey also showed that 30 percent of Cash for Clunkers buyers originally had no intention of buying a car (but felt like they couldn't pass up the deal); those that were contemplating a purchase originally wanted a used car but ended up choosing a new vehicle; and that a larger percentage of buyers under the age of 34 participated in the program. To be sure, there are many Cash for Clunkers participants that took on a new car note when they likely should have been put into a used car with a lower payment.

What does all this mean for those of us in the remarketing arena? For one, we may see an abundance of relatively new cars at auction next fall. Second, we may also find the former owners of those vehicles back in the market for cars that, perhaps, they probably should have been in all along – reconditioned, used collateral that fit their incomes. For dealers who want or need to build or change their pre-owned inventory, next fall may provide many choices at auction.

Mitch O'Neil
Vice President of Asset Remarketing, Drive Financial



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HOOK OF LAST RESORT

FINANCE COMPANIES EASE POLICIES TO PREVENT REPOSSESSIONS



With the weakened economy, most auto finance companies are taking active steps to keep car buyers from losing their cars to repossession. This often involves either extending the time lenders allow before beginning repossession proceedings on customers who miss payments or restructuring monthly payment plans to make them more affordable.

But don't expect these tactics to lower the number of autos going into remarketing—at least not yet.

"The rate of repossessed cars coming into our market may decline over time, but we have not seen it yet," says Tom Kontos, chief economist for Carmel, Ind.-based ADESA. "Lenders tell us they are doing what they can to keep buyers in their cars and maybe that might keep the number of cars we're seeing coming from repossessions from being even higher, but we're not seeing a decline in the total numbers yet."

Indeed, ADESA's statistics show the number of repossessed autos continuing to grow. According to its research, there were 1.6 million repossessed autos in 2007 and 1.8 million in 2008. Kontos is predicting between 1.9 million and 2 million repossessed autos this year and next, and then about 1.8 million in 2011.

But while the total number of cars being repossessed may not ebb, the composition of cars being repossessed will change.

"Early on in this recession, particularly around January to March 2008, most of the cars we saw were older subprime autos. These cars were purchased one to two years ago when they were three to five years old. So now, they're five to seven years old," Kontos says. More recently, newer cars — those that are one to two years old — are moving into the mix.

The younger cars also tend to include more high-priced autos, including SUVs and luxury cars whereas the older subprime cars tend to be smaller, less expensive autos, Kontas says.

Other remarketing companies are seeing similar trends. "We've heard a lot of auto lenders say at various conferences that they are doing as much as possible to extend the time they're giving, but we still end up with the same number or more of repossessed autos coming into the market," says Thomas Webb, economist for Atlanta-based Manheim Consulting.

So, what does Webb see as the effect of auto lenders extending the time before they begin repossession procedures? "We're getting back the same number of vehicles, just a few months later," says Webb.

For their part, auto lenders confirm they are making stronger efforts than ever to avoid auto repossessions. A spokesperson for Chase Auto Finance, a unit of New York-based JP Morgan Chase, says that the auto lender "evaluates each customer's

situation individually and encourages qualified customers to seek an extension when facing a temporary hardship, such as a short-term layoff.” Chase also tries to negotiate a settlement whenever possible, Mary Kay Bean, a Chase spokeswoman says. An example of the latter would be if the customer finds a buyer willing to pay more than the vehicle’s wholesale value, but less than what is owed to Chase.

Despite these efforts, Bean acknowledges that auto repossessions are still up from a year ago. While Chase will not reveal the number of cars repossessed in the first quarter of this year, Chase’s auto loan net charge offs climbed 47 percent year over year to 1.66 percent. For the second quarter of this year, the net charge-off rate dropped to 1.36 percent compared to 1.07 percent in the second quarter of 2008. That would indicate a drop in charge offs from the first to second quarter of this year, but still an increase over the year—earlier numbers.

A similar scenario is reported at Seattle-based Boeing Employee Credit Union. “We spend a lot of time working with our members with the goal to keep them in their autos during a time of economic strain,” says Carol Friend, vice president of portfolio management for the credit union. Despite these efforts, the number of repossessions is up over a year ago. “But we expect it would be up even more had it not been for our efforts,” Friend adds.

A few lenders, however, have noticed a decline in the number of repossessions as the result of efforts to help car buyers. One such lender is Anchorage-based Alaska USA Credit Union.

“More lending provisions are used to temporarily or permanently reduce monthly loan payments, which allow borrowers more flexibility to retain their means of transportation,” Daniel McCue, senior vice president of Alaska USA CU, says. Yet, repossessions that are made are sold through private auctions, he adds.

What is happening at these lenders appears to be part of a broader trend to limit repossession as much as possible. Atlanta-based Benchmark Consulting works with auto finance sources on programs to keep repossession as a last resort.

“Auto finance sources have an average net loss of about \$6,400 on a repossession, so it is in the companies’ best interest to keep customers in their cars,” says Rich Apicella, practice manager of Benchmark Consulting.

Benchmark teaches collection agents from auto finance

companies to understand the reason for delinquencies and then to come up with plans to avoid repossession. “The first thing is to identify why the customer is delinquent—is it a job loss, health problem, divorce or decline in income? Once the collector knows what the problem is, he or she can help the customer develop a payment plan. Sometimes, this requires an extension in the payment plan, other times they delay the next few payments and other times they help negotiate a short-sale of the car,” says Apicella.

Additionally, Benchmark recommends software that helps auto finance companies identify customers early on who might be in trouble in meeting payments. This way, they can approach customers with potential payment programs before they actually get into trouble. One such program would notice that a customer who always paid on the same date was progressively paying a little later every month. By approaching this customer early on, the auto finance company will be in a better position to help the car buyer find a solution than if they wait until the individual has few payment options.

And many lenders seem to be taking the approach advocated by Benchmark. “In this economic downturn, more lending exceptions are considered,” says Alaska USA CU’s McCue.

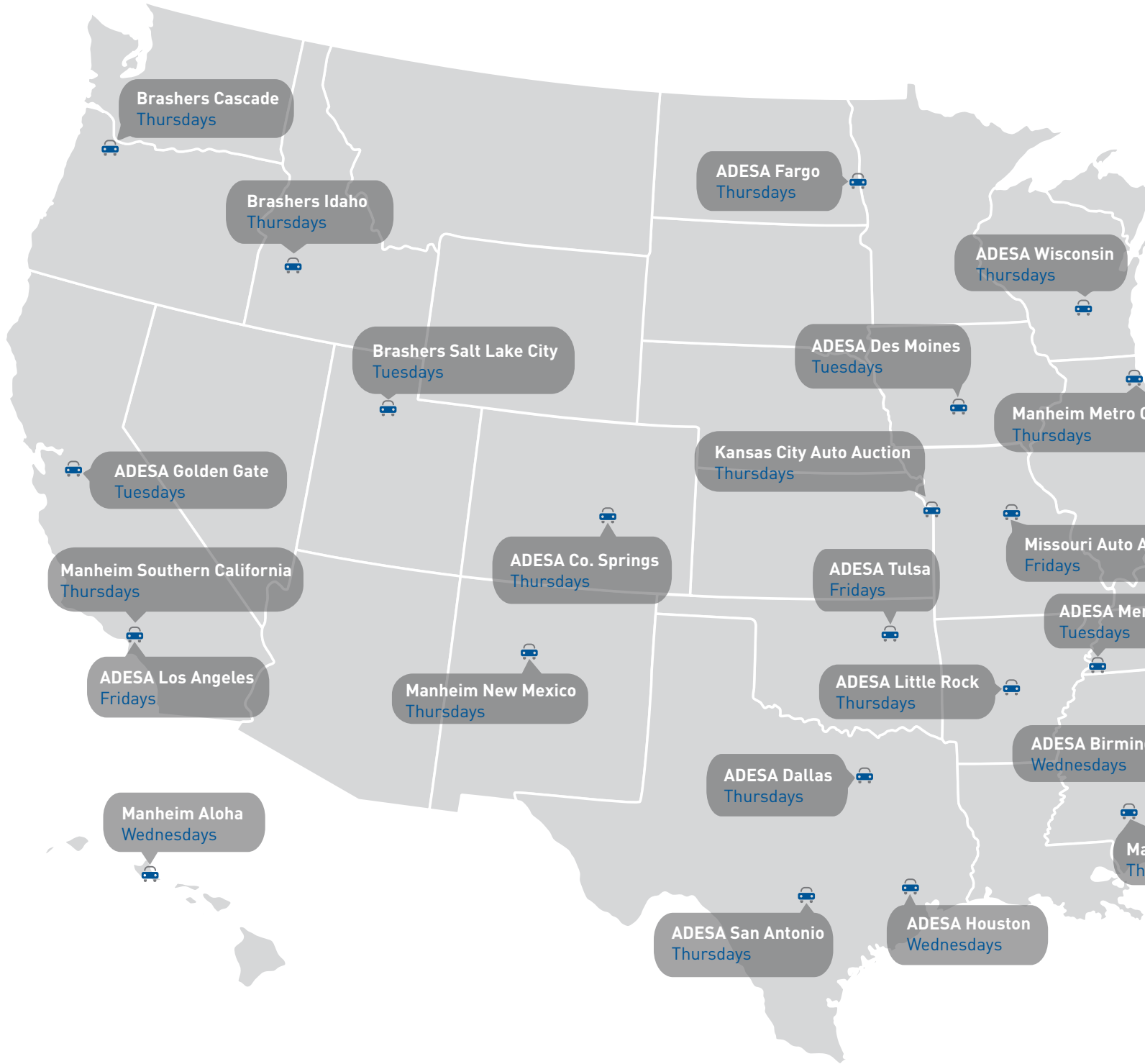
— LAURIE GIESEN

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— Rich Apicella,
Practice Manager,
Benchmark Consulting

ACTIVE AUCTIONS

DRIVE SALE DAY AND LOCATION





SPECIAL EVENTS

Fall 2009

ABC ORLANDO

» Amex cards for every 5th car sold

KANSAS CITY AUTO AUCTION

» November 19: Border war Sale. University of Missouri vs. Kansas football game give-a-way

MANHEIM SOUTHERN CALIFORNIA

» November 19: SCAA-Manheim Southern Cal will conclude a Quad Runner give away.

MISSOURI AUTO AUCTION

» December 31: New Years Eve "bash"

WORK RELEASE

JOB ASSURANCE PROGRAMS CREATE GREATER SALES, FEW RETURNS

Job assurance programs, which let customers “walk away” from cars they still owe on if they lose their jobs, are generating greater sales for car dealers, adding to the used-car pool.

Consider Hyundai Motor USA, which is one of the biggest players to offer such a program. It reports significant gains in car sales as the result of its Hyundai AssurancePlus program. Specifically, after five months of offering the program at nearly 800 dealerships nationally, the number of cars returned through this program amounted to less than 15, Hyundai reports. Meanwhile, the company attributes a 10 percent sales gain to the program.

“This was more of a marketing program than an insurance program,” says Chris Hosford, a spokesperson for Fountain Valley, Calif.-based Hyundai, explaining that Hyundai never expected to see a lot of cars returned, but rather hoped to give car buyers a feeling of security so they would be more comfortable in making a purchase.

“Our research before this program showed that job security was a major factor in most car buyers’ decisions. Even with today’s high unemployment rates, 90 percent of people who want a job have one. But even those people with jobs are often worried about the future of their jobs, and it is an understandable fear,” Hosford says.

Under the job assurance program, consumers can return any new Hyundai, leased or financed in 2009, if they unexpectedly lose their income within one year of the purchase date.

Although there are numerous factors that go into car-buying decisions, company research estimates that 10 percent of

Hyundai sales since February, when Hyundai announced the offering, came from people who would not have purchased a car without the assurance program, Hosford says.

While Hyundai is the only major auto company in the United States allowing car buyers to return their purchases as part of a job assurance offering, Walkaway USA, a division of EFG Companies, and Hyundai’s partner in its assurance program, also offers a similar program through 100 independent car dealerships in the United States and has just recently begun marketing its offering to auto finance companies, according to Jeff Beaver, senior vice president of marketing for Walkaway USA.

The number of cars actually returned so far is small, says Beaver, who wouldn’t provide an exact number. And although Walkaway has only been offering the program in the United States for about one year, it is modeled after a similar offering in Canada that has been around for a decade. During those 10 years, car dealers have allowed consumers to walk away from \$36 million in auto debt, Beaver says. He declines to say how many cars that involved.

In both the U.S. and Canada, the returned cars go back to the dealership where they were purchased. In most cases, the dealers choose to resell the cars directly, Beaver says. Experts in the remarketing industry confirm they have not seen many cars coming from the job assurance programs.

“I have not noticed any volume from these programs, nor have I heard of anyone else who has,” says Tom Kontos, chief economist for Carmel, Ind.-based ADESA. “It seems to be a nice marketing tool in that it gives auto buyers peace of mind knowing that they can return a car. But few actually appear to do so.”

Kontos notes that Hyundai, as the only major auto company offering the feature nationwide, has only a 4 percent market share in the U.S. Even if a larger number of Hyundais were returned, it would not be as significant as when a larger auto company made the offering, he adds.

— LAURIE GIESEN



Hyundai’s Assurance program, and new models like the Genesis Coupe, have greatly buoyed the manufacturer’s strength in the U.S.

THAT'S NO BUBBLE!

TOM KONTOS ON RECENT GAINS



TRENDS

Though modestly down from June, average wholesale used-vehicle prices in July stayed above \$10,000 for the second month in a row and were up on a year-over-year basis for the third month in a row. While the Cash for Clunkers government program grabbed headlines and supported previously dormant new-vehicle traffic and sales, retail used-vehicle sales were up on a year-over-year basis for the fourth month in a row. And, lest folks think that C4C is leading to a “bubble” in used-car prices, they should remember that firming used-vehicle prices resulting from low trade-in supply and strong used-car demand are conditions that have been in place for the entire year.

According to ADESA Analytical Services’ periodic review of macro- and micro-economic issues related to the used-vehicle market, supply-and-demand conditions indicate that used-vehicle prices will continue to increase on a year-over-year basis through the rest of 2009 and into 2010, though they will resume their normal seasonal patterns.

According to ADESA Analytical Services’ monthly analysis, wholesale used-vehicle prices in July averaged \$10,017 — a 1.2 percent decrease from June, but a 7.3 percent increase from July 2008. Truck prices were relatively stable overall, though they showed strong increases from last year’s depressed levels due to high gasoline prices. Compared to June, sport-utility-vehicle prices were in line with the market, though pickup-truck prices were modestly higher. Car prices fell both sequentially and on a year-over-year basis for almost all segments.

All major seller types showed month/month and year/year price gains, with average prices for vehicles sold in manufacturer sales up 6.5 percent year-over-year, fleet/lease sales prices up 5.5 percent and dealer-consignment sales prices up 9.9 percent.

ADESA Analytical Services estimates that the auction industry’s inventory levels stood at approximately 33 days at the end of July compared to 34 days last July. Conversion rates (that is, units sold as a percentage of units offered) remain at levels well above the 60 percent norm, as dealers eagerly grab up available vehicles.

Based on data from CNW Marketing/Research, retail used-vehicle sales in July were up on a year-over-year basis by 2.8 percent for franchised dealers, 4.0 percent for independent dealers and 3.3 percent overall. Certified used-vehicle sales in July were down 3.5 percent versus June and down 11.5 percent from last July, based on Autodata figures, as perhaps Cash for Clunkers caused some cannibalization of certified sales by new vehicle sales.

“...remember that firming used-vehicle prices resulting from low trade-in supply and strong used-car demand are conditions that have been in place for the entire year.”

WHOLESALE USED VEHICLE PRICE TRENDS

	AVERAGE PRICES (\$/UNIT)			LAST MONTH Vs.			AVERAGE PRICES (\$/UNIT)			LAST MONTH Vs.	
	July 09	June 09	July 08	Prior Mo.	Prior Yr.		July 09	June 09	July 08	Prior Mo.	Prior Yr.
Total All Vehicles	\$10,017	\$10,140	\$9,334	-1.2%	7.3%	Total Trucks	\$11,305	\$11,287	\$9,237	0.2%	22.4%
Total Cars	\$8,876	\$9,116	\$9,396	-2.6%	-5.5%	Mini Van	\$7,514	\$7,633	\$7,054	-1.6%	6.5%
Compact Car	\$6,393	\$6,514	\$7,504	-1.9%	-14.8%	Fullsize Van	\$7,561	\$7,527	\$6,469	0.4%	16.9%
Midsize Car	\$7,186	\$7,299	\$7,741	-1.6%	-7.2%	Mini SUV	\$10,325	\$10,387	\$9,507	-0.6%	8.6%
Fullsize Car	\$6,521	\$7,345	\$6,971	-11.2%	-6.4%	Midsize SUV	\$10,624	\$10,610	\$8,524	0.1%	24.6%
Luxury Car	\$14,380	\$14,735	\$13,707	-2.4%	4.9%	Fullsize SUV	\$13,542	\$13,741	\$9,781	-1.4%	38.5%
Sporty Car	\$11,856	\$12,174	\$12,493	-2.6%	-5.1%	Luxury SUV	\$21,025	\$21,461	\$17,876	-2.0%	17.6%
						Compact Pickup	\$7,259	\$7,183	\$6,911	1.1%	5.0%
						Fullsize Pickup	\$12,082	\$11,949	\$8,851	1.1%	36.5%

Source: ADESA Analytical Services

HERE AND THERE

TRANSPORTATION VENDORS ENHANCE TECHNOLOGY, CREATING GREATER BUSINESS TRANSPARENCY

Given the copious amount of cars coming and going on auto lots, a dealer could easily develop a "Where's Waldo" headache from keeping tabs on exactly which car is where.

To eliminate this burden, dealers enlist the help of transportation companies to handle the logistics' details — and they are all the more important as remarketing heats up. Woodstock, Ga.-based dealership Hennessy Honda, for one, uses McNutt Auto Transport Service, Inc.

"They make it really simple," says Jody Jarrett, pre-owned director at Hennessy, "We pretty much leave it all in their hands. It is just one less thing to worry about."

Once Jarrett receives a confirmation e-mail for purchasing a Honda, for example, he forwards the e-mail to McNutt and "forgets all about it."

Although Jarrett feels safe leaving the details to McNutt, some used and new car dealerships want to interact more proactively with their transportation companies. To satisfy this desire, McNutt is refining the way its customers can track vehicles by rolling out an interface that allows dealers and carriers to track transportation business online.

"[Our] trucker base can see all of our freight instantaneously, 24/7, and can dispatch themselves," Tom McNutt, owner, says, explaining this should save time.

"We understand the only reason a purchaser buys a car is to sell it. We understand he can't sell the car until he gets it there. Once he sells it and turns it, this forces him to buy again. If we get that purchase to him quickly, it creates another job for us."

To further simplify a dealer's life, the national transportation provider is connected to GMAC's SmartAuction, which allows dealers to access McNutt's data through a portal.

McNutt isn't the only transportation provider SmartAuction integrates with

— it also boasts alliances with Ready Auto Transport and AutoTransMart, a relationship that just developed at the end of July 2009. On its launch day, AutoTransSmart received 500 hits to its Web Site, says Steve Kapusta, director of GMAC Remarketing, labeling this a "resounding success."

The "intriguing" part of AutoTransSmart is its quote model, says Kapusta, explaining the AutoTransMart will provide dealers with an immediate quote, and might offer dealers an even lower rate by holding a reverse auction where carriers bid to win a customer's freight.

"[A buyer] won't pay more, but has a good opportunity to pay less," Kapusta says.

GMAC began forming transportation alliances with third-parties several years ago as more and more dealers looked to buy virtual inventory, making immediate quotes essential, says Kapusta. He expects to keep the number of transporters linked up to the site limited to three.

AutoTransSmart and McNutt are two of several transportation companies striving to create greater business visibility by way of technology initiatives.

Insight Network Transportation, a Union Pacific Company, is also focusing on online efforts by launching an e-store to let its clients ship and track vehicles online. This effort, set to hit this month, benefits all of its clients, from dealer to auto auction by creating greater transparency into tracking activity, says Jeff Grandstaff, general manager.

Meanwhile, Ready Auto Transport (RAT) will be announcing a new relationship with an auction by September, says Mark Jensen, chief executive officer.

Ready Auto already has integrated with several online auction web sites, including SmartAuction, Adesa's DealerBlock, and Manheim's OVE. Ready Auto provides real-time transportation quotes at these online auctions, with a goal to provide seamless order transportation services to dealers.

"Our plan was to enter agreements with auctions but not in the traditional sense," Mark Jensen, chief executive officer, says. "We married our technology to Internet technology."

The benefit for dealers from RAT, which boasts several online auction relationships, is centralization, Jensen says, explaining dealers can log onto RAT's Web Site, and manage all transactions within a single hub.

To further help dealers, Jensen says RAT proactively alerts them to their cars' whereabouts by calls, e-mails and online. Alerting the dealer to where and what source transported the car is one of the newer features clients see when logging into their accounts.

"You think they wouldn't really care [about transportation] because it's a messy part of business," he says. "The truth is they spend a tremendous amount of time managing transportation."

— MARY WISNIEWSKI



OPENLANE, AuctionACCESS ENHANCE REMARKETING OPTIONS

Why wait for a rental car to be retired before remarketing it?

Dollar Thrifty Automotive Group has teamed with OPENLANE to remarket its rental cars while the vehicles are still part of the fleet, according to a press release.

Car dealers will be able to purchase any vehicle in Dollar Thrifty's fleet, at any time. Dollar Thrifty had been using OPENLANE to remarket its vehicles after they had been retired.

Meanwhile, the best technology offers greater access to what consumers want and, recently, the dealer registration system AuctionACCESS hit that mark. Developed by AutoTec LLC, AuctionACCESS members can view and upload digital versions of required documents and licenses on their myAccess profile pages. Forms include driver's licenses, dealer licenses, and passports.

"This is just one of many system enhancements and productivity tools that we have slated for 2009 that gives members more control of their AuctionACCESS," said AutoTec President and CEO Charles Redden in a statement.

How much time could this enhancement save? We're not sure, but even a few seconds shaved off a process benefits a business.

PRICES FALTER AT CLASSIC CAR AUCTION

While demand for used vehicles has pushed up auction prices, the collector car market has lost traction.

At a Bonhams & Butterfields auction in Carmel, Calif., car collectors ponied up \$14 million for vehicles including a 1933 black convertible Duesenberg (which sold for \$1.4 million) and a 1961 Mercedes-Benz 300SL Roadster (which went for \$804,500). These two, however, owed their selling prices in part to celebrity ownership (William "Hopalong Cassidy" Boyd and late L.A. Times publisher Otis Chandler, respectively). Cars with celebrity provenance can sometimes trump market trends.

The \$14 million result fell short of the \$21 million netted at last year's event — and was a far cry from the \$35 million organizers had anticipated. Among the unsold inventory: a 1939 Auto Union racer that was estimated to fetch as much as \$10 million, and a 1937 Bugatti Type 57 — a very desirable Supercharged Atalante coupe — estimated to go for as much as \$6 million.

Overall, the collector car market is seeing only its second major decline in 20 years. Though the dropoff in prices has been pronounced, it has not been as severe as the retrenchment of 1990-1991, when prices nosedived after a frenzied speculative boom in the late 1980s — particularly among Ferraris. As liquidity dried up and some investors, particularly Japanese investors, pulled back, prices plunged. Ferrari Daytonas, the darling of the '80s boom, spiraled down from million-dollar

highs to \$200,000 lows. Collector car prices remained at pre-1987 levels until the mid-'90s, spurred by the increasing popularity of American Muscle cars.

Beloved by baby boomers, Muscle cars quickly appreciated during the dot-com years, with rarer cars such as Hemi 'Cuda convertibles soaring into the million-dollar stratosphere. In the last few years, good times helped fuel the market, along with the increasingly high profile of the Barrett-Jackson auctions, which televised collector car auctions on ESPN and the Speed Channel, and focused mainly on Muscle cars and the highest profile exotics.

As early as 2005, some experts were predicting that the speculation fueled by Barrett-Jackson and other high-profile auctions could be detrimental to the market, as the high prices and obvious speculation began to resemble the late 1980s. At Barrett-Jackson's Scottsdale show in 2007, a 1962 VW Bus fetched over \$50,000 — almost twice the regular market price. The financial crisis of 2008, and the subsequent contraction in credit and spending, slammed the door shut on speculative spending, at a time when many collectors were becoming wary of the somewhat overheated auction market.

It remains to be seen what the next wave of collectors cars will be. The Muscle cars, which find high values in low production, high-performance options, were unlike the blue-chip classics and exotics that preceded them. But the cars that succeeded the muscle cars are even more of an enigma, since many cars, even some exotics, built between 1973 and 1990 lack serious performance.

Older Japanese cars and pickups have been gaining appeal for the last decade, but few are likely to fetch anywhere near the prices commanded by even middle-of-the-road Muscle cars.

The ever-risky collector market seems to mirror the general economy. When irrational exuberance occurs in the regular economy, the same will occur in collector cars. Like the overall economy, the market will rebound — it's just not clear when.





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