



Six Steps to Enhance Your Financial Return on Repossessions

Putting your best foot forward when competition is stiff





From 2009 through 2014, the low availability of pre-owned vehicles boosted wholesale used car prices to all-time highs. Higher mileage and rougher-condition vehicles that remarketers struggled to sell at fair prices were suddenly in high demand. Buyers who previously walked away from units that required a large amount of reconditioning or repair were seeing the really clean used vehicles going for astronomical prices. These situations prompted a need for wholesale buyers to compromise and invest in inventory that required considerable repair and reconditioning. It was definitely a sellers' market.

In 2015, we are beginning to see wholesale prices follow a more traditional seasonal trend. Increasing supplies of nearly-new lease returns and rental vehicles are entering the marketplace, resulting in downward pressure on all wholesale used vehicle segments. Moving into 2016, there will be major increases in the quantity of these nearly-new vehicles coming to market. This will prompt even more downward-price pressure.

When used vehicle prices are declining some sellers see this as a sign to not invest in repairs or reconditioning; their rationale being “why throw good money after bad?” Professional remarketers know that the opposite is true. When competition is stiff, you want to put your best foot forward. Putting more time and investment in preparing vehicles for sale will yield a better net return.

By way of illustration, imagine you have a 6-year-old, 100,000 mile car you want to sell. It has a broken headlight, the windshield is badly chipped, a tail light is not working, and the front bumper cover is gouged. You give it a good wash, vacuum the interior, put a “For Sale” sign in the windshield, and park it at the end of your driveway. In the morning, you awake to find that three neighbors, who have very similar vehicles, have theirs up for sale. In contrast to your car, they have washed, waxed, dressed the tires, and completed minor repairs. Two potential buyers drive into the neighborhood with cash in their pockets. They are ready to buy on the spot. Which vehicles are going to get the most attention and best offers? Selling vehicles in the wholesale market is not much different.

One key difference with dealers is that they are buying to re-sell. Quickly turning their investment for a profit is a key to their business model. Cleaning and repairing purchases requires time and ties up capital. A vehicle you can sell quickly is worth more than one that will



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take more time to prepare. When there is a large supply of available inventory from which to choose, dealers will gravitate to the easiest units to retail. Offers on rougher units will be inordinately low because the selection of nicer vehicles is so high.

So, what are some of the basic steps you can take to enhance the net financial return obtained on repossessions sold at auction?

1) An obvious step is to consider the wholesale value of the vehicle you have to sell. A unit that is worth \$2,000 in average condition is not worthy of any real investment. A unit with an average wholesale value of \$15,000 is worth a reasonable investment.

2) Vehicles that run and drive will always bring more money relative to guidebook values, than units that don't. The price difference a dealer will pay between a vehicle that runs and drives, as compared to one that doesn't, is always far more than the actual repair cost necessary to bring a poor vehicle into good mechanical condition. Buyers always presume that there is much more wrong with a vehicle than what may be announced at auction. Units that don't run or drive will typically receive salvage value bids. If the average value on a vehicle is \$15,000 and it needs a \$2,000 transmission to get it running, it's probably a good investment.

3) Invest in a full detail if the unit runs and drives. The marginal difference between a full detail and a "wash and vacuum" is typically in the range of \$50. The small difference will yield dividends that are well above the small additional investment.

4) Avoid paint and body repairs. This rule applies to vehicles that are 4+ years old and have 70,000 miles or more. Most dealers are price point shoppers. They have lots of experience at completing the level of cosmetic repairs that best meet their customer expectations. It's best to let the buyer make those repair decisions.

5) Focus reconditioning investments on safety items. Dealers are resistant to having to deal with headlights, tail lights, windshields, mirrors, and tires. Auctions can usually replace these items pretty quickly and inexpensively. Dealers are far more interested in vehicles that don't need attention to these types of items.





6) Clear warning lights. It's best to always have an auction diagnose the reason for a warning light that is illuminated. Potential buyers always see lots of dollar signs when they see a warning light that is on. Often the source of the problem is fairly inexpensive to fix. It's best to eliminate as many question marks in the minds of potential buyers as you can.

While following these six steps will help all sellers yield better financial results, professional remarketers know that each vehicle is a unique circumstance. Close review of auction condition reports and inspections provide a customized path for the knowledgeable seller to obtain the best net return on automotive assets. But adhering to the steps outlined are fundamental to wholesaling.

About Auto Financial Group

Auto Financial Group (AFG), a Houston-based company, provides an online, residual based, walk-away vehicle financing product called AFG Balloon Lending, as well as vehicle leasing and vehicle remarketing to financial institutions across the United States. AFG's residual based financing solutions provide the advantages of lower payments, flexible terms, in the case of the balloon loan, actual ownership of the vehicle and several end-of-term options, including the option to surrender the vehicle and walk away in lieu of paying the final loan payment. The financial institution receives higher loan yields, a competitive residual based financing alternative, and AFG manages the entire end-of-term process. The AFG Remarketing program is a proven solution for financial institutions that offers the greatest financial return to their clients by matching assets to the selling network with the greatest number of buyers. While competitors use a centralized approach to liquidate assets, AFG uses selling networks ranging from traditional auto auctions to direct wholesale to internet selling platforms. For more information about AFG call toll free at 877-354-4234, or visit www.autofinancialgroup.com.



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