

# The 10 Fundamentals of BHPH

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Special Finance is continuing to evolve at a rapid pace. The demand for financing is growing as consumer credit shifts lower on the spectrum and several national non-prime lenders scramble for cash during the credit crisis. This combination of events has created a very challenging dilemma for many car dealers – How to finance customers in the “no man’s land” of credit?

This tier I am calling the “no man’s land” is for customers with credit scores below a 550, and there is no shortage. However, the supply of cash is tight everywhere so dealers have to look for viable alternatives or, continue watching lost deals walk out the door. Many dealers use companies like Drive Financial, Credit Acceptance Corporation, Westlake Financial, and Western Funding for this tier. Several others are moving to take matters into their own hands and start their own financing arm, Buy Here Pay Here. This can be a highly profitable venture if done correctly and the timing could not be more perfect than it is now. But, if done incorrectly, BHPH can be the most expensive business lesson you could ever receive.

If you are contemplating the notion of taking on the financing of “high risk” customers yourself, I highly recommend you get all the training and advice you can before ever putting one dime out on the street. And with a lot of hard work and persistence, your success will be grounded in these *Ten Fundamentals of BHPH*:

1. **Commitment** – The number one difference between Special Finance and BHPH is whose money you are using. And when it’s your own money, the first fundamental is practically a commandment. You must be fully committed to the business with your heart, soul, mind and resources and keep your focus on the long-term benefits instead of the short-term profits.
2. **Capitalization** – BHPH is a long-term business venture that requires capital investment. You need enough cash to consistently fund your financing for the first two years of operations. Otherwise, you have to start small and grow your portfolio one deal at a time. You’ll still get there. It will just take you longer. The point is you have got to think about how to fund your portfolio whether it’s one deal per month or 100.
3. **Collections** – Selling cars BHPH is the easy part. Collecting the payments after the sale is a whole different story. This part of the business is not rocket science. It is however a little four letter word called “work” that is the fundamental element of your entire BHPH business. Your ability to collect on the loans will make or break your success and is the one fundamental around which the entire program is built.
4. **Compliance** – As a BHPH dealer you are a lender, a collector and a keeper of hoards of personal privacy information regarding your customer base. The compliance requirements you are used to as a dealer only compound with these responsibilities and there is little room for error.
5. **Investigative Selling** – Before you loan money to someone you really need to know a few things about them first. Investigative selling is an important step to setting up each individual deal for

success. During the interview process you can learn volumes about the spending and living habits of your prospective customer that will come in helpful when and if you have to go find your collateral. Their answers to routine questions will give you a valuable insight in helping to determine whether or not the deal makes sense for your business.

6. **Inventory** – The vehicles you sell must be desirable and affordable for your customer. They must also be able to last the term of the contracts. And although your inventory values may not be tied directly to a valuation guide, one of the worst things you can do is stretch your ACVs too far above the market value. Your portfolio will quickly become unrealistically inflated.
7. **Metrics** – Every day you must be able to accurately review the books of the business and hold the team accountable for performance. BHPH is a daily business so you have to manage it by the day so you need accurate metrics to help you make the most informed decisions possible.
8. **Deal Structure** – The structure of the deal determines the elements of risk. It determines how much cash you are willing to put on the street. It also determines your margin of profit, above an allocated “discount” that covers your standard losses. Without enough margin built into each deal of your portfolio, your losses will consume any profits.
9. **Consistency** – BHPH requires patience, persistence and consistency. It is about doing right processes and procedures over and over for the long run and keeping your eye on the long-term goal.
10. **Underwriting** – Your underwriting guidelines are your roadmap to building a successful portfolio. You would be doing yourself a favor if you follow the lead of some crafty veterans like Credit Acceptance and Drive Financial and verify every aspect and stipulation of each and every deal before you fund it. These guidelines are in place to help you manage the risk of your portfolio and there is absolutely no room for shortcuts.

BHPH can be a very viable and profitable alternative for financing customers in the “no man’s land” of credit. It affords you the opportunity to take your business in your own hands and decrease your dependency on outside financing sources and at the same time, build a portfolio of wealth. If you master each of the 10 Fundamentals of BHPH you will be well on your way to enjoying the benefits of one of the best business decisions that can be made in the automotive industry, especially today.