

***WITH "THE BIG THREE" EXITING AUTO LEASING,
DEALERSHIPS AND LOCAL LENDERS MOVE TO FILL THE GAP***

By Mike Sheridan

Once upon a time just about anybody could walk into a new car dealership and, with little or no money down and minimal hassle, drive away with a luxury car or SUV that they otherwise couldn't afford – courtesy of a thriving economy and always-willing auto lenders like GMAC and the national banks.

Lease deals, it seemed, were good for everyone. Consumers got more automobile for their dollar, low monthly payments and a new car every two to four years. Lenders streamlined qualifying criteria and underwriting to fill their pipelines with loans and earned a satisfying return when they packaged and sold them to investors. And dealerships essentially got two deals in one – the lease transaction and the subsequent trade-in sale when the lease expired.

Then came the subprime mortgage crisis and resulting credit crunch, which caused many lenders to tighten down on their previously free-wheeling ways. Add skyrocketing gas prices and a sudden disdain among consumers for gas-guzzling SUVs and expensive sedans and, very suddenly, auto leasing became a business with few rewards and big-time liabilities.

There's little doubt the recent news that the "Big Three" and several of the major institutional lenders are eliminating no-longer-profitable auto lease programs will dampen an already stunted new car market and drive many more buyers seeking a manageable car payment into the arms of anxious used car dealerships. The news also is likely to drive more sales and lease opportunities into the arms of thousands of credit unions, local banks and boutique financial institutions who are quickly moving to pick up the slack.

How large is the opportunity for used car dealerships and local lenders? Recently, leases accounted for 55 percent of total sales at Daimler AG's Mercedes-Benz, 43 percent at Toyota Motor Corp.'s Lexus and 42 percent at General Motors Corp.'s Cadillac, according to JD Power. What's more, eliminating leases may accelerate the inventory

shift on many new car lots toward smaller, lower-priced cars that fit the pocketbooks of price- and payment-oriented car buyers.

The net result? Expect many new car dealers to shift their inventory toward smaller, lower-priced cars and drive marginal qualifiers to their own used lots. But can manufacturers shift production away from larger vehicles and trucks fast enough to meet this fast-growing demand for more fuel-efficient models, and what does a dealer do with all those gas-guzzling lease returns? It's a question on the tip of many tongues.

Across the street at the used car dealership, savvy dealers are gearing up to take advantage of these trends by quickly adapting their businesses to serve this population. To do so, however, requires the ability to manage the attendant operational, financial and other risks that accompany a changing marketplace. Dealerships that can adapt to these new demands by investing in their image, expanding their inventory and providing consumers with viable in-house financing options or a broader network of local lenders will be most likely to survive and thrive in this challenging new era.

And right next door in towns and cities across America (and on the Internet) are thousands of self-funded small- to mid-sized local credit unions and privately held banks and other financial institutions. As larger financial institutions move away from leases and consumers move away from leasing new cars to buying cheaper, smaller used cars with payments they can afford, these local lenders also can grab market share if they can refine their approach and establish good working relationships with used car dealerships.

Without "the big boys" involved, dealerships and smaller lenders face a common challenge: How to capitalize this expansion.

Like the major lenders – buy here, pay here dealerships and local and regional lenders will generate additional operating capital to enable them to take advantage of this emerging opportunity by selling their seasoned loans to investors. Many will do so using innovative new online technologies and tools to price, list, accept bids, sell and close anywhere from one to hundreds or thousands of loans at a time. These systems already can handle most retail installment loan contracts and eventually will be capable of handling lease-to-own transactions as well.

As new car dealerships and national lenders learned long ago, more cash from sales of loans means more capital to fund new loans or other aspects of operations and greater flexibility to offer a wider variety of vehicles on the lot. Those used car dealerships and

local lenders who can effectively use these proven techniques to translate opportunity into profitability will be the winners in this new era.

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