Pre-Owned Vehicle Leasing

The Greatest Area of Unrealized Potential in the Automotive Industry Today.

CCA

CyberCalc Arbitrage

Pre-Owned Vehicle Leasing

Why?

Why does it make sense?

Because the worst part of the vehicle's depreciation has been taken by someone else.

Why would a consumer be interested in a Pre-Owned vehicle lease?

- A shorter trading cycle
- Lower monthly payments
- More vehicle for less money
- Free up capital
- Possible tax advantages

What are the advantages for a Lender/Lessor?

- Acquisition fees
- Money factor revenue
- Depreciation tax credits
- Increased market penetration

Why aren't Dealers already doing Pre-Owned leasing in large numbers?

There are approximately 6,000 Make/Models out there for each year of current Pre-Owned vehicles – going back three years. And many of those don't lease well. **CyberCalc Arbitrage**™ systematically monitors the current wholesale market and compares those values with Guaranteed Future Values (residuals) to identify amazing opportunities. It alerts savvy and sophisticated Dealers and Lease Operators of the chance to offer their customers a high-value, short term lease that the competition isn't even aware of.

"Pre-Owned Leasing has never really caught on because it's largely misunderstood. Dealers have never grasped its benefit and consumers are unaware of the opportunities it presents."

– Mike Hernandez, President D&M Leasing

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CyberCalc Arbitrage™

In economics and finance, arbitrage is the practice of taking advantage of a price differential between two or more markets; a combination of matching deals are struck, that capitalize upon the imbalance. The profit is the difference between the market prices. Statistical arbitrage in Pre-Owned Vehicle Leasing takes advantage of an imbalance in current wholesale prices versus expected values.

Huge opportunities exist in the Pre-Owned market because lease payments are dependent upon the relationship between acquisition cost and residual value. Vehicles that require the least amount of depreciation to be calculated into the lease make for a "too good to be true" lease payment. It is important to note that not all Pre-Owned Vehicles lease well at any given time, but of the ones that do, many are "knock outs." The tedious nature and time required to find theses opportunities, without automation, is mind boggling and simply not practical to most Dealers.

Now there is CyberCalc Arbitrage™. We scan and compare current wholesale market values with residuals or Guaranteed Future Values of the lease lenders engaged in Pre-Owned Leasing, to identify the highest value opportunities. It alerts you to low payment and high advance scenarios that are essential in attracting customers, shortening trade cycles, alleviating negative equity, and generating higher gross profit.

The saying goes, "Knowledge is Power." Imagine what you could do to your competition if you knew in 2008 you could lease a 2007 Toyota 4Runner 4WD SR5 for $238/mo., a 2005 Cadillac Escalade AWD for $310/mo., or a Mercedes Benz CLK500 Coupe for $337/mo. These are short term leases, not long term finance contracts that mortgage a Dealer's future! And these are just some examples of past opportunities and why Arbitrage is such a compelling and revolutionary new program - not only will you know where your opportunities are, you will have access to sources of inventory that can turn potential into reality!

Hurry! Subscriptions will be limited!

"The average late-model, $15,000 Pre-Owned vehicle generates 21% more gross profit than a $28,000 new car or truck."

– Dallas Morning News

The Ruggles Report™

Brought to you by CyberCalc Arbitrage™

How to play the Pre-Owned Leasing Game!

As a Dealer, there are things you need to know to get into the game.

FIRST: Get to know the game! There are six, 60-day ALG book periods in the year. You have two months to lease or sell any Pre-Owned inventory before the residuals change. Savvy dealers will identify opportunity vehicles and find them in their current inventory or aquire them at wholesale, based on how the vehicles will lease.

SECOND: Sign up with lease lenders eager to do Pre-Owned leases!

There are quality lease lenders actively buying Pre-Owned leases, and in most cases, they are dramatically beating the manufacturer's retail CPO programs.

THIRD: Acquire inventory positioned to lease well in the next 2 month ALG book period!

Identify the compelling Pre-Owned lease opportunities that exist in each book period. This is by no means an easy task – unless you have an automated system like **CyberCalc Arbitrage**™. We study the market for factors that effect current wholesale prices; including supply, demand, market perceptions, weather, economic conditions and new vehicle incentives. All of these play a part in determining which vehicles provide the best opportunities. We then compare those wholesale prices with the Guaranteed Future Values, as published by the various Lease Lenders, to determine which Pre-Owned vehicles have the least amount of depreciation to calculate into the lease.

FOURTH: Focus your marketing and train your sales staff:

The Dealer that is in the game has his marketing in place when his inventory of "opportunity vehicles" arrives. He invests the time to educate his sales staff on the tremendous opportunity these Pre-Owned leases provide the Dealer, Salesperson and the Consumer! The Dealership is energized and everyone involved knows they have a "secret weapon" to win in today's untra-competitive market.

Pre-Owned VEHICLE LEASING

Advantages to the Dealer

- Harder to shop
- Demonstrable savings for customer
- Profits not easily recognized by consumer
- Three times higher owner loyalty
- Trump the competition
- Compensate for stagnant new vehicle business
- Much higher advances

Advantages to the Consumer

- Lower payments
- More car more often
- Depreciation hit taken by someone else
- Eliminate Debt
- Fewer maintenance headaches
- No trade-in hassles
- Lower up-front cash outlay

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"It's not for everyone. Do YOU get it?"

Used-vehicle leasing boosts showroom traffic

Dealers: Strategy can cut customers' monthly payments and inspire loyalty

Excepts from Automotive News

As many as one of every five used cars and trucks that dealer John Klein has sold in recent years has been a lease deal. That's unusual on several counts.

Leasing tends to flourish at luxury dealerships in metropolitian areas along the East and West coasts. Klein's Chevrolet-Buick-Pontiac and Chrysler-Dodge-Jeep dealerships are in rural Clintonville, Wisconsin, with a population of 4,500.

Even more striking is Klein's reliance on leasing used vehicles. Few dealers, even in large urban markets, have placed a similar emphasis on that segment. Leases represent less than 1 percent of used-vehicle sales at franchised dealerships, according to the AutoCount market research firm.

Klein says his leasing operation is responsible for "a big portion" of the 20 percent increase in his new-vehicle sales so far this year over 2007. He says he uses leasing to inspire customer loyalty.

In a tough economy, new-vehicle dealers could attract customers with used-vehicle leasing, industry analysts say. Budget-challenged shoppers are more likely to trade down to a used car or truck. And leasing helps dealers offer customers a lower monthly payment for a shorter term than a finance contract for the same vehicle.

"Dealers can use used-vehicle leasing to create floor traffic," says Tom Wirth, president of indirect lending for U.S. Bank, one of the nation's largest vehicle leasing companies. "We encourage that."

Repeat customers

Klein says he sells about 35 used vehicles and 15 new vehicles a month. He estimates 75 percent of his lease customers return to his dealerships to lease or buy another vehicle. Customers like leasing used as well as new vehicles, he says, because it enables them to drive a pricier vehicle or get into another vehicle sooner.

David Ruggles, a partner in CyberCalc Arbitrage, a vendor of leasing software, offers this example: A used 2007 Toyota 4Runner SR5 wagon, with four-wheel drive and a V-6 engine, would sell at retail for about $22,000.

A buyer who financed the vehicle without a down payment would pay $427 a month, at the prevailing 6.15 percent retail interest rate and a 60-month term, Ruggles says. By contrast, a standard 39-month lease of the same vehicle, also with no down payment, would cost the buyer $232 a month.

The 2008 model of the same vehicle, sold as new, would cost the customer $543 to $558 a month, Ruggles adds, based on available rebates and promotional rates.

Dar Halverson, a Suzuki dealer in Rochester, Minn., sells about 80 used vehicles a month, along with 20 new vehicles. He says about 20 percent of his total sales are used-vehicle leases.

"Not a lot of dealers locally" focus on used-vehicle leasing, says Halverson, who also operates an independent leasing company. "That's why we jumped into it." says Halverson, who also operates an independent leasing company. "That's why we jumped into it."

'Viable' business

Franchised dealers have emphasized new-vehicle leasing because factories subsidize those contracts with incentives. Industry consultant Buzz Doering says many dealers do not perceive used-vehicle leasing as a potential profit center.

"It's not because the business isn't viable," says Doering, who owns an independent vehicle leasing company in Milwaukee. But the business poses challenges. Many used-vehicle buyers are accustomed to traditional financing, Klein says. Dealers must sell them on the advantages of leasing.

"You have to articulate the benefits of leasing to the customer, regardless of the deal," he says. "Then you can take a strategy like this and make it work."

There is a trick to it

Dealer Klein says his used-vehicle-leasing penetration dropped to 5 percent when automakers began offering 0% percent financing several years ago. He says he is working to build it back to 20 percent.

"There's a trick to it," Klein says. "You have to buy a vehicle at close to what its residual value will be at the end of the lease."

That isn't easy because wholesale values of used vehicles change daily. Residual values - predictions of what vehicles will be worth at the end of a lease - are updated every two months or so.

A vendor offers a program that identifies pre-owned venicles that lease particually well. CyberCalc Arbitrage, uses automated processes to monitor end-of-lease residual values for used vehicles and to track related auction data.

"We are looking for vehicles that have the least amount of difference between their current wholesale price and the Lease Lenders's Guaranteed Future Value ," Ruggles says.

"To do all this manually would be overly tedious. That is the reason that Pre-Owned leasing has never found traction until now."

Tarry Shebesta runs an independent vehicle leasing company in Cincinnati. He says most of his lease contracts are for used vehicles. Shebasta, who is president of the National Vehicle Leasing Association, operates a Web site that promotes used-vehicle leasing, FrontRowCars.com. Says Shebasta: "It's a niche."

Pre-Owned Vehicle Leasing

For a quick change, lease a used car.

Excerpts from *USA Today*

"With automakers sweetening incentives on new cars and with affordable used cars flooding the market, leasing a used car might not seem to make much sense."

... But it can be a good deal for a lot of consumers, and it's gaining interest. "The planned term of ownership is key" to deciding whether to lease rather than buy a used car," says Tarry Shebesta, president of LeaseCompare.com, an online leasing company. "If you are the kind of person who buys used cars and flips them every three years, then leasing is a great idea. But if you typically buy used and drive it into the ground, then go ahead and buy it."

... By leasing a used car, a consumer can avoid the often extreme early-years depreciation in a new car's value. "When shopping for a good used car to lease, find one that is 1 - 3 years old with low miles," says Philip Reed, author of *Edmunds.com's Strategies for Smart Car Buyers*. "Design a lease that will end before the value of the car starts to fall off again. You'll cut your transportation costs substantially by leasing in this way."

"Leasing used cars is also a way for people who aspire to a Mercedes-Benz, BMW, Porsche or Lexus to drive a luxury model at a low price"

– USA Today

Want a Mercedes CLK 55 AMG?
You could lease it used.

Pre-Owned Vehicle Leasing

www.cybercalc.com

CyberCalc provides a myriad of software services for the automotive finance industry. The company's namesake product is an internet-based lease comparison system used by franchised dealers and independent leasing companies since 1999.

The company's latest release is **CyberCalc Arbitrage™**. Arbitrage integrates current wholesale market values with vehicle residuals to identify high value pre-owned leasing opportunties. Additional products include private-label derivitaves and custom designed commercial leasing, workflow and merchant services applications.

If your dealership sells new or late model pre-owened vehicles, you need CyberCalc. Give us a call today at 214.521.6256 and let us show you how we can make the difference!

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