Below-Prime Auto Finance Industry
Turn in the Credit Cycle Attracts Capital Influx

The Alternative Financial Services industry is attracting considerable investment interest due to recent macroeconomic shifts and substantial regulatory changes, factors that are dramatically altering the consumer finance sector. Compelling fundamentals include:

- Dramatic increase in the number of financially challenged consumers due to the lingering effect of the financial crisis and recession. More than 43 million Americans have FICO scores below 600, and over 68 million Americans are considered unbanked or under-banked by the FDIC.
- Substantial reduction in the number of credit sources willing to lend to financially challenged consumers.
- Tightened underwriting standards by below-prime lenders leading to a reduction in credit losses in the past two years. Fitch Ratings recently reported that December 2012's annualized loss rate on subprime auto loan ABS of 6.92%, though higher year-over-year, was still well below losses seen in 2008 and 2009.
- High yields, declining funding costs and improved access to capital for proven operators in several alternative financial services sectors.

The below-prime automobile finance sector, in particular, continues to attract strong investor interest. The recovery in the below-prime automobile finance sector has gained traction and will make further progress as the economy continues its slow expansion and employment levels grow. Recent capital injections by private equity firms and others are supporting the sector's recovery.

The key risk at this point in the cycle is over-funding, which could cause underwriting standards to deteriorate as less experienced operators push to grow portfolios too rapidly. Although the operating environment is becoming more competitive due to the recent influx of capital, we expect several more years of above average equity returns for owners of disciplined, well-run platforms.

We also anticipate consolidation through mergers and acquisitions over the next two to four years, as entrepreneurs age out of active management, private equity investors seek liquidity events, and commercial banks venture back into the below-prime automobile finance sector.

Recent Investment Activity is Accelerating

Several early stage below-prime auto finance firms have attracted significant private equity funding in the past two years. Over half a billion dollars of risk capital has been invested in early stage below-prime auto finance companies since 2010.

Selected Below-Prime Auto Finance Early Stage Financings

Date	Target	Buyer / Investor	Transaction
Feb-13	Pelican Auto Finance	Flexpoint Ford	$50MM investment
Aug-12	Resurgent Auto Finance, renamed Global Lending Services	BlueMountain Capital	$100MM investment
Jul-12	Skopos Financial	Lee Equity Partners	$110MM investment
Feb-12	Auto One Acceptance	UBS/Family office/Individuals	$10MM investment
Dec-11	Excel Finance	RedRidge Finance Group	Undisclosed investment
Oct-11	Honor Finance	CIVC Partners	Undisclosed investment
May-11	CarFinance Capital	Perella Weinberg	$50MM investment
Sep-10	Flagship Credit Acceptance	Perella Weinberg	$50MM acquisition and growth equity investment

Further, private equity firms and strategic buyers have acquired established non-prime auto finance companies in the past two years. Another half billion dollars has been invested in growth equity for existing platforms, aggregating well over $1 billion of new risk capital to the industry.

Selected Below-Prime Auto Finance Platform Acquisitions

Date	Target	Buyer / Investor	Transaction
Feb-13	Nationwide Acceptance	Prospect Capital	Approximately $85-90MM acquisition
Nov-12	White River Capital	Parthenon Capital	$79.5MM take-private transaction (pending)
Oct-12	First Investors Financial Services	Aquiline Capital Partners	$100MM acquisition
Dec-11	Gateway One	TCF Financial	$94MM acquisition
Oct-11	Security National Automotive Acceptance	Culpeper Capital/Fortress	Acquisition, price undisclosed
Oct-11	Santander Consumer USA	Warburg Pincus, KKR, Centerbridge Partners	Acquired 35% for $1.15BN; transaction value of $4BN
Sep-11	Fireside Bank	Consumer Portfolio Services	Acquired $237MM loan portfolio
Aug-11	Exeter Finance	Blackstone Group	$50MM transaction value plus planned investment of $277MM
Jul-11	Westlake	Marubeni	$250MM investment
May-11	First Investors Financial Services	JAM Special Opportunities Fund II	$12.5MM capital infusion
May-11	J.D. Byrider	Altamont Capital	Acquired buy-here/pay-here retail auto sales/finance operation
Feb-11	United PanAm Financial	Pine Brook Partners	$110MM acquisition
Oct-10	AmeriCredit	General Motors	New core of GM's captive finance arm. $3.5BN transaction
Sep-10	CitiFinancial	Santander Consumer USA	Acquired $3.2BN loan portfolio plus servicing rights for $7.2BN of loans retained by Citi

Senior lenders are returning to the sector after fleeing during the financial crisis. Senior lenders and capital markets investors have committed over $3 billion of senior financing to the below-prime auto finance market in the past two years, with Wells Fargo leading more than half of all senior debt transactions.

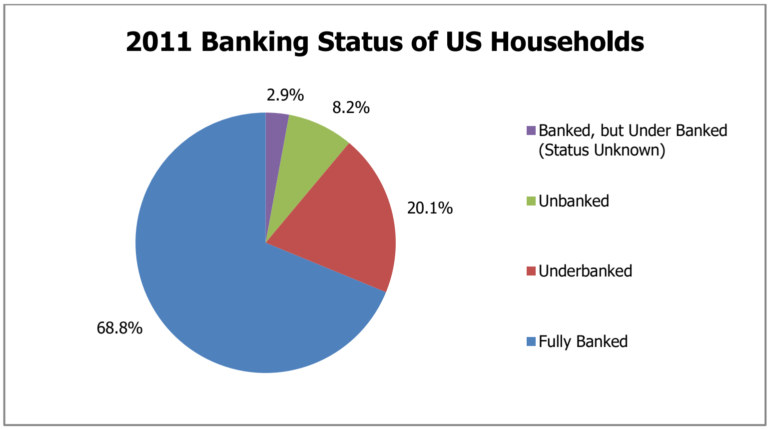
Selected Below-Prime Auto Finance Senior Debt Transactions

Date	Issuer	Lender/Transaction	Facility Size ($MM)
Feb-13	Nationwide Acceptance	Wells Fargo Preferred Capital	$75
Jan-13	First Investors Financial Services	ABS	$187
Nov-12	Rifco	Wells Fargo Preferred Capital	$70
Nov-12	J.D. Byrider	Wells Fargo Preferred Capital	$40
Oct-12	Oak Motors/Indiana Finance Co.	Wells Fargo Preferred Capital	$30
Sep-12	Credit Acceptance Corp	ABS	$252
Aug-12	Excel Finance	Capital One	$40
Aug-12	Global Lending Services	UBS Real Estate Securities	$75
Jul-12	SAFCo	Wells Fargo Preferred Capital	$150
Jul-12	Flagship Credit Acceptance	ABS	$109
Jul-12	The Auto Connection	Wells Fargo Preferred Capital	$35
Mar-12	Prestige Financial	ABS	$245
Feb-12	CarFinance	Deutsche Bank, Credit Suisse	$200
Feb-12	Flagship Credit Acceptance	Wells Fargo Preferred Capital	$175
Feb-12	Auto One Acceptance	UBS Securities	$40
Nov-11	Prestige Financial	Chase	$30
Oct-11	Honor Finance	Wells Fargo Preferred Capital	$50
Aug-11	Exeter Finance	Wells Fargo Preferred Capital	$600
Jul-11	Prestige Financial	Wells Fargo Preferred Capital	$150
Jun-11	Security National Automotive Acceptance	Wells Fargo Preferred Capital	$200
Mar-11	Prestige Financial	ABS	$222

Macroeconomic and Regulatory Factors Make the Alternative Financial Services Industry Large and Attractive

Weak wage growth/weaker consumer credit	• Inflation adjusted wages in 2011 were 14% below peak levels (1972). • Portion of U.S. population that reports "no personal savings" increased to 27% in November 2010 from 22% in May 2009. • Over 45% of Americans with FICO scores fall under the 700 level – a significant increase in non-prime borrowers due to the financial crisis and Great Recession.
Supply/demand imbalance	• Several non-prime consumer lenders have exited the market – HSBC (Household), CitiFinancial, *et al*. • A large portion of the U.S. population lacks access to credit or other financial services through normal banking channels. • Increased cost of food and gasoline puts pressure on household budgets, thus increasing demand for credit.
Increased regulatory pressure on banks	• The financial crisis and the mortgage market meltdown of 2008-2009 are lingering and generating significant blowback for the institutions that were active in the non-prime consumer finance industry. • Dodd-Frank, the CARD Act, the CFPB and increased vigilance by regulatory bodies/bank examiners have led many banks to cull a significant portion of their retail customers. • The increasing unbanked and under-banked population of financial services consumers is turning to alternative financial services providers.

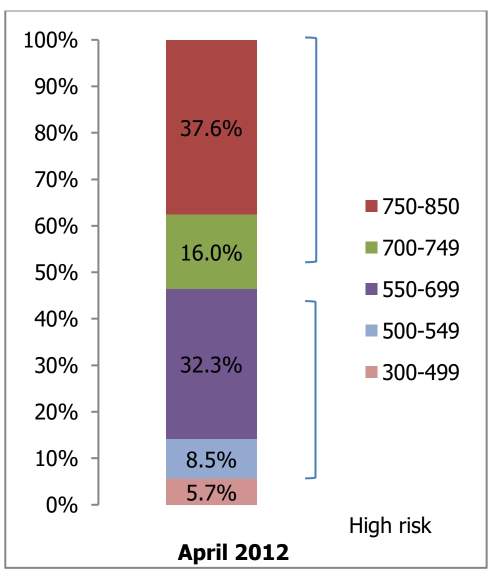
According to a study released by the FDIC in October 2012, the unbanked and under-banked population in the U.S. grew to 28.3% of all households in 2011, up from 25.8% in 2009. The unbanked and under-banked population in the U.S. reached 34 million households, comprising 68 million adults. One quarter of U.S. households used at least one alternative financial services product in the past year.



Source: FDIC National Survey of Unbanked and Under-banked Households, Oct 2012

Absolute Number of Consumers with Below-Prime Credit Scores is Large

Today, more than 25% of consumers with FICO scores fall below 600, encompassing more than 43 million Americans. The total below-prime sector (below 680 FICO scores) is estimated to exceed 40% of the FICO score population, up from traditional levels of 25-30%.



Source: *Experian Automotive*

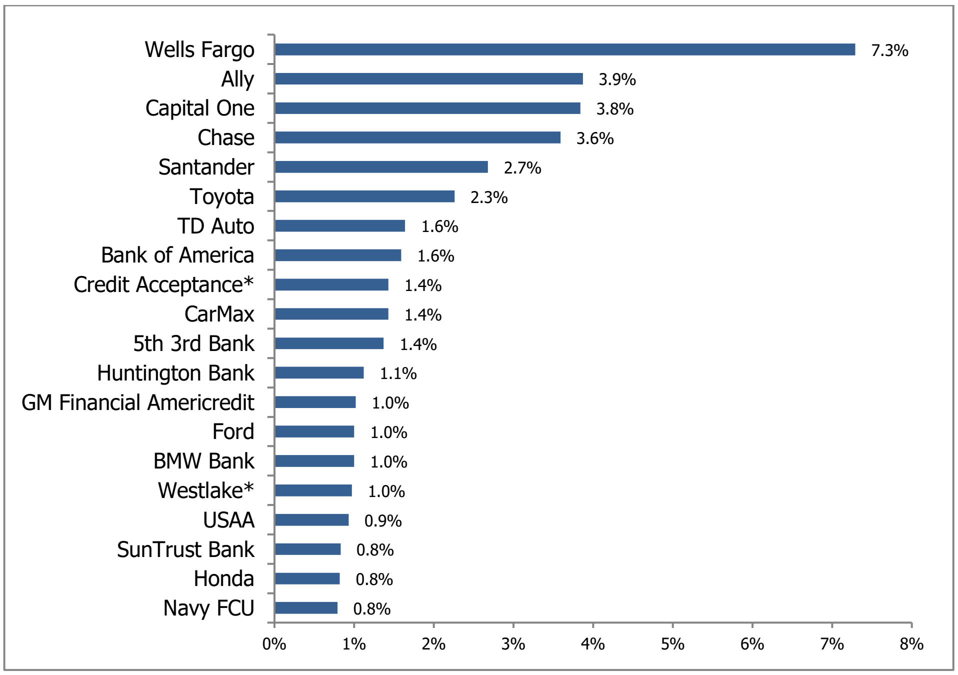
As the U.S. economy improves, the number of consumers with below-prime credit scores will decrease. This process has begun; in the third quarter of 2012, the number of consumers with Equifax credit scores below 620 shrank by 2.1% when compared to the third quarter of 2011. The improving consumer credit picture bodes well for below-prime automobile loan portfolio performance.

Below-Prime Auto Finance Industry is Highly Fragmented; Several Major Lenders have Exited the Industry

The top 20 participants in used car finance lending account for nearly 40% of total volume. During the financial crisis, HSBC and Citigroup exited the business and GM acquired AmeriCredit, fundamentally reshaping the industry. Capital flight during the financial crisis impacted funding availability to smaller lenders.

The largest participants in the below-prime auto finance market are still large commercial banks (notably Wells Fargo, Capital One and Chase) that primarily participate in higher tiers of the below-prime market (620-679 Scorex Plus tier). Subprime (550-619 Scorex Plus tier) consumers generally fall out of traditional scoring models, leaving a large opportunity for lenders able to successfully underwrite and manage the risk of lending to these consumers.

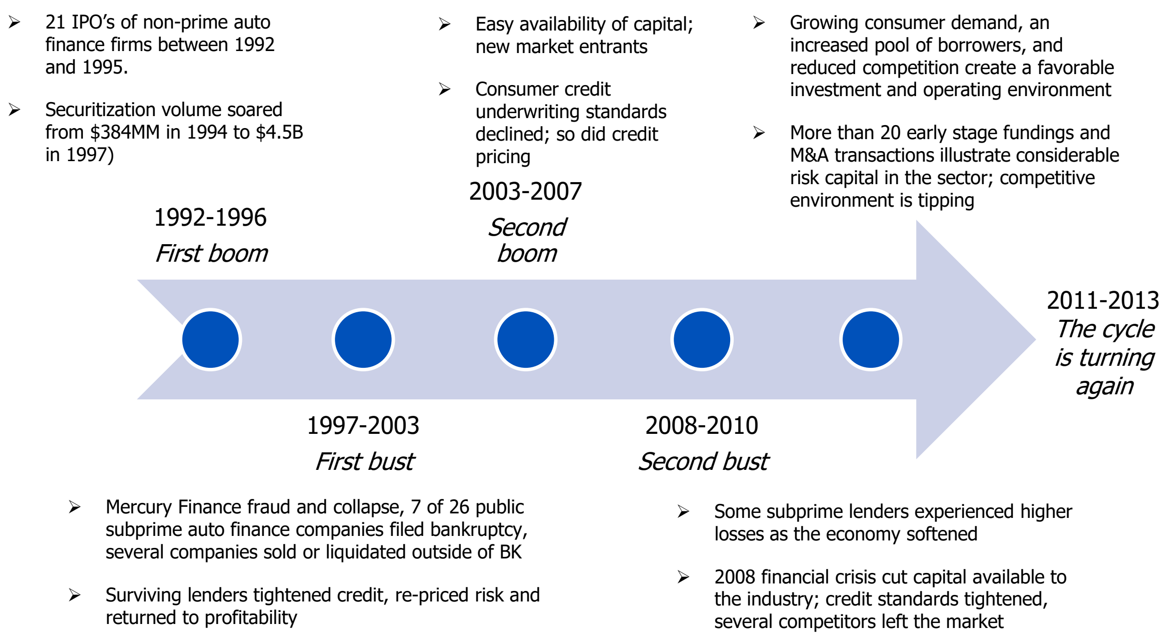
Used Car Finance Industry - Market Share (2012 estimates)



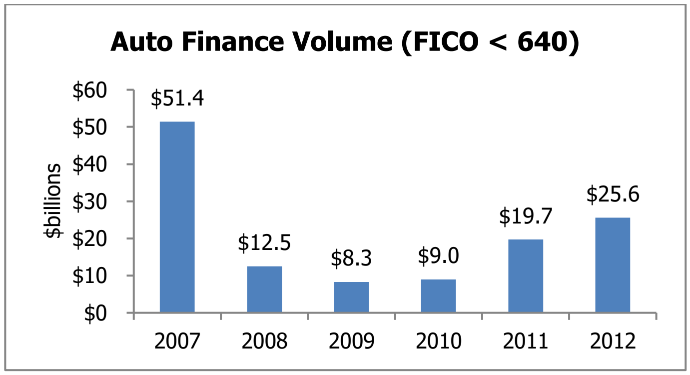
* Focused on below-prime credit. Source: *Experian Automotive*

Below-Prime Auto Finance Market is Highly Cyclical; Recent Capital Infusions are Funding a Robust Recovery in Loan Volume

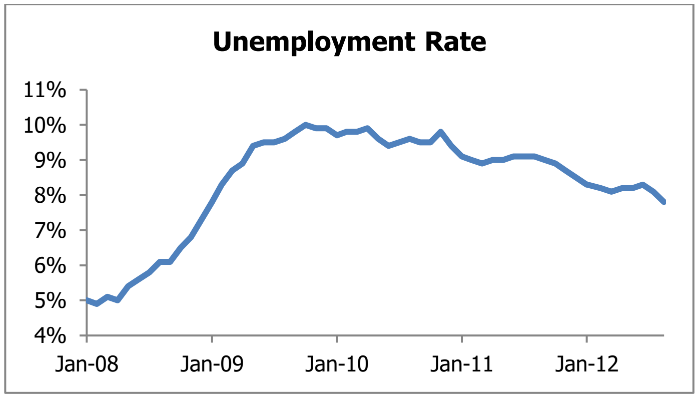
Cyclicality in the below-prime automobile finance sector is driven by both industry-specific and general economic conditions. In the late 1990's downturn, an influx of capital to below-prime lenders led to shoddy credit underwriting, a spike in losses and fraud on the part of some lenders. In the recent financial crisis and recession, the below-prime automobile finance industry was affected by the global capital flight to quality caused by the collapse of the U.S. residential mortgage market. Despite the fact that auto finance ABS performed well throughout the crisis, the asset-backed market contracted severely, bank lenders withdrew and industry loan volume dropped by nearly 90% between 2007 and 2009.



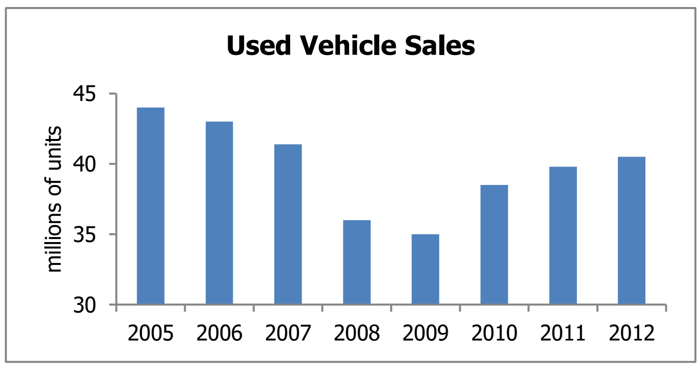
- Below-prime auto finance volume dropped to $8.3bn in 2009 from $51.4bn in 2007, as lenders fled the market. Market participants anticipate considerable expansion from current levels.
- Number of consumers with below-prime credit scores is estimated at 40% of credit bureau population, up from 25-30%.
- U.S. economy is slowly recovering; employment is slowly rising, and auto sales are increasing.
- Supply and demand imbalance is correcting but has not returned to pre-crisis levels.
- There still is opportunity for well-managed non-prime auto finance firms to achieve significant growth and excellent risk-adjusted portfolio returns, although competition has increased in the past 12 months.



Source: CNW Research and Colonnade estimates



Source: Federal Labor Bureau



Source: National Automobile Dealers Association

Recent Market Dislocation Creates Significant Opportunity for Owners of Below-Prime Auto Finance Companies

Clearly the auto finance market is recovering after severe disruption during the financial crisis. Growing consumer demand, an increased pool of below-prime borrowers, and reduced competition create a favorable operating environment. Equity and debt capital are available for credible, proven management teams that are seeking to build and expand substantial enterprises. Increased funding of the sector is still below required levels to meet demand, although these conditions are changing rapidly.

We anticipate consolidation through mergers and acquisitions over the next two to four years, as entrepreneurs age out of active management, private equity investors seek liquidity events, and commercial banks venture back into the below-prime automobile finance sector.

Key Sector Risk: Over-Funding

Over the past 24 months, there has been a significant influx of debt and equity capital into the below-prime automobile finance sector. Many different types of enterprises are receiving funds, from greenfield start-ups to major players, from buy-here/pay-here operators to wholesale indirect lenders. Long-time industry participants and observers are growing concerned that the influx of capital will ultimately lead to erosion in credit discipline and a spike in losses. As the CFO of one major industry participant recently told Colonnade, "We have seen this movie before and we know how it ends. We just don't know *when* it ends".

Fitch Ratings commented recently, "If 2013 securitizations include weaker collateral quality than recent prior year transactions, Fitch expects performance to be weaker than the 2012 vintage. Factors indicating weaker credit quality pools include extended loan terms, higher used-vehicle concentrations, and elevated loan-to-values in 2013 pools securitized".

We take comfort in the discipline exhibited by certain key industry supporters, notably the major bank lenders to below-prime auto finance firms. Lenders are adhering to conservative lending structures and are imposing stringent monitoring; thus far, this has prevented the excesses that occurred in the late 1990's. Below-prime automobile finance companies are funding their portfolios at very low interest rates, and credit quality costs remain low for now. Some observers claim that consumer loan payment priorities have made a historic shift; it appears the automobile finance obligation is becoming the consumer's top priority, taking the place of the mortgage/rent obligation. In the recent era of falling home prices and high foreclosure rates, another quote comes to mind - "You can sleep in your car, but you can't drive your house to work".

Representative Transaction

Colonnade represents Honor Finance

CIVC Partners joined with management and existing shareholders to acquire Honor Finance.

Honor Finance, based in Evanston, Illinois, is a specialty finance company that originates, finances and services automobile finance contracts for non-prime consumers. Jim Collins, who founded Honor Finance in 2000, will continue to lead its management team as they expand the company's lending business nationally.

CIVC's investment will provide additional resources for the continued expansion of the company, while preserving the superior levels of service that Honor clients have come to expect. CIVC's investment provides growth equity capital to address the exceptional opportunities in the non-prime auto finance market.

HONOR FINANCE

has raised private equity capital from

CIVC PARTNERS

The undersigned acted as exclusive financial advisor to Honor Finance

Colonnade Securities LLC

For more information on the Below-Prime Auto Finance Industry, please contact:

Christopher Gillock	Jeff Guylay	Stuart Miller
Managing Director	Managing Director	Managing Director
312.870.6212	208.726.0788	312.425.8145
cgillock@coladv.com	jguylay@coladv.com	smiller@coladv.com

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