

THE PAPER TRAIL

A Monthly Market Brief

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The Succession Squeeze

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The Exit Interview

The most common conversation on our desk this year isn't pricing. It's exits. Buy-here-pay-here operators who have run the same lot for twenty, thirty, forty years are calling to ask what the book is worth. Not because they hit a number and want to sail off. Because the bank line that kept the lights on didn't renew, and the programs that replaced it — floorplan financing, payment-share factoring — are expensive enough that the dealer is working the same hours for a fraction of the profit. At some point the math asks the question for him: why am I still doing this?

And when he looks around for someone to hand it to, there's nobody who can write the check. The manager who has run the store for twenty years can't afford it. The kids built careers somewhere else. So the squeeze has two jaws: a credit cycle pushing operators toward the door, and no buyer on the other side of it.

This issue is about what happens in between — and what the smart operators are doing about it. There is a menu now: sell the whole book with no recourse and walk. Sell the book but retain the servicing — a revenue stream for your business without the balance-sheet risk. Monetize the real estate under the lot with a long-term lease to a national tenant — a play that has nothing to do with the car business. Or seller-finance the store to your best employee in a structure that actually protects you. None of it is theoretical. We've watched every one of these happen this year.

The Money Left First

Independents have always sat at the bottom of the floorplan food chain — lower advance rates, more frequent audits, tighter curtailment the moment a unit ages past 90 days, and big banks and captives that mostly floorplan franchise stores. When money got expensive in 2022 and 2023, that's the tier that got squeezed first.

Here's the split that matters. The big operators run on warehouse lines and securitization confidence. The small operator never had that money — he doesn't have the volume for institutional cost of funds. He runs on community bank lines of credit and secondary lenders, at rates that start higher and only go up. And then both doors got heavier. Last fall the cycle's largest subprime auto collapse put roughly 100,000 accounts into Chapter 7 and handed real losses to real banks, and every desk that touches the segment re-underwrote it. The Fed's data shows what it looks like from the inside: default probability on BHPH paper up about 150% from one quarter to the next.

What's left for the operator who stays? The expensive stuff. National floorplan programs and payment-share factoring arrangements that keep the doors open and quietly convert the owner's equity into someone else's yield. We watched one operator with an eight-figure book get told by his bank that his current term is his last — the bank wants out of the segment. Eight figures, and still not enough volume for institutional money. The best replacement he's found is a fraction of the size at several hundred basis points higher cost of funds. Smaller, shorter, more expensive. That's the whole menu.

“There are very few people willing to hand an independent operator that kind of money in this environment.”

And the squeeze isn't only on the liability side. The customer is under strain, and it shows in the portfolio — industry benchmark data has BHPH bad-debt expense climbing from about 21% of sales in 2022 to 28% in 2024, the worst year on record for benchmark dealers since tracking began in 1999. Meanwhile the asset itself has become a unicorn. Tell a dealer to go find a \$3,500 ACV unit today and he'll die laughing — he'll ask if making it from one end of the lot to the other counts as usable life. And the securitization-hungry national players have started reaching down into what used to be the top tier of BHPH inventory, paying premiums because they can securitize what the little guy can't. Funding pulled from below, inventory bid away from above.

The Buyer Who Isn't There

An exit needs a buyer, and this is the half of the story no dataset will ever show you. The natural buyers — the manager who already runs the store, the dealer down the road who'd love a second location — can't finance the purchase in this market. That leaves the owner a genuine dilemma. Seller-finance the business to the employee and personally carry the risk into retirement, or liquidate the portfolio and sell the real estate. For the owners who don't need the capital, the question gets sharper, not easier: I built some wealth, I diversified, my cost of living is low. Do I really want to take that risk just to get out?

The demographics aren't the story, but they are the tailwind. Per Gallup, a majority of U.S. employer-business owners are now 55 or older; across business owners at large, roughly one in three has no succession plan — or no idea what it would be — and more than a fifth intend to simply close rather than sell or hand down. BHPH is a textbook slice of that: capital-intensive, relationship-driven, and unglamorous enough that the kids went to college and stayed gone. Even the strong hands haven't thought about it. One dealer — entirely self-funded, no line of credit, exactly the profile this cycle can't touch — finished a routine call with us, went quiet, and then admitted he'd never once thought about his exit strategy. Decades in the business, last of his family line in it, and the question had simply never come up.

So who's actually bidding? Institutions. Per Bloomberg's tally, private credit bought or committed to buy roughly \$136 billion of consumer loans last year, up from about \$10 billion the year before — not an auto-specific number, but it tells you where the appetite lives. The person-to-person transfer that used to recycle these businesses is blocked, and the capital that remains only moves at scale.

And when there's no buyer and no plan, the exit still happens — it just happens to your family. We've watched it: out-of-state heirs with careers of their own inherit a working lot. They don't know what the real estate, the inventory, or the paper is worth. The employees see where it's headed and start leaving. Every offer for the assets comes with a personal guarantee they won't sign — and they trust no one, because this industry's acquisition side carries that kind of reputation. That's the base case for an operator who never chooses one of the paths below: a forced liquidation, run by the people you loved, on the worst possible terms.

Sell the Whole Book

The oldest complaint in this industry about portfolio sales goes like this: "The investor only wants what he deems the best 25% of my book. He wants it in the box. If I'm selling, I want to sell it all." For years that complaint was unanswerable. It isn't anymore. There are now structured programs that take out the entire book — every loan, no recourse — at a discount, but clean. The operator stops managing the P&L, stops carrying the risk, and cashes out the equity. Whole book, one wire, done.

"If I'm selling, I want to sell it all."

One operator took the full exit this year and his breaking point wasn't even funding — it was warranty. Claims desk full every morning. Cars not surviving the warranties being written on them. Warranty balances rolled into the loans, inflating his LTVs so the portfolio priced badly, and he couldn't strip the obligation out because he had to honor it. He negotiated a fixed payment to shed the warranty book, sold every loan, and walked. The monkey is off his back and he is out of buy-here-pay-here entirely.

The version most sellers actually choose is service-retained: sell the book, keep collecting it, and get paid a fixed percentage of gross collections as servicing revenue — for doing what you already do. It solves two different problems depending on your balance sheet. If you have a revolving line, the proceeds retire it. If you're self-funded, the sale pulls your equity out of the portfolio. Either way the servicing income is a runway — a paycheck while you decide whether to fold the dealership or keep a hand in. If you're truly done, service-released prices lower but the break is clean — nobody who's leaving for good wants to keep a store open collecting for someone else. One honest caveat: these programs carry minimum portfolio sizes, and the smaller books don't qualify. For a book below the line, the realistic path is still the old one — run it off, sell it piecemeal, and sell the lot. Which brings us to the lot.

The Value Was Under the Cars

The operators whose books don't clear those minimums keep discovering the same uncomfortable thing: the value of the business is not the turnkey operation they spent thirty years building. It's the real estate underneath it. These lots sit on hard corners with traffic counts that national tenants pay up for. The move we're watching: sell the book, then spin the location into a long-term lease — up to thirty years — with a national fast-food or oil-change chain. The operator converts a business nobody could finance into a bond-like income stream backed by a national credit tenant.

It's the cleanest version of the trade: portfolio monetized, real estate monetized, risk gone. And it leaves exactly one succession problem unsolved — the operator who doesn't want to shut the store at all. He wants to hand it to someone. That's the last path, and it might be the smartest one.

Financing Your Own Successor

For the owner who does trust the veteran on the floor, there's a structure that makes the handoff safe — and it solves the missing-bid problem without waiting for a bank to change its mind. One dealer we know wanted out; a long-term employee wanted in but couldn't finance it. So the owner sold the dealership on seller financing — and the repayment mechanism is the elegant part. Once a year, the new operators sell a chunk of the portfolio, and the delta comes back to the seller as that year's installment on the business. A perpetual coupon, in effect. The portfolio is the repayment source, not the buyer's balance sheet. And the seller stays close to the store — not to run it, to govern it.

Notice what every one of these paths has in common: the operator chose it — before someone else chose for him. Succession isn't a birthday. It's a plan you make while you still have leverage: a performing book, a staffed store, a lender not yet at the door. The operators making that plan now are choosing their price. That's the whole difference.

The Paper Trail is a monthly market brief from the desk of Tribute Capital Partners. We buy, value, and trade subprime debt. These are our observations from the front lines.

For inquiries, deal flow, or to subscribe, contact us at louis@tributecap.com

Data Appendix

Federal Reserve Economic Data (FRED) — as of August 05, 2026

Indicator	Latest	Prior Period	2 Periods Ago
Delinquency & Charge-Offs			
Delinquency Rate on Credit Card Loans (All Banks)	2.92% Jan 2026	2.94% Oct 2025	2.98% Jul 2025
Mortgage Delinquency Rate (Single-Family)	1.89% Jan 2026	1.79% Oct 2025	1.78% Jul 2025
Delinquency Rate on Consumer Loans (All Banks)	2.64% Jan 2026	2.62% Oct 2025	2.72% Jul 2025
Charge-Off Rate on Credit Card Loans	3.84% Jan 2026	4.07% Oct 2025	4.15% Jul 2025
Charge-Off Rate on Other Consumer Loans	1.17% Jan 2026	1.21% Oct 2025	1.23% Jul 2025
Consumer Costs			
Consumer Price Index (All Urban Consumers)	332.6 Jun 2026	334.0 May 2026	332.4 Apr 2026
CPI: New Vehicles	178.7 Jun 2026	178.7 May 2026	179.2 Apr 2026
CPI: Used Cars and Trucks	179.6 Jun 2026	180.0 May 2026	179.8 Apr 2026
CPI: Electricity	305.7 Jun 2026	308.9 May 2026	307.0 Apr 2026
CPI: Shelter	428.5 Jun 2026	428.0 May 2026	426.6 Apr 2026
CPI: Food	349.6 Jun 2026	348.9 May 2026	348.3 Apr 2026
CPI: Gasoline (All Types)	342.0 Jun 2026	378.7 May 2026	353.7 Apr 2026
CPI: Medical Care Services	651.5 Jun 2026	652.3 May 2026	648.9 Apr 2026
Credit & Lending			
Total Consumer Credit Outstanding	\$5.15T May 2026	\$5.15T Apr 2026	\$5.13T Mar 2026
Nonrevolving Consumer Credit Outstanding	\$3.81T May 2026	\$3.81T Apr 2026	\$3.80T Mar 2026
Federal Funds Effective Rate	3.63% Jul 2026	3.63% Jun 2026	3.63% May 2026
Finance Rate on New Auto Loans (60-Month)	7.14% May 2026	7.53% Feb 2026	7.24% Nov 2025
Consumer Debt Service Payments (% of Income)	5.29% Jan 2026	5.40% Oct 2025	5.36% Jul 2025

Indicator	Latest	Prior Period	2 Periods Ago
Household Debt Service Payments (% of Income)	11.16% Jan 2026	11.32% Oct 2025	11.23% Jul 2025
Labor & Income			
Unemployment Rate	4.20% Jun 2026	4.30% May 2026	4.30% Apr 2026
Underemployment Rate	7.90% Jun 2026	8.10% May 2026	8.20% Apr 2026
Initial Jobless Claims (Weekly)	197,000 Jul 2026	188,000 Jul 2026	209,000 Jul 2026
Personal Saving Rate	2.70% Jun 2026	2.80% May 2026	3.00% Apr 2026
Borrower Balance Sheet			
Consumer Credit Held by Bottom 50%	\$2.63T Jan 2026	\$2.63T Oct 2025	\$2.60T Jul 2025
Net Worth Held by Bottom 50%	\$4.27T Jan 2026	\$4.27T Oct 2025	\$4.22T Jul 2025
Auto Lending (Finance Companies Only)			
Motor Vehicle Loans Owned & Securitized	\$530.7B May 2026	\$531.5B Apr 2026	\$533.0B Mar 2026
Total Vehicle Sales	17.0M Jun 2026	16.5M May 2026	16.6M Apr 2026