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Rescuing Defaulted Borrowers Proves to Be Rewarding

FINANCE: Buying Bad Car Loans Is Win-Win For Lenders, Company

■ By MIKE ALLEN

Leap Financial's business model seems unlikely to garner profits.

The local car leasing business buys defaulted car loans from banks, and renegotiates new terms with borrowers, most of whom are having difficulties.

Yet, despite the higher risk, the model appears to be working. In the past year, Leap (no connection to Leap Wireless International Inc., a local telecommunications carrier) has increased its customers 300 percent to 1,500, and expanded its staff from 15 to 52.

The restructured leases are performing as expected, with delinquency rates extremely low, says **Tim Condon**, Leap's chief executive.

Leap aims its service at those who have income, but are struggling with payments. Lease terms are often extended, and payments reduced.

The lenders like the concept because in the traditional solution, they'd take the car back, sell it at auction, and usually incur a sizable loss. With the Leap model, they receive a higher price on the car, typically saving at least \$1,000 compared to the price at an auction, Condon says.

"We have a mix of loans," he said. "Some of them were subprime loans when they were made, and others were prime. Maybe these borrowers lost their jobs or got caught in the housing crisis."

Holding Onto a Necessity

Whatever their circumstances, borrowers need wheels to make a living, and usually do what it takes to retain their cars. "A lot of folks are not making as much as they once were. They just needed a payment they could handle," Condon said.

As of this month, Leap's portfolio is up to \$12 million, meager compared to major auto financing operations but the business is gaining traction, Condon says. "Finances for the average consumer are unlikely to improve significantly for the foreseeable future, and lenders need to continue to find ways to work with customers who have a willingness to pay, but have limited resources," he said.

Leap gets most of its customers from some of the nation's largest car lenders including **Capital One**, **GM Financial** and **Westlake Financial**. Condon says he's close to signing a few other major players. Other sources for customers come from bankruptcy attorneys and repossession agents.

A Growth Industry

The enhanced lease stream should boost revenue next year fivefold, to more than \$10 million, Condon forecast.

That expansion is mirrored on the personnel side where Leap's staff includes some 25 call center workers and underwriters, about seven on the servicing and collections side, and the remainder in finance, accounting, marketing and administration jobs. By the end of next year, total staff should be in the 70-80 range, Condon said.

That will require the company to seek larger office space. It now leases 10,000 square feet in two floors in Sorrento Mesa, but Condon said Leap will need at least 15,000 square feet by the end of 2012.

Richard Benson, a Palm Beach banking consultant in the auto finance industry, called Leap, "the best business model I've seen in a long time in the nonprime auto lending space ... I think that they have excellent prospects. Nobody else is taking this approach for this sort of situation and if executed properly, they could make a lot of money," he said.

David Ely, a finance professor at San Diego State University, said he was un-

LEAP FINANCIAL

CEO: Tim Condon.

Revenue: \$2 million in 2011; \$300,000 in 2010.

No. of local employees: 52.

Investors: Austin Ventures, with \$10 million invested, owns majority of company.

Headquarters: Sorrento Mesa.

Year founded: 2009.

Company description: Auto leasing business focused on delinquent and defaulting borrowers.

Key factors for success: Seasoned management team; service saves lenders money while providing affordable payment for customers; reaches large, underserved market.



Tim Condon

aware of Leap's business model, but based on its recent numbers, it appears to be working.

"Maybe this organization has greater experience in dealing with this type of credit market, and are better at pricing and restructuring the leases than banks do," Ely said.

Familiar Territory

Condon has more than 20 years of experience in financial services and consumer lending, having worked at **ACC Consumer Finance**, a startup subprime auto lender, and at **HSBC Auto Finance** when that division of the London megabank was based locally.

He noted that car buying is up this year, on pace to reach 13 million units, which should provide lots of opportunities for Leap Financial down the road.

"This is good for us in the long run," Condon said. "When the recession hit, lenders tightened up credit dramatically, and only the very best borrowers were approved ... but the recent numbers show that people are replacing their vehicles, and lenders are making more loans."