*First of three parts*

Tiffany Lee wanted a car. She was weary of the two-hour bus ride to her job at a UCLA Health System clinic. She hated having to ask friends to drive her 7-year-old son to his asthma treatments.

But as a single mother with three children, bad credit and a $27,000-a-year salary, she couldn't find a bank or dealership willing to give her a loan.

Then a friend steered her to Repossess Auto Sales in Hawthorne.

Another buyer might have balked at the deal she was offered. Lee figured she had no choice. She put $3,000 down and drove off in a 2007 Ford Fusion, agreeing to pay $387 a month for four years. The interest rate: 20.7%, nearly triple the national average for a used-car loan.

A year and a half later, Lee fell behind on her payments and filed for bankruptcy. So she was relieved when the dealership called and offered to make her loan more affordable. The sales manager even promised to throw in a free smog check. Lee, 35, drove back to Repossess Auto on a rainy Monday evening, handed the keys to an attendant and sat down with the manager.

Moments later, she said, employees parked four cars tightly around the Ford, blocking it in.

There would be no new deal. Lee's car was being repossessed. She and her children waited in the rain until a friend could drive them home.

Lee, who described that night as "one of the worst experiences of my life," had stumbled into the bare-knuckle world of Buy Here Pay Here used-car sales.

In this little-known but fast-growing corner of the auto market, dealers command premium prices for road-worn vehicles and finance the sales at interest rates that can top 30%.

In a kind of financial alchemy, they have found a way to turn clunkers into cash cows and make money off the least creditworthy customers: the millions of Americans who are stuck in low-paying jobs, saddled with debt and unable to qualify for conventional auto loans.

For most of those people, having a car is the only way to stay employed, and they'll accept almost any terms to get one.

Buy Here Pay Here lots sold nearly 2.4 million cars nationwide last year, up from 1.3 million a decade ago, according to CNW Marketing Research.

CNW estimates that there are more than 33,000 such lots nationwide, compared with about 20,000 dealerships selling new cars. Buy Here Pay Here dealers make $80 billion in loans every year, according to the Federal Deposit Insurance Corp.

Although dealers are loath to open their books, profit margins average nearly 40%, according to a trade group, the National Alliance of Buy Here Pay Here Dealers. That's twice what new-car dealers make.

Many of the lots require customers to return once or twice a month to make loan payments in cash -- hence the term Buy Here Pay Here.

A key reason for the industry's growth in tough times is that dealers can come out ahead whether or not customers keep up with their loan payments.

About 1 in 4 buyers default. In the real estate and credit card industries, that would be bad news. In the world of Buy Here Pay Here, it's just another avenue for profit: The car can be repossessed and put back on the lot for sale in short order. A new buyer makes a down payment, takes on a high-interest loan and the cycle starts anew.

Provided they don't get wrecked, these recycled vehicles just keep paying dividends. At some dealerships, cars have been sold and resold over and over -- three, four, even eight times apiece, motor vehicle records show.

## A growing empire

Although little-known outside the auto and finance industries, Buy Here Pay Here dealers are grabbing a bigger share of the market.

What's more, these hand-me-down wheels hold their value remarkably well. The sale price is sometimes higher the second or third time a car is sold, records show -- a testament to the desperation of buyers and the market power of Buy Here Pay Here lots as lenders of last resort.

Default and repossession are so central to the business that many dealers plan on both. They equip cars with hidden GPS devices and remote-control ignition blockers to make the repo man's work easier.

Many pursue their customers for years after they've seized and resold the vehicles. Some keep lawyers on staff, filing dozens of lawsuits each month to recoup unpaid balances and garnish debtors' wages.

One high-volume dealership, Neil's Finance Plaza of Kansas City, Mo., has filed more than 6,000 lawsuits since 1995 through an affiliate, seeking unpaid balances from customers who defaulted, records show. The dealership sells about 1,400 vehicles a year.

Those in the business make no apologies for their practices.

“Our customer doesn't have any money. He doesn't plan for a rainy day,” Chuck Bonanno, a Buy Here Pay Here consultant in Florida, told dealers at a recent industry conference in Las Vegas. “He isn't going to pay unless you make him.”

Dealers say they offer a valuable service, giving people with bad credit access to transportation so they can provide for their families.

They contend that the risks inherent in the business are daunting and that profits can be elusive. After each sale, they watch their investment drive off -- “money on the street,” as dealers put it -- and can only hope the customer doesn't skip town or go broke.

When a buyer defaults, repossessing the merchandise can be a costly hassle, dealers say. Some cars are never found, and others come back so beaten up they have to be junked. Before a repossessed car can go back on the lot, dealers must go through legal formalities such as giving the customer a chance to redeem the vehicle.

Bob Okeley, who owns a chain of Buy Here Pay Here lots in Indiana, sells about 300 cars a month, nearly twice the business he did five years ago. But he said the increased demand isn't entirely the result of hard economic times.

Some of his customers earn as much as $90,000 a year and have college degrees, he said. They're shut out of the conventional loan market not because they're poor but because they can't stay out of debt, he said.

Okeley maintains that by reminding customers to make their payments and badgering those who fall behind, his dealership teaches financial discipline.

“We're helping people manage money that aren't good at doing it on their own,” he said.

Squeezing hefty payments from credit-challenged people is possible because Buy Here Pay Here dealers don't use outside lenders to finance their sales.

In a conventional auto loan, the dealer is a middleman. The purchase money is provided by a bank or finance company.

In a Buy Here Pay Here loan, there is no outside money. The cars are sold on installment plans, an approach once common for big-ticket purchases like refrigerators and still widely used by rent-to-own furniture stores catering to people who don't have credit cards.

The arrangement allows Buy Here Pay Here dealers to make their own rules and set their own interest rates, with far less regulatory scrutiny than mainstream lenders receive.

“This is not the car business. This is the finance business,” said Ken Shilson, an accountant who founded the National Alliance of Buy Here Pay Here Dealers in Houston. “Not everybody has the stomach for it.”

**Out of options**

Aimee and Chris Cvitanov wound up on a Buy Here Pay Here lot after financial setbacks dented their credit rating.

Chris, 37, was severely burned in a car accident six years ago and hasn't worked regularly since. Aimee, 30, lost her job in the insurance industry in late 2009. The lease on their Chrysler 300 expired soon afterward, and she needed a car quickly to search for work.

More than a dozen conventional dealerships turned the couple down for a loan. Then they heard an ad on the radio for M.K. Auto Inc. near their suburban Sacramento home.

The Cvitanovs said a salesman collected information to check their credit and told them the only car they qualified for was a 2003 Mitsubishi Galant. It had been driven more than 100,000 miles.

The price was $7,999, according to their sales contract -- double the Kelley Blue Book value at the time. The couple said they could manage a $1,000 down payment, and the dealer offered to finance the rest at 25.99%. Their monthly payment would be nearly $290.

The Cvitanovs said they signed the contract, reluctantly, after the dealer promised they could trade it in for something better if they kept up their payments for six months.

When the time came, they exchanged the Mitsubishi for a decade-old Mercedes-Benz E-Class with 80,000 miles, three previous owners and a repossession in its past.

At $13,998, the price was about $5,500 above Blue Book. The balance of the old loan was rolled into a new one, also with an interest rate of 25.99%, according to the new contract. Their payments climbed to $498, stretched out into 2014.

By then, the total cost of the Mercedes with interest would be more than $25,000.

"A couple of years ago, we could have leased a brand-new Mercedes for less money," Chris Cvitanov said.

The couple made payments on the sedan for six months, trying to renegotiate the loan at the same time.

After those efforts failed, they filed suit in January claiming that they were deceived about the loan terms. The dealership settled two months later. M.K. Auto took the Mercedes back and gave the Cvitanovs a $6,000 credit toward a 2003 Chevrolet Tahoe.

The dealer, Magdi Saad Gendi, did not respond to a request for comment.

Chris Cvitanov, who recently found a job in heating and air conditioning, said he was satisfied with the outcome. He declined to reveal terms of his new loan but said one thing had not changed: Because of his poor credit rating, the interest rate is still high.

At traditional auto dealerships, the buying experience is a well-polished routine. Coffee flows freely, and the salesman may spring for lunch. The car rolls off the lot with a full tank of gas.

It's a different vibe at Buy Here Pay Here lots. Banners promise to “finance anyone” and say that bad credit is “no problema.”

In addition to advertising on radio and TV, dealers buy lists of recent bankruptcy filers to target with mail solicitations and phone calls.

Rarely are prices displayed on car windshields. Instead, negotiations focus on how much the customer can put down upfront and then pay each month.

Many dealers don't worry about buyers' credit scores -- knowing they can't be good -- but they almost always insist on long lists of references so they can pressure friends and family when a payment is missed.

They also frequently help customers apply for the earned income tax credit for low-income workers -- and then offer a loan against the anticipated refund to use as a down payment. Dealers report a surge in sales in the three months leading up to tax day.

Stan Schwarz has frequented Buy Here Pay Here lots for more than a decade, selling “payment devices” such as GPS beacons that can be concealed on cars.

Schwarz recalled the first sale he made to a Buy Here Pay Here dealer, in 1997. “He had a loaded .45 on his desk, a trailer and six cars on a gravel lot,” he said.

Since then, Schwarz's company, PassTime of Littleton, Colo., has sold more than 1 million GPS trackers and remote-control ignition blockers to 3,500 lots. Over the last two years, his company enjoyed a 40% increase in sales.

Like others in the industry, he sees a direct link between Buy Here Pay Here sales growth and the economy.

“Their credit is so bad they can't even get subprime financing, and they're going to be stuck in that hole for years, unable to get out,” Schwarz said of Buy Here Pay Here customers. “That's the profile.”

**‘Totally surprised’**

Bor Pha bought a 2004 Honda Odyssey with 70,000 miles from Yia's Auto Sales in Sacramento, a Buy Here Pay Here dealership that caters to the Central Valley's Hmong community.

The price was $13,000. The contract, handwritten in English, said she'd pay 12% interest on the loan. Pha said she trusted the dealer because he was a fellow Hmong and had sold her two cars in the past.

Late last year, she tried trading in the van at a different lot. The salesman looked at her contract with Yia's and determined that her monthly payment of $326.43 reflected a 20.3% interest rate, not the much-lower listed rate. The higher rate would cost Pha an additional $3,200 over the five-year term of the loan.

"I was totally surprised," Pha, a factory worker, said through a translator. "I believed what the contract said."

Another Hmong woman in Sacramento, Nou Lee, signed a similar contract, with a stated interest rate of 12%, but her payments reflected a 21.2% rate.

The two women sued Yia's in March, alleging that hundreds of other customers signed similar contracts. The dealership, in court filings, has denied knowingly misleading buyers. The suit is pending.

Daniel Costa, an attorney for Yia's, said some buyers may have been overcharged by mistake. He said the lot's owner, Yia Yang, is reviewing all sales from the last five years and will return any overpayments, with interest. Costa declined to say how many erroneous contracts had been identified.

"He has pledged to the community to make good," he said.

There have been some crackdowns on Buy Here Pay Here dealerships. In 2004, an Ohio chain settled a federal class action for $21.8 million, paying up to $500 each to 123,000 customers who alleged they were misled about their loans. In 2006, the Kentucky attorney general reached a $7.4-million settlement with the nationwide J.D. Byrider chain to settle claims that it used deceptive sales practices, among other violations.

But such actions are rare.

Because Buy Here Pay Here businesses are both auto dealers and consumer lenders, it's not always clear who has authority over them.

Many don't bother to register their lending operations with state authorities. Last year, Massachusetts regulators sent notices to 33 dealers, citing them for lending without a license.

California doesn't recognize Buy Here Pay Here dealers as a distinct branch of the used-car business, and there are no regulations that apply to their unique practices.

The Federal Trade Commission has not prosecuted a major auto lending case in more than a decade, said Reilly Dolan, an assistant director of the FTC's division of financial practices.

“That hasn't been our focus, because it has been more of a problem for the states,” Dolan said.

Although Congress last year granted the new Consumer Financial Protection Bureau authority over consumer lenders and specifically included Buy Here Pay Here dealers, the agency has given no indication it will focus on auto loans.

“Nobody ever goes after these dealers,” said Rosemary Shahan, president of the advocacy group Consumers for Auto Reliability and Safety, which helped draft California's Car Buyers Bill of Rights. “They do whatever they want without fear of rebuke.”

Some dealers purposely structure deals with a high likelihood of default, assigning payments that exceed what the borrower can pay, consumer attorneys say.
When the customer defaults, it's common for the dealer to repossess the car, declare a loss for tax purposes, and put the vehicle up for sale again.

“Once they get payment from the first buyer, everything else is gravy,” said Dale Irwin, a Kansas City, Mo., attorney who concentrates on auto fraud cases. “They can collect $25,000 on a $2,500 car.”

A Times review of motor vehicle records in three states where the Buy Here Pay Here business is thriving found that repeat sales of the same car, a practice called “churning,” is common.

In California, Repossess Auto in Hawthorne and a sister lot have sold more than 130 vehicles at least three times each since July 2008, according to state Department of Motor Vehicles records.

Midwestern Auto Sales Inc. of Middletown, Ohio, has sold at least 250 cars twice or more each since January 2008, state records show.

Neil's Finance Plaza in Kansas City has sold nearly 900 cars at least three times each since 2006. Four of them have been sold eight times apiece.

**‘King of Credit’**

Gustavo “Gus” Camacho, who runs four Buy Here Pay Here lots in the Antelope Valley, says most dealers try to do right by their customers.

Camacho's customers are drawn from the dusty streets of Palmdale and Lancaster, where the median household income is nearly $9,000 below the statewide median of $60,392. Many of his customers have checkered financial histories: repossessions, foreclosures, missed child support payments, unpaid medical bills.

The 24% interest he charges is triple the going rate for conventional used-car loans, but Camacho said it's necessary to compensate for the high risk of default. He prides himself on fully disclosing the terms.

After a deal is signed, the salesman takes the buyer on a tour of the collections department, “so we're all on the same page,” Camacho said. Account managers get off the phone long enough to explain that payments are due every two weeks.

A running tally on the wall shows that delinquency rates on the 100 or so new loans issued by Camacho Auto every month are just below 20%, better than the industry average of nearly 25% reported by the National Alliance of Buy Here Pay Here Dealers.

Camacho, who took over the business from his father, calls himself the “King of Credit” in high-energy TV commercials. “My goal is to be fair and give people a second chance,” he said.

Tiffany Lee, the single mother who works for the UCLA Health System, went to Repossess Auto in 2009 seeking a second chance of her own.

She said she was thrilled to have a car and kept up on her payments for 17 months. Then she ran into trouble. After missing a third payment on her 2007 Ford Fusion, she filed for personal bankruptcy, which barred the dealer from repossessing the car. The $17,000 loan balance was her largest debt, according to her court filing.

Soon after, the dealership lured Lee back to the lot with the promise of easier loan terms, only to seize the car.

“One of our collectors tricked Ms. Lee to come into the dealership,” head collections manager Shirley Hampton-Crittenden later wrote in a court filing.

Better Business Bureau files show that over the last three years, eight other buyers have complained that the Hawthorne dealership used a similar ruse to repossess their cars.

In sworn declarations, Lee said that when employees blocked the Ford in with parked cars, two of her children were trapped in the vehicle for 30 minutes, “becoming increasingly panicked.”

The dealership responded in court papers that no one was in the Ford when it was repossessed.

Ali Awad, president of Repossess Auto's parent company, did not return calls seeking comment.

Lee got the car back after her attorney complained to the Bankruptcy Court. She also sued the dealership seeking at least $250,000 in damages.

The dispute was settled last week. Lee returned the car, and Repossess Auto forgave her loan. It also agreed to pay Lee an undisclosed sum, her attorney said.

Lee is now looking for another car, but said she'll steer clear of Buy Here Pay Here lots.

“I needed a car no matter what,” she said. “They took advantage of that.”

## Private equity firms are investing in chains of used-car lots, and auto loans are being packaged into securities much like subprime mortgages. They're attracted by the industry's average profit of 38% for each car sold

The J.D. Byrider used-car dealership in Visalia, Calif., sits amid a jumble of tow yards, hubcap vendors and vacant lots littered with empty beer cans. It may not look like much, but selling aging cars to waitresses, secretaries and farmworkers is a lucrative business. That's why private equity firm Altamont Capital Partners of Palo Alto bought the J.D. Byrider chain in May for a reported $50 million.

Altamont's offices, on the 10th floor of a luxury office tower overlooking Stanford University, are 200 miles and a world away from the Visalia lot.

On a recent morning, a dozen executives could be seen huddled in a glass-walled conference room, reviewing a slide presentation on plans to buy some franchised Byrider lots. It's part of a strategy to boost profit at the 135-lot chain, which had sales of $740 million last year.

Firms like Altamont pride themselves on being the smart money, identifying profitable opportunities ahead of the herd. Lately they and other investors are finding just such a windfall in a little-noticed niche of the used-car business known as Buy Here Pay Here.

These dealerships focus on people who need cars to get to work, but can't qualify for conventional loans. They sell aging, high-mileage vehicles at prices well above Kelley Blue Book value and provide their own financing. As lenders of last resort, they can charge interest at three times or more the going rate for regular used-car loans.

Many require customers to return to the lot to make their loan payments — that's why they're called Buy Here Pay Here dealerships.

If buyers default, as about 1 in 4 do, the dealer repossesses the cars and in many cases sells them again.

The dealerships make an average profit of 38% on each sale, according to the National Alliance of Buy Here Pay Here Dealers. That's more than double the profit margin of conventional retail car chains like AutoNation Inc.

"The amount of return from these loans you can't get on Wall Street. You can't get it anywhere," said Michael Diaz, national sales manager for Small Dealers Assistance Inc. in Atlanta, which buys loans originated by Buy Here Pay Here dealers. "It's the gift that keeps giving."

Investor money is pouring into the industry from several sources, helping Buy Here Pay Here dealers expand their reach and raise their profile.

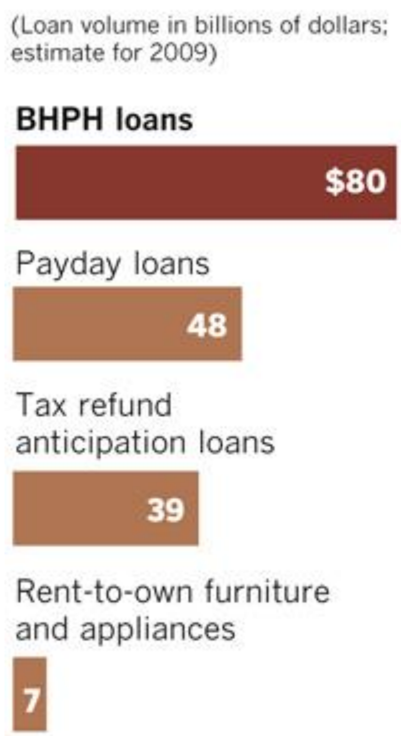
In addition to private equity firms such as Altamont, several payday lending chains are moving into Buy Here Pay Here and have acquired dealerships.

Stock investors are snatching up shares in Buy Here Pay Here chains and other publicly traded companies in the business. Two of the biggest, America's Car-Mart Inc. and Credit Acceptance Corp., have seen big gains in their share prices this year, outpacing the market.

Buy Here Pay Here is also being boosted by one of the sophisticated financial strategies that drove the nation's recent housing boom and bust: securitization.

## Big business

Buy Here Pay Here compared to other non-traditional lenders.




Source: FDIC.

Graphics reporting by Ken Bensinger

Lorena Elebee Los Angeles Times

Loans on decade-old clunkers are being bundled into securities, just as subprime mortgages were a few years ago. In the last two years, investors have bought more than $15 billion in subprime auto securities.

Although they're backed mainly by installment contracts signed by people who can't even qualify for a credit card, most of these bonds have been rated investment grade. Many have received the highest rating: AAA.

That's because rating firms believe that with tens of thousands of loans lumped together, the securities are safe even if some of the loans prove worthless.

Some analysts worry that the rush to securitization could lead to careless lending by dealers eager to sell more loans, as happened with many mortgage-backed bonds.

"We think that investing in such companies is a ticking time bomb," said Joe Keefe, chief executive of Pax World Management, which steers its investments into businesses it deems socially and environmentally responsible. "It has ethical as well as systemic risk implications."

Others predict that investor scrutiny will shave a few of the sharper edges off a business notorious for high prices and interest rates, and for lightning-fast repossessions. "Investors are looking at the good operators, the ones that want to keep their customers in their cars," said John Nagy, a managing director at investment bank Stephens Inc. "We don't want to associate with the bad apples."

Dealers are using the flood of cash to move into new territories, add inventory and hire aggressively.

Buy Here Pay Here dealers last year founded a trade group, the Community Auto Finance Assn., to represent them before Congress and regulators. That has fueled concern among consumer advocates that the industry is building political muscle to ward off regulation.

"There hasn't been widespread public attention paid to Buy Here Pay Here because mortgages have been such a preoccupation," said Kathleen Keest, senior policy counsel for the nonprofit Center for Responsible Lending.

"It might be an attractive model to investors, but when it's designed to ruthlessly maximize profit, there's no way it can't hurt the consumer," Keest said.

Jeff Williams, chief financial officer of America's Car-Mart, one of the largest Buy Here Pay Here chains, said his company fills a pressing need for millions of Americans who can't qualify for conventional auto loans.

"Our customers live paycheck to paycheck, and we work with them," Williams said. "We consider ourselves to be the good guy of the industry."

The chain started with a single lot in 1981. And like its Bentonville, Ark., neighbor, Wal-Mart Stores Inc., it had grand ambitions. The company now has 111 locations in nine states, including three that opened in the last few weeks.

Car-Mart charges 14% interest on average — significantly less than many competitors. Most of the cars on its lots have about 100,000 miles on the odometer, Williams said.

Shares in the company have risen about 23% this year. By comparison, the better-known CarMax Inc. chain — which sells more expensive, late-model used cars and won't finance people with serious credit problems — has seen its shares fall about 6%.

Car-Mart's profit has nearly doubled over the last four years, to $28.2 million for its most recent fiscal year, while its loan portfolio has grown more than 30%.

Another major player, Credit Acceptance, was founded in the 1970s as one of the first Buy Here Pay

Here chains. It eventually moved away from retail auto sales to focus on buying loans issued by other Buy Here Pay Here lots.

It was a shrewd move: Dealers proved eager to trade future revenue streams for cash upfront. Credit Acceptance tries to cherry-pick the highest-quality loans, which it buys at a discount.

In the second quarter of this year, nearly 3,000 dealers sold loans to Credit Acceptance. From 2007 to 2010, the Michigan company's revenue jumped 84% and profit more than tripled — to $170 million last year.

Credit Acceptance combines some of the loans into securities and sells them to investors. The buyers are usually insurance companies, banks, mutual funds and other institutional investors.

What they're buying, essentially, is the right to collect borrowers' loan payments, which are passed on by dealers and assorted intermediaries. If borrowers default, investors are stuck with the loss.

Some Buy Here Pay Here chains securitize their loan portfolios themselves.

DriveTime Automotive Group in Phoenix, a chain of 88 dealerships in 17 states has issued two offerings of bundled car loans this year totaling $461 million.

The securities consist of more than 52,000 loans with an average interest rate of 21%. The borrowers' average credit score was 518, according to rating firm DBRS.

That score, out of a possible 850, is known as "deep subprime." A prime score is anything above 720. More than $7 billion in subprime auto securities were sold by a dozen issuers through June 30, compared with $3 billion for the same period last year, according to Moody's Investors Service and Standard & Poor's Ratings Services.

Subprime auto loan issues now represent a larger percentage of all auto-loan securitizations than at any time since 2006, according to Moody's.

That means people who have never set foot on a Buy Here Pay Here lot, including retirement savers, own a small piece of the business.

OppenheimerFunds, which has more than $188 billion in assets and 11 million shareholders, holds DriveTime securities in at least six of its mutual funds, company reports show.

The returns on subprime auto-loan securities vary, but one offering sold late last year paid 3.5% annually on A-rated bonds maturing in three years — about six times the yield on comparable U.S. Treasury notes. On a $1-million investment, an investor would expect a return of $105,000, plus the principal, over the three years.

This spring, Moody's warned that the market for subprime auto-loan securities could get overheated. "New market entrants lured by profits and low-cost financing are susceptible to expanding 'too much too fast,'" the ratings firm wrote.

Still, Kenneth Morrison, head of the asset finance and securitization practice at law firm Kirkland & Ellis, doesn't think another subprime meltdown is in the making.

"I don't think a blowup would happen because investors are very attuned to that risk now," Morrison said. "But you can't rule it out."

It's the fundamentals of the Buy Here Pay Here business, not securitization, that have been attracting some private equity firms.

Alpine Investors of San Francisco bought Minnesota-based CarHop in 2007 and has doubled the number of lots to 48 in 12 states.

Last year, Serent Capital, also of San Francisco, acquired Tricolor Auto Group in Dallas, a chain with $30 million in revenue in 2009. Serent has opened Tricolor locations in Dallas and Fort Worth and has expanded to Houston. Recruitment pamphlets for salespeople tout potential incomes of up to $250,000 a year.

Tricolor advertises aggressively in Spanish-language media. Its television ads feature a rooster dressed in the white, red and green of the Mexican flag, along with the slogan "*orgullo en nuestros carros para nuestra gente"* — pride in our cars for our people.

Like other Buy Here Pay Here dealers, the chain courts people on the financial edge.

Clara Gonzalez and her husband, Joaquin Ramirez, bought a 2004 Dodge Durango at a Tricolor lot in Dallas. They traded in their 1999 Ford Expedition and put $1,300 down. To come up with the rest of the $17,000 price, they took on a three-year loan at 18.7% interest, according to the sales contract.

Their payment was $250 every two weeks. It was more than they could handle after Ramirez lost his job in construction and Gonzalez — who made $11.75 an hour working in a school cafeteria — became the sole breadwinner.

The couple filed for bankruptcy. They could have gotten out from under the loan, if they were willing to give up the truck.

They weren't, so they cut a deal with Tricolor to keep the Dodge, court records show.

The payment schedule didn't change: $250 every two weeks.

With many Americans struggling financially but still in need of a car, private equity firms see rapid growth in Buy Here Pay Here.

Altamont Capital, the Palo Alto private equity fund, made J.D. Byrider its first acquisition in May and has since opened six lots. Today, the year-old fund owns 20 of the chain's 135 lots and the rest are franchises.

Newly franchised dealerships pay a $50,000 fee upfront, plus 2.5% of their gross monthly sales, among other fees, according to Byrider documents.

The industry's continued prosperity depends on people like Debbie Acevedo, who bought a 2005 Ford Taurus at the Byrider lot in Visalia.

A 58-year-old restaurant manager, Acevedo cashes her paycheck every two weeks and drives straight to the dealership to make her $180 payment in cash. Because the interest rate is nearly 22%, she'll end up paying almost $18,000 over the four-year life of the loan — nearly four times the Kelley Blue Book value of the car when she bought it.

For Acevedo, whose credit was damaged by bad debts on old loans, the monthly payment is a stretch. She can't even afford a phone. But she sees no alternative: Without the car, she wouldn't be able to get to work.

"Sometimes you gotta do what you gotta do," she said.

No car, no work. That's the conclusion Lisa Twombly reached as she fought to hang on to her job as a caretaker for an elderly San Diego couple. Taking the bus and bumming rides from friends wasn't cutting it, and she was repeatedly late for work.

Told she'd be fired if it happened again, Twombly put down $4,000 — all her savings — on a 9-year-old Chrysler Sebring with 95,000 miles. The dealership lent her the $2,600 balance at a steep 18% interest rate.

A few months later, the Sebring broke down and she got into a dispute with the dealer over who should pay for repairs. Twombly quit making loan payments, and Dig's Wheels of Escondido, Calif., repossessed the car.

She again struggled to get to work on time and was fired. That set off a chain of events that left the 38-year-old single mother and her two children homeless for six weeks. "I don't know what I'm going to do," said Twombly, who is still out of work. "I lost my job because I lost my car."

For more than a century, efforts to help the disadvantaged have focused on education, healthcare, nutrition and housing. Almost nothing has been done to help the working poor afford cars, despite research that indicates it would help alleviate poverty.

About 1 in 4 needy U.S. families do not have a car, according to the Annie E. Casey Foundation. That's a serious handicap for the millions of Americans who don't have access to robust mass transit.

A nationwide survey of 353 people who bought cars with help from a nonprofit group called Ways to Work found that 72% reported an increase in income. Of those who were on public assistance when they acquired a car, 87% were no longer receiving it a few years later.

Other studies have found that low-income people were more involved in community activities and had better access to healthcare after getting cars, while their children participated more frequently in after-school programs.

"You're more likely to have a job and less likely to be fired," said Evelyn Blumenberg, a professor of urban planning at UCLA who studies transportation and poverty. "It's just a no-brainer that low-income families need cars."

Yet there are almost no state or federal programs to meet the need.

The U.S. Transportation Department plans to spend $71 billion this fiscal year on roads and bridges, $22 billion on public transit and more than $8 billion on rail projects, but has allocated no money to help put the poor behind the wheel.

Under the Community Reinvestment Act, the Federal Reserve encourages banks to provide loans to struggling farmers, disadvantaged people hoping to buy homes and small businesses that want to expand — but not to people who need cars to work.

If anything, the government has hindered the working poor's access to cars. The 2009 Cash-for-Clunkers program, for example, put 690,000 running vehicles in the junkyard, making the used cars that remained more expensive.

"Those cars could have been used for very needy working-class families," said Carolyn Hayden, a Glendarden, Md., transportation consultant. "It will go down in the annals as a missed opportunity."

The lack of alternatives drives millions of families into the arms of Buy Here Pay Here dealers, known for selling used cars at stiff markups and with high-interest loans. Many of the buyers eventually default, and the dealers repossess the vehicles and often put them back up for sale. Dealers sometimes sell the same car again and again.

The Buy Here Pay Here industry has prospered during the economic downturn, selling to people whose incomes and credit ratings have taken a hit. Dealers say that they are meeting a societal need and not just squeezing profits from people who are down on their luck.

"If we don't finance these people, they have no way to get to their job," said Ken Shilson, founder of the National Alliance of Buy Here Pay Here Dealers in Houston. "Our dealers are providing a service no one else will."

Andrew Digerness, the Buy Here Pay Here dealer who sold Lisa Twombly her car, declined to talk about details of her repossession. But he said he gives customers a three-month grace period before taking back their cars, and that only 5% of his loans end in default. "I don't like to repo," Digerness said. "But there are certain customers that don't have a grasp of reality."

There are alternatives to Buy Here Pay Here lots, but not many.

About 160 nonprofit groups nationwide focus on providing affordable used cars to needy families. None is in Southern California, although some churches and other nonprofits provide used cars as part of broader charitable efforts.

The dedicated used-car programs work in different ways. Some receive donated vehicles. Others buy cars at auction, using private donations or public funds. Recipients are given cars outright or are allowed to purchase them with reduced-rate loans.

Nicole Toenies, a 28-year-old single mother, bought her car through one such program, JumpStart Auto, after she tired of making repairs to the 15-year-old Ford Explorer she'd bought from a Buy Here Pay Here dealer.

JumpStart operates a not-for-profit used-car lot serving rural communities in western Wisconsin. It gives qualified buyers up to $1,000 for a down payment and arranges low-interest loans for the balance. Over the last decade, the program has sold cars to 340 people.

Toenies used to pay $212 a month on the Explorer. She now pays $182 a month for a 2007 Pontiac G6 that is more reliable and uses less gas; $20 from each payment goes into a repair fund.

The modest reduction in the loan payment has made a big difference.

"It's a phone bill, it's gas money," said Toenies, who was unemployed when she got the Pontiac and now drives it to her job designing children's clothes for Kohl's. "It's been a lifesaver for me."

Ways to Work in Milwaukee, among the nation's largest such programs, has offices in 20 states and finances about 1,400 auto sales a year.

It makes auto loans at 8% interest to people with low incomes and poor credit scores. Borrowers must be parents, and are required to complete a financial counseling course before being handed the car keys.

Only 1 in 10 loans ends up in default, said Jeff Faulkner, president of Ways to Work. In contrast, 25% of buyers default on loans made by Buy Here Pay Here dealers, according to the industry trade group.

A 2006 survey of 108 low-income car ownership programs found that they distributed about 10,000 cars a year combined. Buy Here Pay Here lots sell nearly 2.4 million cars a year, according to CNW Marketing Research.

"It's not even a drop in the bucket," Faulkner said of programs like his. "The system just isn't set up for these people to succeed. There should be a Small Business Administration or Federal Housing Administration for cars."

Rep. Gwen Moore (D-Wis.) has tried for years to get the government to help the poor buy cars. In 2005 and again in 2007, she sponsored legislation to provide $50 million a year for low-income car ownership programs. Both bills died in committee.

She said she has faced resistance from, among others, environmental organizations that insist mass transit is a better solution.

"Public transit is not practical in Milwaukee where the wind chill can be 45 below and you have to drop three kids off at day care," Moore said. "We really have a crisis with respect to getting people to their jobs."

## Bad economy, good numbers

The poor economy hasn't derailed the Buy Here Pay Here used-car industry.

Source: Manheim, Leedom & Assoc.

Graphics reporting by Ken Bensinger

Lorena Elebee Los Angeles Times

In many states, welfare laws limit what aid recipients can spend on cars. In California, they can't own a car worth more than $4,650, a dollar value set in the mid-'90s.

That forces people to choose: buy a clunker, or go without a car to remain eligible for public assistance. This month, Gov. Jerry Brown vetoed a bill to lift the cap, citing concern over its potential effect on the state budget.

The bill's author, Assemblyman Roger Hernández (D-West Covina), said the veto was misguided. "Let's remember that California is a highway state, and having a reliable car is a key component in helping an individual find and retain a job," he said.

Gilbert Perez would love to have a car. He spends two to four hours a day commuting to work by bus and rail from his apartment in downtown Los Angeles. A janitor who cleans apartment buildings, he goes to a different site every day, from San Pedro to Newport Beach to Yorba Linda.

On a hot summer afternoon, he caught the crowded No. 40 bus near his downtown apartment on his way to the South Bay. The bus headed west on Martin Luther King Jr. Boulevard before turning onto Crenshaw Boulevard and lumbering through Leimert Park, Inglewood and Lawndale. Perez grimaced as the bus growled and swayed.

"MTA, OCTA, Amtrak, Blue Line, Red Line, Green Line — I ride them all," Perez said. "I had a car once, but I couldn't afford it. I sure wish I could."

Not long ago, Stacy Gunter was in a similar situation.

A 25-year-old single mother without a job, she was trying to attend a two-year nursing program in a town 45 minutes from her home in Charleston, W.Va., but she had no car.

Every night, she would call friends trying to finagle a ride, and within weeks she had missed several days of class. Swallowing her pride, she applied for Medicaid and food stamps. Then she heard about a low-income car ownership program called Good News Mountaineer Garage, which sold her a 6-year-old Mazda in good condition for $1.

Thanks to the car, Gunter said, she was able to finish school and get her first job as a nurse in 2003. Today she's married, owns a home and is finishing a master's degree in nursing from Vanderbilt University.

"Having that car changed the course of my life," Gunter said. "I only wish there were a program like that everywhere."