



---

4020 E. Indian School Rd · Phoenix, AZ 85018 · 602.852.6600 · www.drivetime.com

March 13, 2012

Technical Director  
File Reference No. 2011-230  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

**Re: FASB Proposed Accounting Standards Update (Revised) *Revenue Recognition (Topic 605) – Revenue from Contracts with Customers***

Dear Technical Director:

DriveTime Automotive Group, Inc. (“DriveTime” or the “Company”) appreciates the opportunity to comment on the Exposure Draft of the Proposed Accounting Standards Update of Topic 605, *Revenue* (the “Proposed Update”), recently issued by the Financial Accounting Standards Board (the “FASB”). DriveTime is a leading used vehicle retailer in the United States with a focus on the sale and financing of quality vehicles to the subprime market. The subprime market is comprised of customers with modest incomes who have experienced credit difficulties or have limited credit histories. Through our branded dealerships, we provide our customers with a comprehensive end-to-end solution for their automotive needs, including the sale, financing, and maintenance of their vehicle.

It is important to note that the financing of our vehicles is not readily separable from the retail sale. We do not utilize third party finance companies or banks to finance vehicles for our customers, and our customers do not have access to obtain their own source of financing from third party finance companies; therefore, we provide financing for substantially all of the vehicles we sell through installment sales contracts. Since our customers are unable to obtain financing to purchase a vehicle from another company, financing is an essential component of the services that we provide to our customers. In other words, our company is both a company that actively sells used vehicles and provides financing to enable the sales of vehicles to subprime customers.

Using information provided as part of the credit application process, in conjunction with the vehicle sale, our centralized proprietary credit scoring system determines a customer’s credit grade and the corresponding minimum down payment and maximum installment payment. We monitor the performance of our portfolio and close rates on a real-time basis, allowing us to adjust pricing, underwriting and financing terms in managing our business. We perform all servicing functions for our finance receivable portfolio, from collections through the resale of repossessed vehicles and self-administer our warranty program, and operate one fully integrated

business model. We believe our model enables us to operate successfully in the underserved subprime market.

DriveTime agrees with the FASB's project to clarify the principles for recognizing revenue to develop a revenue standard that would:

1. Remove inconsistencies and weaknesses in existing revenue requirements.
2. Provide a more robust framework for addressing revenue issues.
3. Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets.
4. Simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer.

However, DriveTime believes that further guidance is required to clarify how the Proposed Update shall be applied to companies that actively sell goods and financing, as financing is a critical component of DriveTime's business model. To that end, we believe the concepts in the following three areas could be more clearly articulated:

1. How an entity that sells goods or services with a significant financing component to a high credit risk customer should bifurcate the revenue component from the financing component when the two components of the transaction are not separable.
2. How to adjust losses on the long-term receivables with a significant financing component through the financial asset impairment guidance (which is yet to be finalized).
3. How impairment losses incurred on sales of goods or services that include a significant financing component would be presented in the income statement.

In addition, in reviewing the Proposed Update and drafting this comment letter, we have found ourselves spending significant time in the Basis for Conclusions in order to gain clarity around applying certain areas of the proposed guidance particularly as it relates to the time value of money. We believe that certain information included in the guidance in the Basis for Conclusions should be included in the final Standard, including from paragraphs BC174 and BC175.

*Bifurcating revenue and financing components* – Paragraph BC174 of the Proposed Update states that contracts with a significant financing component “would be bifurcated into a revenue component (for the notional cash sales price) and a financing component (for the effect of the deferred payment terms).” We believe that further clarification is needed around how an entity that sells goods or services with a significant financing component to a subprime customer, should bifurcate the revenue component from the finance component, particularly when the two components of the transaction are not separable. Paragraph 61 of the Proposed Update states that to “To adjust the promised amount of consideration to reflect the time value of money, an entity shall use the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception.” Paragraph 61 of the Proposed Update also states that “An entity may be able to determine that rate by identifying the rate that discounts the nominal amount of the promised consideration to the cash selling price of the good or service.”

When determining the appropriate discount rate to reflect the financing component of a transaction, we believe further clarification should be given to circumstances in which a company actively sells both goods and financing. For example, a subprime customer does not have access to traditional direct auto financing from a bank or similar institution. The interest rates on subprime installment contracts vary greatly from dealer to dealer, even for the same customer credit profile and vehicle. If a dealer chooses to not retain the subprime contracts it originates, the

only option is to sell the contracts to a third party investor or indirect lender at a discount to par. The discount is reflective of the loss adjusted yield that the indirect lender requires based on numerous factors, including but not limited to the buyer's credit, the vehicle purchased, the loan to value, the amount of the down payment, the stated contract interest rate, the loan term, the past performance of loans originated by the dealership, the quality and consistency of the dealership's underwriting, and the ability of the lender to obtain leverage and its cost of funds.

Although the guidance explicitly states "To adjust the promised amount of consideration to reflect the time value of money, an entity shall use the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception," it can be viewed that the most faithful representation of the economics of the transaction would be to apply the loss adjusted market yield required by third party investors in subprime auto contracts. While somewhat difficult to obtain, there is market information available regarding the yields required by third party investors in subprime auto contracts. It can be viewed that discounting the loss adjusted cash flows using the market yield required by third party investors is an appropriate method to determine revenue to be recognized at time of sale, thus removing inconsistencies and improving comparability of revenue recognition. However, this would assume that the "customer" is the third party investor / indirect lender and not the party receiving the vehicle. This would seem contrary to the current definition of a customer as defined "A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities." Clarification on this issue would be appreciated.

*Accounting for impairment losses* – Further, paragraph BC 174 of the Proposed Update states that "The revenue component would be within the scope of the revenue standard, and the financing component would be within the scope of the financial instruments standard." We believe that additional consideration should be given as to how the revenue component and financing component are accounted for when the two components are not separable. That is, until the accounting for the financing component, which is within the scope of the financial instruments project, is determined, the appropriateness of the accounting for the revenue component cannot be determined. If it is interpreted that a loss adjusted market rate is appropriate, then an entity would have accounted for its losses as a component of revenue and in the carrying value of the loan, thereby, making it unclear how to adjust those losses through impairment guidance. In a business such as subprime auto sales and finance, the risks inherent in the two components of the transactions are highly correlated, and therefore we believe there needs to be explicit consideration of the interaction of the accounting models with each other for revenue recognition and financial instruments.

*Presentation of impairment losses* – Paragraph BC175 of the Proposed Update states that "The presentation of any impairment losses from long-term trade receivables (that is, receivables arising from the financing components of contracts with customers) would be consistent with the presentation of impairment losses for other types of financial assets within the scope of the financial instruments standard." We believe further clarification is needed in the Proposed Update to describe the income statement presentation situations, if any, in which an entity that sells goods and services with a significant financing component would be required to present impairment losses or a portion thereof, as a separate line item adjacent to the revenue line item.

**Conclusion**

We thank the Board for its careful consideration of our points within this Comment Letter. We strongly support the FASB's goal to clarify the principles for recognizing revenue, but we believe more practical guidance is required as it relates to vertically integrated companies which sell goods and financing to customers when higher credit risk exists.

We appreciate the opportunity to express our opinion on this matter and would be pleased to discuss our comments in greater detail if requested.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark Sauder". The signature is fluid and cursive, with the first name "Mark" and last name "Sauder" clearly distinguishable.

Mark G. Sauder  
Chief Financial Officer