RED DEER ADVOCATE
CENTRAL ALBERTA'S DAILY NEWSPAPER

NEWS

January 12, 2009

Rifco's modest beginnings grew to millions in loans

By Harley Richards - Red Deer Advocate

Bill Graham, left, RIFCO's chief executive officer, and chief financial officer Lance Kadatz look forward to more milestones like when the seven-year-old auto financing company hit the $100 million mark in client loans last year.

Bill Graham and Lance Kadatz have vivid memories of No. 2, 4664 Riverside Drive.

It was there that their company Rifco Inc., which provides non-prime financing for auto purchases, issued its first loan in February 2002.

"We had 1,100 square feet and two phones and a couple computers and one fax machine," reminisced Graham, Rifco's president and CEO.

"Every once in a while the fax machine would start to whistle, and that meant a loan application was coming in — and we were pretty excited."

Seven years and $100 million in loans later, Rifco has become a publicly traded company (TSX.V:RFC) and is active in every province except Saskatchewan and Quebec. Operating out of more spacious premises in Red Deer's downtown, it employs 26 and serves a network of about 250 auto dealers.

When a customer of one of those dealerships needs financing but doesn't qualify for a prime loan from a bank or other financial institution, there's a good chance Rifco will be called upon to help. It charges a higher rate of interest — between about 14.5 and 25 per cent — but puts people into vehicles who wouldn't otherwise be able to buy one.

Rifco lends for new and used vehicle purchases, but most of its transactions fall into the latter category.

"I would say maybe three-quarters of the vehicles that we finance are through franchised dealers," said Graham.

The non-prime market is bigger than you might guess.

"I would estimate that half the people in Canada can't get a prime car loan," said Kadatz, Rifco's vice-president and chief financial officer.

Graham added that probably only half the people who apply to Rifco for a non-prime loan are approved.

Kadatz and Graham started Rifco with two other partners in 2001. They felt there was a need for auto repair financing in Canada."

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"When we started, it was a few guys sitting around a coffee table with some business plans," said Graham.

"We had lots of great plans and lots of grandiose ideas and optimism, and had to go out and try to raise a little bit of money."

Operating as Repair Industry Finance Corporation, the company soon added auto purchase loans to its services. Its list of affiliated vehicle repair shops grew quickly, and eventually numbered nearly 2,000.

But last March, Rifco stepped away from the repair loan business to focus all of its energies on auto purchase financing.

Kadatz explained that a disproportionate share of resources were being devoted to the smaller repair loans. It was felt Rifco would grow more quickly if it concentrated on the bigger purchase loans.

The new strategy proved to be a good one.

"It's allowed us to do almost double the loan volume we were doing a year ago, while adding very little additional cost," said Graham.

The fact that Rifco is expected to lend $40 million this fiscal year, after advancing a total of $100 million during its first seven years of operation, is a testament to the company's rapid growth. This success has earned it recognition in both Alberta Venture and Profit magazines.

That's not to say the horizon is entirely free of clouds.

"There are lots of challenges that are facing every company in Canada right now, and being in financial services serving the auto sector is probably, from the outside looking in, not the most desirable place to be," acknowledged Graham.

Rifco competitors Wells Fargo Auto Finance, HSBC Canada and Americredit Canada vacated the domestic market last year. That's left Rifco, Scotiabank (which acquired Travelers Leasing Corp. in 2006) and VFC Inc. (which was purchased by TD Bank Financial Group in 2006) as the main options for car buyers in need of a non-prime loan.

This industry shake-up has created market opportunities for Rifco, but Graham thinks a bigger consequence has been the resulting tightening of the credit landscape. Previous aggressive lending practices had led to low credit and documentation requirements, and interest rates that did not reflect the associated risk.

"Our growth was being stalled because we were not willing to participate in very risky loans at very low interest rates."

Now Rifco has plenty of lending opportunities on terms that make good business sense.

"In the last six months, most of our sales and marketing efforts have been reaction to incoming calls from car dealerships," said Graham.

"A year or 18 months ago, we were banging on their doors."

Unfortunately, he added, the current global credit crunch makes it tough for the remaining players to capitalize on the under-served non-prime loan market.

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Even the prime lenders are unable to service all of their borrowers, meaning some people who previously would have qualified for a prime loan now have to look elsewhere for money. And as they move into the non-prime market, they displace others who were good candidates for a non-prime loan before.

“Across the entire industry there has been a reduction in lending and capital available for the auto industry,” said Graham. “Some of the dealers are certainly feeling it.”

There are also concerns about auto purchases decreasing as a consequence of the broader economic slowdown. But Graham and Kadatz downplay the significance of this development, explaining that Rifco's relatively small market share (there are some 16,000 auto dealers in Canada) means it can grow even when the market is contracting.

“We're going to be stronger and better when we come out the other side of this economic credit crunch that we're in right now,” predicted Kadatz.

Graham agrees.

“When the credit environment improves a little bit, we'd love to blow through that $100 million a year, and beyond.”

The two men point to some competitive advantages they think will help Rifco do this. Key among these is the ability to provide personalized service to its dealer customers — something Graham attributes to having fewer clients to serve and “great staff.”

“That really is what sets up apart.”

Rifco has a solid business plan and operational foundation, they said, which is due in large part to the contributions of corporate vice-presidents Doug Decksheimer and Monte Coates — chief marketing officer and chief operating officer respectively — who joined Rifco in 2005.

“We could not have achieved the growth we have without these two key people,” said Kadatz.

Rifco may not have a high profile in Red Deer, but Kadatz and Graham say the community has been a great place to do business.

“We've never regretted choosing this as a city to have our head office,” said Graham