Rex Johnson's January 19th, 2005 Webinar on Indirect Lending Presents: The Q&A

Question:
During the Indirect Lending Webinar Rex mentioned some numbers of how many delinquent accounts one collector should be able to handle. The numbers ranged from 125 to over 200 depending on the situation. We have two full time collectors and a part timer who helps out on occasion with paperwork. Our collectors are responsible for all bankruptcy work including documentation and corresponding with attorneys. They also handle all the repos and sale of repos and any other collections duties plus the regular collection calls. My questions is; Do the collection numbers Rex mentioned take into account all of these types of duties? If so, our collectors are really under worked.

Answer:
If you are in an environment of rising delinquencies and rising charge-offs and your collectors are handling the BK's and repo's, Myron you will want them to work no more than 125 to 150 accounts. A good measuring stick if you feel like they are not as productive as they should be is that 80% of their time needs to be spent on the phone making calls. My guess is they are no where coming close to these numbers. If you do not think your collectors are as productive as they should be, one option is to outsource part of collections to us - you actually hire our collector, they work for you, we train them and pay their benefits and monitor their productivity and there is backups if need be, by doing this you can compare our collectors productivity to yours and their results to yours. It is just food for thought. If you are more interested in this please let us know. At a minimum you want every other day follow up, go down, sample it, and see if you are getting it.

Question:
How would you disclose to your members if you decided to let your dealers increase the interest rate by a point if you allow financing of 101-110% and 2 pts for 111-120% etc. etc.? I would assume you would have to do this on your direct program as well, but how would you disclose it to the membership?

Answer:
There is no disclosure necessary - your only disclosure should be on the rate sheet that you have posted in your lobbies, newsletters, etc. You would then disclose your base rate for up to 100% of the MSRP or retail. If you exceed that, between 100 to 110% that rate becomes 1% greater as an example, if your base rate was 5.5% and you were going to go between 100 and 110% then you would post 6.5% as a rate, 111 to 120% would be 7.5%. On your note and disclosure you want to make sure you type in the correct APR. Contact us if you have any questions.

Question:
There are several reasons, but we are considering getting out of the indirect loan program. Basically, we are not sure it is profitable. We spend a lot of money on the program; turn most deals down, and only book about 50% of the approvals. These are the loans we are having

trouble collecting and getting any other of our services to. I'm wondering if you have a graceful way to let the dealers know we will no longer be participating on the program?

Answer:
The best way is to be totally honest – show them the number of apps you are processing, the number of approvals, the closure rate and your charge-offs and delinquencies. One credit union we are currently working with had a gross yield on their loan portfolio of 8.25% but by the time they factored out what the program was costing them with dealer participation (collections and charge off expenses) their net yield was 1.9% and like you they decided it was not worth the frustration. If you want to call us I will be glad to give you their name.

There are good dealers out there and if you can have a good relationship with a good dealer then by all means I encourage you to deal with them.

Question:
Thank you for such a great webinar on Indirect Lending! I do have a question though. There was a question that was asked of Rex regarding how would the smaller Credit Unions compete with the larger credit unions, and Rex's answer was "Great Member Service" by giving an answer on a loan request within 5 minutes!! I am having a hard time understanding how this could be done in such a quick amount of time. Your thoughts??

Answer:
The 5 minutes I referred to was a bit of an exaggeration in reality it is more like 10 minutes which is still great service. The way that we do it at LSI is our employees are trained and are always available so that they know the first one to get a response back to the dealer is more than likely going to get the business if all other things are equal. It should not take, with proper training, very long to look at a credit report and an application and make a decision. You cannot just do these loans when you have time to do them; someone has to be 100% dedicated to getting the dealers back an immediate response. If you have not had the opportunity to attend the University of Lending lately we would welcome a chance to show you how we do that. If you would like to visit our call center and observe our employees doing indirect lending you are more than welcome.

Question:
The seminar was interesting, and filled in some blanks for us. We've been using a CUSO as the "third party" for 2 ½ years of a three year contract, and the webinar touched on most of the issues we've had to deal with, unfortunately. The message here is that even if the third party is a credit union themselves, their first allegiance is to themselves.

One thing that might be addressed in future webinars on this subject would be this…we, as the credit union receiving the loan, really have no say in whether we accept or reject a loan. When we receive the faxed Xerox of the note, there is no other information included…none. According to the CUSO's policies, we book the loan when the contract copy is faxed to us, and then in a few days receive the complete packet, at which time we get the opportunity to look at all the underwriting specifics…loan app, credit bureau report, etc. But by then, the loan is booked and rejecting it is not an option.

Since third party vendors are scarce in this area, we don't know if all vendors operate this way. We'll find out, since we're in the last couple of months of a three year contract.

The overall tone of the presentation was that there are so many things to watch for, it might be better to, as Rex said, put our "fee" money into incentives instead, which would allow us to retain complete control over the approval process. That's probably the direction we're going to go.

But it would be helpful to a "newbie" to be appraised of the approval process, and whether or not the CU buying the paper has right of refusal PRIOR to the loan being booked.

One final thing…Rex mentioned fraud, such as when we repo a "different" vehicle than the one we thought we financed. We had this twice with a local fringe dealership (who we no longer accept deals from, of course), and were made whole both times by the dealership because I made it clear that the dealership's two choices were either pay up, or read about the case in the local papers during the lawsuit. Rex might have suggested that victims of this "power booking" practice DO in reality have recourse of their own.

But I felt overall that the presentation was helpful.

Thanks for listening.

Answer:
We really appreciate the email – somehow wish you could have been one of the ones who called in because credit unions need to know that with the right approach with these dealers you can get them to buy back the paper. I LOVED your approach. I hope you can come to our school in Las Vegas as I think it would accomplish several things: such as you will be able to talk to a number of other credit unions about their practices in having to buy paper, even though they may not like the paper they are buying. I also think it would be really helpful for other credit unions to hear your approach directly and it would be nice to have you speak to that in exactly what you did and the dealers reaction. Finally, CUSO's can work – you need to make sure that if you are buying paper that you are not comfortable with that you can sit down with the CUSO and show them why this is not in your best interest and why the program needs to be changed and I think you can be an instrumental force in getting it changed.

With most of these 3rd party programs you do not have much of a say on buying the contract - if you have agreed to the parameters for it to be automatically approved. If this is a problem you need to get those parameters changes.

Thanks again for your feedback

Question:
In order to manage the portfolio mix and control our risk, we would like to set standards for our dealers $ limits on outstanding balances by risk tier by dealer. This will also insure that we are not just the lender of last resort and receiving only the D paper from them. Besides our own overall tier tolerances, can you provide insight on how to set these that the mix is mutually beneficial to both us and the dealer?

Answer:
If you look at the national averages for all lending, 65% of the loans are A+ and A paper, 15% are B paper, 5% are C paper, 12% are D paper, and 3% are E paper. What are going to primarily drive that is the income level and the education level of the members you are serving. If you are in an area where the majority of the members make good salaries and are well educated you would expect to see at least that much A+, A, and B paper. If your members are not as well educated with lower incomes, they tend to live more from paycheck to paycheck and that mix will change and you will see more C, D, and E paper. That is a really difficult task for a credit union, trying to put together these C, D, and E paper loans, when you do not have the ability to talk to the member directly. I would suggest that if you are going to try and set some standards that many credit unions have determined it is just too risky when they scores are below 640 and they will only take 640 and above scores. This is a somewhat conservative approach but it is certainly not a bad idea with car dealers. The other standard you should put in place, is in order to consider a score to be a valid score, there must be 4 tradelines with at least 2 years experience with 1 of the tradelines at a minimum high credit of at least $5000. This is very important with young members who sometimes have good scores but have no substance to their report. Hopefully this will be of some help to you. Make sure they are not using you just for the marginal business, we call it “bottom feeding.”

Question:
Considering the cost of an indirect program, what would be your thoughts on the appropriate level ($ amounts) in terms of approved sales contract financing we should receive from a dealership annually to justify their participation in, or continuance in, the program? (i.e., a minimum annual volume of sales contracts),

Answer:
I believe that when it comes to a minimum volume, you are far better off in dealing exclusively with a limited number of dealers, maybe 5 to 10 who will give you a substantial volume and will include a good portion of that to be in the higher quality business. It is hard to give you an exact minimum but you might want to consider at least $500,000 a month in deals that you actually purchased – I would expect you to have at least a 50% approval rate and we should shoot to have a goal of buying 90% of buying what we approve.

Question:

For due diligence of dealerships to participate in our program, we review multiple year financials, D&B reports, BBB reports, and general dealer reputation. What other factors should we be looking at both initially as well as part of an on-going annual partnership review?

Answer:
First of all I commend you for what you are already doing but I would set another very important measurement which is member satisfaction. I would have an outbound program that we call these members to make sure that everything that has been presented to the credit union is accurate and that the member is satisfied with what they were told and the service they received. I would expect the member to have a minimum 90% satisfaction rating. In setting up such an outbound program you should limit your questions to no more than about 5 questions that can easily be answered. Also use this as an opportunity to cross sell the member. I would also add one more measurement and that is where information is misrepresented or fraud is committed that the dealer clearly understands that if we have more than 1 occurrence of this we will terminate the relationship.

Question:
How do/can you determine and set bonding limit requirements for dealer participants? Currently Pennsylvania only requires $30,000 which isn't much more than one loan.

Answer:
I really do not have an answer to your question on bonding limit requirements. You may want to contact some 3rd party providers; there are three we can recommend for you (and there may be others in your state): Kroger and Williams, CUDL, or Ambridge. They are all very active participants in the indirect market.

Question:
We are going to restructure our dealer incentive payments to pay more for A & A+ paper and less for B and C paper; nothing for D & E. The range will go as high as 1.5%. We also, based on annual financing volumes with us, would pay a small premium to encourage volume with us. Any additional things we should consider?

Answer:
I like your approach on not paying for D and E paper and paying more for A and A+ paper as long as you have the margins to support it. I also think it is a good idea to reward them for volume. I don't believe there is anything else you really need to do unless you want to look at a membership satisfaction level (as discussed above) and include that.

Question:
We currently have a complex table for sharing CDI and CLI premiums with our dealers but it is ineffective in encouraging them to sell our insurances. Have you found anything that works?

Answer:
The answer here is unfortunately not – dealers like to sell their own insurance and the mere fact that they are willing to sell yours puts you in a class of your own. Most dealers will not agree to

that. What I would recommend is to find out what they are earning selling their insurance vs. what you would pay them to sell yours. My guess is you are not even on the radar screen as most dealers earn enormous income. If you find out that I am wrong please let me know.

Question:
How accepting are dealerships (and I know this will vary by area) and what are your thoughts on recourse paper; particularly if they default on the first two or three payments?

Answer:
Dealers are not acceptable to it – and they currently do not have to be as financial institutions are struggling to get loans and the dealers know it. My guess is there are simply not going to do it. There is a downside to having them do it, some dealers who have signed an agreement that if it is a first, second, or third payment default they will buy it back but they only are concerned about doing that with marginal paper. They know it is not going to be an issue with the A+ member. So what they are actually doing is they are making the first 3 payments for the member to make sure the member does not default and they can afford to do this based on their huge profit margins since marginal members are desperate and will agree to anything to get the car so be very careful with that one.

Question:
What do you feel is an acceptable % of indirect loans to total auto loan portfolio for a well capitalized credit union?

Answer:
The NCUA is very concerned that when they look at a credit unions capital and they see the volume of indirect loans on the book, according to the article in the webinar from Debbie Matz, that many credit unions are already at a 125% of their capital. My guess is they are going to take a hard look at you when you get to that level, you may already be there if you have an active program. I personally do not have a problem with what % of your total loan portfolio is indirect as long as you are measuring the A, B, C, D, and E paper you are getting from each dealer and your level of delinquency on your indirect compared to your direct – if your level of delinquency on indirect is substantially different than it is on the direct side, you can bet the regulatory agencies are going to take a lot of interest in what you are doing. If indirect and direct are both performing well the % of indirect loans should not be an issue provided you can demonstrate that your program is very profitable after paying out the dealer commissions recognizing your cost in collections and your charge offs.

Question:
Any tips on how to identify and track the origin of the loan payment to insure it is not coming from the dealership?

Answer:
The origin of payments is probably going to be an issue only with your marginal paper. I would somehow flag the system so that when the payments are being applied, if these are checks being

submitted by the dealers for payment on the member's account that someone immediately calls that member to find out why the dealer is making the payment. It should be simply enough for anyone who applies payments to see if those payments are coming from a dealership and that is just simply sitting down and training the employees who input the payments. Once again I applaud you for recognizing this risk.

Question:
Thoughts on marketing your indirect lending program and program details to dealers so that it is not used to "manipulate" applications (e.g., % of LTV you will finance, etc.)

Answer:
I highly recommend that you have an employee in the credit union who is well trained to handle dealer relations. That employee should talk to the general manager and the F&I manager and should make it crystal clear while you have some flexibility in your program, and that on occasion you will go over 100%, that this is not carte blanche for them to start adding on every possible add on and that on every deal you approve and there is usually a line that says you will buy the deal up to this dollar amount and no more that they understand that if the deal comes in and it exceeds this line number you are going to return the deal back to them. If they want to use the maximum dollar amount that you will approve it for they can package it anyway they want to as long as we are buying the contract on the vehicle they presented to us. If that only leaves them a thousand or two thousand dollars above and beyond that number, then they are going to have to pick and choose which products they want to include. Let them know that you will advise them on each deal what that maximum line amount will be based on the qualifications of the member and the value of the vehicle

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Question:
One of the slides, interestingly, suggested programs whereby dealers would pay to participate ("pay to play" concept) in a credit unions' indirect program. Have you seen that work in rural America?

Answer:
I have not necessarily seen this in rural America and some dealers may not be willing to "pay to play." I do know that with these 3rd parties they will not let the dealer play unless they pay. I can see where possibly it would be a little more of an issue for the dealers in rural America, especially if they already have strong relationships with rural banks and they do not have to pay. You might want to contact the CUDL group or they Ambridge group and see what their response to that same question is as they are signing up a lot of dealers

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Question:
What are your feeling and recommendations about only participating with franchised dealerships versus used car dealerships?

Answer:
Franchised dealerships generally represent less risk as there are certain standards they have to abide by in order to keep their franchise. Used car dealerships can represent a wonderful source of loans if you do due diligence. You absolutely need to see their financials, check the BBB, see how long they have been in business and so forth. I wouldn't rule them out but I would use great caution and I would verify every contract before I would buy it.

Question:
We plan to survey our members that obtain their loans through our indirect program to insure that our brand promises are being met and to identify any dealerships that we may want to discontinue relationships with if they fail to provide our service quality. Do you have any sample questionnaires or appropriate questions to get to our objectives in this regard?

Answer:
Some of the questions that I think that are absolutely critical are: Are you satisfied with the vehicle you purchased, was the salesman honest and forthright in selling you the car, would you buy another car from this same dealer, did they go over the contract and did you understand the terms and payments and any add-ons that were done, would you recommend this dealership to your friends? These are just a small sampling of questions that are fairly important and easy to answer, which is key.

Question:
The national benchmarks that Rex mentioned for delinquency (.7 to .8%) and on charge-off's (.5% to .55%). Was he talking as to our overall loan portfolio ratios or to indirect auto loans in relation to our auto loan portfolio or indirect to total loan portfolio? What we are trying to do is set dealer performance standards in these two areas.

Answer:
The ratios that I provided you are for the overall portfolio. I would recommend that you contact Callahan and Associates as they have a lot of statistical information as well as CUNA's research department. Between the two of them I am sure one of them can provide you with statistics on indirect delinquencies and charge-offs. I would love to see it myself. In reality I would not expect them to vary a great deal from the numbers I gave you since these are secured loans. The Beacon Auto Enhanced scoring model provided by Equifax clearly elevates ones score when they are getting a car loan as it is their belief that car loans are less risky than credit cards or signature loans. There is no question that unsecured loans are more risky, mortgage loans are less risky, and auto loans fall somewhere in-between which again is why the numbers I gave you would be a good guide but see what CUNA and Callahan's has to say and let us know.

Question:
We just recently started having one employee go out on a regular basis to the dealers to restart our relationship in the area. It has been very successful and has worked out well. The one concern I have is if the dealerships rely too much on this one particular employee and not on the whole team. I instructed our loan manager to have other people out there instead of just this one person so that the dealers have someone to go to when the employee is out sick, vacation or takes on another position (she has made it clear that she is looking for a management position). However, there is opposition from the initial employee and that concerns me because of her past history and the fact that she herself has said that this is only successful because of her and that she formed the foundation for this relationship and feels that she alone should handle the dealings with the dealerships.

Have you noticed if most dealerships just want to work with one employee or are they open to dealing with others in the loan departments so that assurance is made that if they can not reach that one person, there are many more qualified to assist on a loan? Or how much power or authority is this one person allowed-to what extent?

Your advice is greatly appreciated. Also, great webinar and looking forward to attending your University of Lending class in Texas this April.

Answer:
Your question is really a great a question. To answer your question there is no question dealers get comfortable with certain employees and that is who they enjoy doing business with. It speaks highly of your employee that the dealer and the employee have established this relationship.

The bad news is this: when credit unions have suffered major losses it is generally because one employee had complete control over the program and the employee for whatever reason forgot who they worked for.

I highly encourage getting the other employees involved and letting the dealers know that anytime there is an issue with a decision, service, or the attitude of the employee; to please let you know.

I think you are on the right track and keep up the good work.

Question:

I attended the webinar yesterday on Indirect Lending. We currently have 29 dealers enrolled in our program and 5 of them are also on the CUDL program with us. I am the Indirect Lending Manager and have worked hard to build our dealer program. I do have one issue that I can't seem to get my arms around. My dealers are continually sending me C,D, and E paper based on the flat that I am paying them, which is $125.00 per deal. My dealer F&I guys are getting points from banks and making up to $2000 per deal just on financing on the back end. How can I compete with that? We do not currently do any risk-based lending but are getting into it this year. They told me that they won't send me A & B paper unless I pay a higher flat or allow them to buy points based on credit scores. Is my flat rate too low?????

Answer:
You have a raised a number of issues with your email. The first one is it is almost impossible to have a good indirect program that is profitable without risk based lending. You are currently a tremendous amount of risk if they dealers are primarily sending you C, D, and E paper – especially since you are not getting compensated for the risk you are taking. Dealers will be delighted to send you all their C, D, and E paper because the members are getting lower rates and lower payments then they can get with any other lender so it is an easy sell for the dealer. The dealers have to absolutely love you. I highly recommend getting this changed right away. We are attaching a copy of our recommend risk based lending rates.

The next issue is that they are refusing to give you their quality paper unless you are willing to handsomely compensate them. There is no way the banks can be paying the F&I guy and dealership $2000 on the back end and still make money and still make money unless they are getting way above market rates on the front end. I would meet with the dealer, have the dealer give meet an example of when they get $2000, what rate the bank is offering, figure out the total finance charges which would be your income, subtract out your costs and see what your net yield is. I would be surprised if the dealers really getting $2000 that the credit union is even yielding 2, 2.5% - but you can figure it out. Most banks want to make more than that. Make sure you get the right numbers and then ask the dealers how a bank can do that if that is the entire yield they are getting. The bank has to make it on the front end if the dealer is making it on the back end. If the bank wants that business so bad that they are willing to lose money, God bless them, let them have all of it!

Let us know what you find out. Just remember, you have got to be getting a good yield on the front end of this high quality paper in order to reward these dealers on the back end.

Question:
Why is it not the FICO scoring or bankruptcy indicator? Why is it the 3rd party? Isn't the credit bureau a third party, why are we not going after the credit bureaus for more accurate or improved FICO scoring? The examples you showed have as much to do with faulty credit scoring as it does with fraudulent dealers or 3rd party vendors

Answer:
When we refer to 3rd parties, we are talking about groups that are involved in indirect lending who sign up the dealers, set up the programs, have the automated decisioning models and are compensated not only by the dealers but by the credit unions. They directly benefit from your buying loans. You benefit by getting the loans if the loans are performing loans. If the loans are non performing loans due to inaccurate information or information that has been changed to encourage you to buy the deal where the dealer knew exactly what was going on then that dealer has to be held accountable. Since we have a 3rd party that we have an agreement with and they too have a big interest in this they must also be held accountable. As far as the credit bureau reports being inaccurate or the BK predictors not working as well as they should, this is primarily due to programmers who wrote these programs that are using the factors or characteristics that they also need to look at. For the most part these models work pretty well although I am not as fond of the BK predictor as I am of the Fair Isaacs model which predicts default. If we are not happy with the models and we feel like the models are flawed there is no question that you need to compare one credit bureau against another for consistency and I highly recommend that you get the credit bureau reps out, show them the credit reports, and hold them accountable. But they are not being directly compensated whether you approve or deny the loan, they make the same money whereas the 3rd parties and dealers only get compensated for approvals and that is why I have a problem with dealers who commit fraud and the credit union takes a loss but the dealer gets away scot-free. Thanks for your observation.

Question:
When we are loaning to an already high-risk borrower, how should we deal with back-end products? Say no to backend? Limit a certain $ amount?

Answer:
I would refer you to decision making matrix (found at the end of the questions by clicking here. At the bottom of the matrix it clearly states when you can take risk and when you cannot take risk and it deals with high risk members. The maximum you would ever want to loan is the retail value of the vehicle plus 1 month's gross income. In order to do that all of the requirements at the bottom of the matrix must be in place. Look them over and if you have any questions let us know. Be very careful on over-financing with marginal borrowers, especially when you are not in control and you usually are not if it is going through a dealer. A quick rule of thumb is the higher the risk, the bigger the down payment and the shorter the term.

Question:
Rex do you know what the standard time period is for commissions to be charged back from the dealer when loans are paid out early.

Answer:
It really varies but most people have an agreement that if it is paid back within the first 90 days all commissions are refundable back to the credit union. You might want to check with other credit unions in your area to see what their practice is.

Question:

How is a deal with a substantial rebate normally viewed? Do you typically see it accepted as down payment? Also, how is it calculated in relation to approval amounts which are based on cost or MSRP of the unit?

Answer:
Rebates are nothing more than an adjustment to bring the vehicle down to it's fair market value which is a good indication of what the vehicle is really worth. If the manufacturer could move these cars without the rebate believe me they would not be offering a rebate. Since the demand is not there they have to adjust the price by offering the rebate which then gives you an indication of what the true market value is. Rebates should not overly influence your decision as they are not down payments and it does not necessarily mean that you are taking a lot less risk. I see way too many deals where the member is $5000 upside down on their trade, yet the dealer is offering a $5000 rebate and therefore we think we are ok. Nothing could be further from the truth as you are still $5000 upside down.

Question:
We are interested in obtaining the services of Credit Union Direct Lending (CUDL). Have you heard of this organization and if you have, what is your opinion of them?

Answer:
CUDL is probably the biggest 3rd party in signing up dealers and credit unions. I am sure they have a wealth of experience and they are owned by the credit union movement as they are a CUSO. They are growing in leaps and bounds and spreading throughout the United States. I sincerely believe that CUDL wants to see credit unions prosper and get their share of the business.

CUDL, like LSI or any other vendor you are going to do business with has to be held accountable. If they are signing up dealers that are not acting in the best interest of the credit union, which are misrepresenting information and committing fraud then CUDL must take quick decisive action to correct that situation in a hurry. If their automated scoring models that they will want you to use have flaws in them they need to make changes.

Finally, I would strongly recommend you call credit unions in your area if they have been using CUDL or if they are new to your area you may want to call credit unions in California where CUDL started and find out what their experience has been.

This holds true not only for CUDL, LSI but any 3rd party provider.

Question:
How long do you feel it will take DQ to start appearing?

Answer:
When you get into indirect lending, initially everything looks great depending on how aggressive you are with you underwriting this will determine when DQ's and charge offs will start popping up. Some programs have been out there for 18 – 24 months and everything looked great but now the wheels are coming off. One way to control this is to have someone inspect and validate what is going on with the underwriting. LSCI does this by doing this by doing a portfolio analysis. If you find out that you are buying a lot of paper and you are at all concerned for a small charge we

can sample your lending and let you know if you are on the right track. In addition, I would highly recommend that you have a procedure in place that any loan that becomes DQ within the first 6 to 9 months must be referred to senior management, pull a new credit report and attach it to the original loan file and credit report to see why the loan stopped performing to quickly. We are seeing a lot more first payment defaults with indirect lending then we ever dreamed possible. This procedure we are asking you to put in place will point this out in a hurry. The portfolio analysis we are currently doing for many credit unions have been extremely well received as we have nothing to gain on whether you are doing it right or wrong so we will give you an objective overview. Many credit unions are having them done every quarter just to make sure they are doing it right.

Question:
Are you recommending that we do not disclose our lending value to the dealer?

Answer:
I don't fully understand your question but if you your question relates to the amount that you will finance over retail I think that you are asking for problems by letting the dealer know they can put all these extra add-ons which may do nothing to increase the value of the collateral but certainly raise your risk. I would have an arrangement with all of my dealers that based on the vehicle they are asking us to finance, we will give them a maximum amount and we will not go beyond that. That amount should be based upon the credit worthiness of each individual applicant and that amount has to include the maximum you will allow for the value of the car plus taxes plus add-ons. You may very well decide that given the risk of the member you do not want any add ons or you do not want to finance any taxes and you might even want a down payment so you can finance less than retail

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Question:
You determined a 29% credit card rate on a credit bureau that didn't indicate a length of term. Can you let us know how that calculation was made?

Answer:
The calculation cannot be made without knowing the term. The example we used was based on talking to the member to find out what the term was. 2 credit bureaus provide you with terms, they are Experion and Transunion. 1 does not and they are Equifax. Knowing the rate a member is currently paying their other creditors, especially on car loans is critical to your decision. I am glad that you learned well enough to have picked this up because we did not think anybody would notice it. We only knew the term because we had asked that member.

Question:
Is it necessary to use a 3rd party?

Answer:
It is not necessary to use a 3rd party. Having said that, if you do not understand what you are getting into and you have no experience in signing up dealers and so forth it would probably be a good idea to look into getting some help. Talk to some other credit unions that have setup their own program, and there are many. Also talk to the ones that have used a 3rd party and find out how successful they have been and how satisfied they are. Then make your decision; a 3rd party potentially can drive your cost up as the 3rd party has to be compensated for their time and

expertise. They may also provide you with some comfort level that you may not have by trying to do it by yourself. Please contact us if there is someway we can help you with this decision. We would need to know more about your credit union and expertise to provide the best possible answer to your questions.

LOAN APPROVAL AUTHORITY

Employees are empowered to approve loans or in some cases, deny loans if **all** of the following conditions are met.

Condition	**Level 1**	**Level 2**	**Level 3**
1. Risk Score	**640 +**	**550+**	**Any Score**
2. Valid Credit Report	- 4 trade lines	same	N/A
	- 2 yrs. est. credit	same	N/A
	- 1 trade line in excess of $5,000	same	N/A
3. Max. Loan Amt.	To: $10,000 not to exceed	To: $15,000 not to exceed	To: $30,000 not to exceed
Unsecured			
	- 3 times mo. gross income	- SAME	- 4 times mo. gross income
	on scores of 680+		on scores of 680+
	- 2 times mo. gross income	- 2 times mo. gross income	- 3 times mo. gross income
	on score of 640-679	on score of 600-679	on all other scores
		- 1 times mo. gross income	
		on score below 600	
4. Total Unsecured Debt	With our loan cannot exceed 20%	30% of member's annual income	No restriction on total unsecured
Note: Total unsecured debt	of member's annual income		debt
must include upside down amt			
on car loans			
5. Max. Loan Amt. on	To: $25,000	To: $50,000	To: $100,000
Secured Vehicle Loan			
	Not to exceed 75% of members	Not to exceed 75% of members	On any score
	gross annual income	gross annual income on score	75% of gross annual income
		of 600+	Exception: may go over 75% for mbs
			who make very strong down payment
		- 50% of gross annual income	and mbrs who have very little
		all other scores	other debt
6. Max. LTV on			any score
Vehicle Loans	Retail	Retail + 1 month gross income	Retail + 1 month gross income
7. Home Equity or 2nd Mtg.	$35,000 not to exceed 80% LTV	$75,000 not to exceed 80% LTV	$150,000 not to exceed 80% LTV
		(TX only) all other states 100%	(TX only) all other states 100%
			work out loan (collections) 125% LTV
8. Determining the Value	must have print out on book value:	Same as Level 1	Same as Level 1
of the Vehicle			
	A) Vehicle being purchased		
	B) Vehicle being traded		
	New cars must have MSRP		
9. Turndown Authority	Cannot Reject any Loan Request	Same as Level 3	Can Deny any secured or unsecured
			loans. If Level 2 or 3 rejects a loan
	However, **must** recommend		they must talk to member.
	as if it was their decision		
10. Max. Term on	$5,000 or less (3 yrs.)	SAME	Can set any term provided it is
Unsecured Loans			in the best interest of Credit
	$5,000 to $10,000 (4 yrs.)	SAME	Union and Member
		$10,000 to $15,000 (5 yrs.)	
11. Max. Terms on	60 months on loan	72 months $25,000 to $35,000	same as above
Secured Loans			
		84 months $36,000 to $50,000	

APPROVING THE MARGINAL SECURED LOAN (D & E Paper Loans)

1. Good job
2. Probably will continue
3. Payroll deduction
4. Evidence pays car loans
5. If bankruptcy threat- (25% of annual income is unsecured)
   Loan low book
   If not bankruptcy threat-
   Loan high book plus 1 mo gross income
6. Go up to 50% of annual income
7. Inspect car when possible