

# Indirect Lending

## Is It a Blessing or a Curse?



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# CREDIT UNION TIMES

*Matz Explains Comments*

**Matz Not Adverse to CUs' Involvement in Indirect Lending, But Concerned With How They do it**

**By Elaine Barr *CU Times Managing Editor***

ALEXANDRIA, Va. — Comments regarding credit unions' involvement in indirect lending made by NCUA Board member Debbie Matz at the agency's recently held budget briefing raised a few eyebrows, but it seems it wasn't due to consternation over what she said as much as surprise that it took an NCUA Board member so long to say what Matz did.

Speaking at the Oct. 12th budget briefing, Matz expressed her concern about credit unions' concentration in indirect lending.

Citing figures such as 125% which represents the average net worth CUs have in indirect lending, and the 19% of their loan portfolio in that product, Matz stated that, "We need to get our arms around that before we have a problem."

Matz clarified to *Credit Union Times* that she isn't adverse to credit unions being involved in indirect lending, "I'm just concerned with how they do it."

Specifically, she elaborated, she has few concerns with those credit unions that are managing their own indirect lending program "because we know the loans that are approved are consistent with the credit union's risk profile." What does concern Matz are those credit unions that use third-party, non-credit union owned vendors for indirect lending.

"I don't have confidence they're using the credit unions' underwriting standards to make the auto loans or that credit

unions are doing sufficient due diligence on these vendors and checking their financials to make sure they're financially secure," Matz explained.

With an increasing number of credit unions involved with indirect lending, Matz said CUs shouldn't take the attitude that just because other credit unions are doing it, that means it's alright for them. "There's too much reliance on the perception that everything's okay," she said.

"With 125% of credit unions' net worth tied up in indirect lending, if there are problems with how these third party vendors are approving the loans and something goes wrong, there wouldn't just be a ripple, there could be a tidal wave," said Matz.



*Matz is not opposed to the concept of indirect lending, but is wary of credit unions that are using third-party, non-credit union owned vendors. Even indirect lenders say Matz has a point, and it's long overdue to be discussed.*

# Debbie Matz, NCUA board member stated in her Budget Briefing:

1. Few concerns with credit unions handling their own indirect program.
2. The concern is with credit unions using 3<sup>rd</sup> parties, non credit union owned vendors.
3. With 125% of credit union's net worth tied up in Indirect Lending, if there are problems on how the 3<sup>rd</sup> parties are approving loans and something goes wrong, there wouldn't be a ripple, but a tidal wave.



**System Approved Loans Can Be**

**LETHAL...**

# Loan Example #1

**Amount Requested:** \$19,204.18

**Down Payment:** \$0 Look at income!!!

**Purpose:** 2003 Nissan Altima

## Applicant

**Name:** Rene XXXXXX

**Address:** 123 Main Street

**City, State, Zip:** Anytown, USA 12345

**Status:** 11 years ~ Lives with family

**DOB:** 01/01/1983 **21 Yrs Old**

**Employer:** Green Nursery

**Position:** Unknown

**Years:** 4 years

**Gross Income:** \$42,000

**System Approved:** \$17,500 72 months @5.74%  
requires current POI and trade of at least one open  
auto (on bureau).

**Started when he was 17 years old?**  
**Have we ever heard of employer?**  
**Is it family owned?**

Rene XXXXXXXX  
123 Main Street  
Anytown, USA 12345

SS: xxx-xx-xxxx

DOB: 01/01/83

**21 Years Old**  
**LIKES CREDIT!!!**

**PROFILE SUMMARY**

Public Records	0	Past Due Amt	\$0	Inquiries	12	Satis Accts	11
Install Bal	\$32,251	Sch/Est Pay	\$603	Inqs/6 mos	6	Now del/drg	0
R Estate Bal	N/A	R Estate Pay	N/A	Tradeline	11	Was del/drg	0
Tot Rev Bal	\$2,880	Tot Rev Avail	81%	Paid Acct	1	Old trade	8-01

**SCORE SUMMARY**

Exp/Fair Isaac Auto Score 2 = **691** **A-**

Score Factors:

- 14 Length of time accounts have been established
- 36 Length of time open installment loans have been established
- 05 Number of accounts with balances
- 10 Proportion of balance to high credit on bk revolving or all revolving accounts

Bankruptcy Watch Score = 569

Score Factors:

- 13 Average age of trades
- 27 Number of inquiries for installment loans
- 26 Number of open installment trades
- 30 Balance to limit ratio on revolving accounts

**TRADES**

Subscriber	Open	Amt – Typ1	Amt – Typ2	Acct Cond	Pymt Status
Sub# KOB Typ Trm ECOA Baldate	Balance	Pymt Level	Mos Rev	Pymt History	
Account#	Last Pd	Month Pay	Past Due	Maximum	By Month
MCCBG/GECAF Dealers	8-01	\$5,000 – L	\$1,415 – H	Paid	Curr Acct
xx BC Chg Rev 2	6-04		6-04	(34)	000000000000
XXXXXXXXXXXX					000000000000
***Account closed at consumer's request***					
Bank of America	9-03	\$4,500 – L	\$2,414 – H	Open	Curr Acct
Xx BC CRC Rev 1	6-04	\$2,414	6-04	(9)	CCCCCCCCC
XXXXXXXXXXXX	6-04	\$26			

Wells Fargo					12-02	\$4,200 – L	\$2,253 – H	Open	Curr Acct
Xx BC CRC REV 1					6-04	\$0	6-04	(19)	0CCC000CCCCC
XXXXXXXXXXXX					6-04				CCCCC0

Fleet CC					9-03	\$2,000 – L		Open	Curr Acct
Xx BC CRC REV 1					6-04	\$0	6-04	(9)	0000000000
XXXXXXXXXXXX									

**HAS TO BE UPSIDE DOWN!**

<b>ABC CU</b>					1-04	\$11,483 – O		Open	Curr Acct
xx FC Aut	66	-1			5-04	\$10,875	5-04	(4)	CCCC
XXXXXXXXXXXX					4 months	\$202			

**BRAND NEW!**

ABC CU					5-04	\$21,376 – O		Open	Curr Acct
xx FC Aut	73	-1			5-04	\$21,376	5-04	(1)	C
XXXXXXXXXXXX					5-04	\$350			

**NOTE: 21 Years Old, spent \$33,000 on 2 cars in 4 months and now wants to trade again!**

Bank One – Ohio					8-03	\$500 – L	\$99 – H	Open	Curr Acct
Xx BC CRC REV 1					5-04	\$69	5-04	(9)	C00000CCCC
XXXXXXXXXXXX					11-03	\$10			

Providian Financial					12-01	\$3,050 – L	\$476 – H	Open	Curr Acct
Xx BC CRC REV 1					5-04	\$397	5-04	(30)	CCCCCCCCCCCC
XXXXXXXXXXXX					5-04	\$15			CCCCCCCCCCCC

**INQUIRIES**

<b>Acranet</b>	6-15-04
<b>Acranet</b>	5-26-04
<u>3<sup>rd</sup> party/ABC CU</u>	<u>5-26-04</u>
<b>AMEX</b>	5-19-04
<u>3<sup>rd</sup> party/ABC CU</u>	<u>1-29-04</u>

**NOTE:**  
**You must start looking at terms and opening dates.**



## Collection Notes:

**6/15/04**

- Loan granted.

**6/24/04**

- Member called in said that he purchased a vehicle a week ago and that he would like to return the vehicle. They told him they would take his vehicle, they then called him back to tell him that he had to come back and pick it up – member stated that he is unable to make payments on both vehicles – so he agreed to surrender this vehicle. Member said that he only makes \$1,000 a month.

**6/25/04**

- He stated he had purchased it at ABC One dealership. He brought the vehicle back because the payments were too high. He stated dealer would try to sell the vehicle for him but he has no paperwork as proof.

**6/28/04**

- A sales person at ABC One dealership completed the loan application for the new car and told Rene if anyone asks to tell them he makes \$3,500 per month. He said his net is \$500 every other week. He is 21 and lives with parents.

**\*\*\*Repossessed auto on 9/13/04\*\*\***

### Note:

1. Dealer told member what to say.
2. Purchased both autos from same dealership.
3. Salesmen knew “ALL” this, the credit union is really being set up!
4. What does your contract say about dealers committing fraud?
  - Having member lie about salary
  - Withholding information
5. Collections should have referred this to senior management who should go after the Dealer and let the 3<sup>rd</sup> party who originally signed the dealer involved deliver the good news. The dealer got away with fraud, the credit union lost all the money.

# **...Especially if dealers know how to manipulate the system.**

1. What's in your contracts regarding fraud?
2. Should you allow the system to approve anything?
3. The dealer told your new member to lie about income.
4. Good example of how inexperienced young buyers get taken.

# Be careful what you wish for you may just get it.

Credit unions will often give dealers an incentive to overcharge the member by letting the dealer know what the maximum amount they will approve the loan for (i.e. 125%), which very well may exceed the amount of the original request. The dealers then sees a wonderful opportunity to make additional money.

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Listed below is such an example:

Maker: 57 years old

Co-maker: 18 years old

Question: Does a 57 year old need a 18 year old to co-sign?

Note: 18 year old makes \$17,760

Dealer requested: \$8,875

Value: \$8,775

Decision: We approved for 125% or \$10,968. Deal came in at \$10,500.

Point: Dealer added almost \$2,000 once he was told the max we would go.

Results: We repossessed the auto six months later after adding C.P.I.

# Loan Example #2

**Amount Requested:** \$46,300.31

**Purpose:** 2003 Chevy Tahoe

## Applicant

**Name:** Joyce XXXXXX

**Address:** 123 Main Street

**City, State, Zip:** Anytown, USA 12345

**Status:** 50 years ~ Owns F/C

**DOB:** 10/22/1936 **68 Yrs Old**

**Employer:** Retired

**Position:** 25 years at State School

**Years:**

**Gross Income:** \$46,000

- **Granted a loan to a 68 year old retired member for a brand new Chevy Tahoe. Does this make sense?**
- **Member had to borrow money to make ends meet.**
- **Financed \$46,000 on a \$46,000 annual income, 100% of her income.**
- **No previous auto loans have similar dollar amounts.**

# Retail Sales Contract

<b>Buyer</b> Joyce XXXXXXXXXXXX	<b>Creditor - Seller</b> Chevrolet, Inc
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New/Used/Demo	Year	Make & Model	Odometer	Vehicle Identification Number
Used	2003	Chevy Tahoe	4	1D3XXXXXXXXXXXXXXXXXX

Annual Percentage Rate	Finance Charge	Amount Financed	Total of Payments	Total Sale Price
10.50%	\$16,575.13	\$46,300.31	\$62,875.44	\$66,875.44

Your Payment Schedule Will Be:		
Number of Payments	Amount of Pyaments	When Payment are Due:
72	873.27	12/15/2002

Itemization of Amount Financed	
1. Cash Price (including \$2708.72 sales tax)	<u>\$48,048.22</u> (1)
2. Total Down Payment =	
Trade-In	<u>N/A</u>
Gross Trade-In Allowance	<u>N/A</u>
Less Pay Off Made By Seller	<u>N/A</u>
Equals Net Trade In	<u>N/A</u>
Cash	<u>\$2,000.00</u>
Other	<u>\$2,000.00</u>
Rebate	<u>\$4,000.00</u> (2)
(if down payment is negative, enter "0" and see 4H below)	<u>\$4,000.00</u> (3)
3. Unpaid Balance of Cash Price (1 minus 2)	<u>\$44,048.22</u> (3)
4. Cost of Optional Credit Insurance Paid to Insurance	
A. Cost of Optional Credit Insurance Paid to the Insurance Company or Companies	
Life	<u>\$0.00</u>
Disability	<u>\$0.00</u>
B. Other Insurance Paid to the Insurance Company	<u>\$0.00</u>
C. Official Fees Paid to Government Agencies	<u>\$0.00</u>
D. Dealer Inventory Tax	<u>\$92.54</u>
E. Other Taxes Not Included in Cash Price	<u>\$0.00</u>
F. Government License and/or Registration Fees	<u>\$69.80</u>
G. Government Certificate of Title Fess	<u>\$13.00</u>
H. Government Vehicle Inspection Fees	<u>\$21.75</u>
K. Deputy Service Fee Paid to Seller	<u>\$0.00</u>
L. Documentary Fee	<u>\$50.00</u>
M. Other Charges (Seller must identify who is paid)	
to Valueguard	<u>\$2,000.00</u>
to N/A for N/A	<u>\$0.00</u>
to N/A for N/A	<u>\$0.00</u>
to N/A for N/A	<u>\$0.00</u>
Total Other Charges and Amounts Paid to Others on Behalf	<u>\$2,252.09</u> (4)
5. Amount Financed (3 plus 4)	<u>\$46,300.31</u> (5)

\$48,000 for a Chevy Tahoe, has to be way over booked....  
MSRP: \$33,000

Probably borrowed!

Beacon: 670

Serious delinquency

Proportion of balances to credit limits, too high on bank/other revolving accounts

Length of time accounts have been established

Level of delinquency on accounts

Joyce XXXXXXXXXX  
123 Main Street  
Anytown, USA 12345

Summary Information

Begin Date = 10/1992	Ending Date = 10/2002	PR/OI - 00	Coll - 00
Lowest HC \$228	Highest HC \$ 42856	Num Accts = 19	
MOP Rates: 18-ones	00-fives	MOP Hist Rates:	
00-twos	00-sevens	03-twos	00-sevens
00-threes	00-eights	00-threes	00-eights
00-fours	01-nines	00-fours	00-nines
00-others		00-fives	

Firm Name	Customer #	CS	Limit	Hicr	Bal	ECO A
Account #	DLA		P/Due	Term		
Rptd	Opnd	MR	Max del	24 month history		

FCNB	XXXXXXXXXX	R1	2900		904	I
XXXXXXXXXX	10/2002			30		
10/02	03/00	31				
AV Charge	AZ Amount in H/C column is credit limit					

Cap 1 Bank	XXXXXXXXXX	R1		228	185	I
XXXXXXXXXXXX	10/2002			10		
10/02	05/00	29				
FE Credit card						

FCNB	XXXXXXXXXX	R1	1250		1242	I
XXXXXXXXXXXX	10/2002			32		
10/02	07/01	15				
FE Credit card	AZ Amount in H/C column is credit limit					

Firm Name Account # Rptd	Opnd	MR	Customer # CS DLA (30-60-90+)	Limit P/Due Max del	Hicr Term 24 month history	Bal	ECOA
Cap 1 Bank XXXXXXXXXX 09/02	07/00	26	XXXXXXXXXX R1 09/2002		299 15	162	I
FE Credit card							
CingularWr XXXXXXXXXX 07/98	04/96		XXXXXXXXXX O9 03/2004 (01-00-00)	2827	2827 *****2*****	2827	I
DB Charged Off Account			CV Line of credit				
Primus XXXXXXXXXX 10/02	03/00	31	XXXXXXXXXX I1 10/2002		15535 443	2219	I
AO Auto			<b>Sub-prime lender!</b>				
Bank One XXXXXXXXXX 09/02	07/01	13	XXXXXXXXXX I1 09/2002		42856 801	36989	I
			<b>13 months, what is this?</b>				
CitiFinical XXXXXXXXXX 09/02	06/02	02	XXXXXXXXXX I1 09/2002		5097 174	4891	I
			<b>3 months ago borrowed \$5000</b>				
Security XXXXXXXXXX 09/02	07/02	02	XXXXXXXXXX I1 09/2002		644 92	552	I
			<b>2 months ago</b>				
CitiFinacial XXXXXXXXXX 06/02	11/00	18	XXXXXXXXXX I1 05/2002		6985 145	0	I
EX Unsecured							

**Look at spending vs. age!!!**

**Paid in full 9 other accounts.**

<b>Revolving totals:</b>	Limit = 4150 P/Due = 0	Hi-Cr = 527 Terms = 87	Bal = 2493
<b>Open totals:</b>	Limit = 0 P/Due = 2827	Hi-Cr = 2827 Terms = 0	Bal = 2827
<b>Installment Totals:</b>	<b>Limit = 0</b> <b>P/Due = 0</b>	<b>Hi-Cr = 64132</b> <b>Terms = 1510</b>	<b>Bal = 44651</b>
<b>Grand Totals:</b>	<b>Limit = 4150</b> <b>P/Due = 2827</b>	<b>Hi-Cr = 67486</b> <b>Terms = 1597</b>	<b>Bal = 49971</b>

**Inquiries**

Bill H Chv	11/01/02
GMAC	11/01/02
Citifinancial	06/10/02
BankAmerica	07/10/01
Bank One	07/10/01



What is his age, credit, employment history like? Was car always for him, if so why didn't the dealer send us an app on him!?

## Collection Notes:

**11/02**

- Loan granted.

**5/29/03**

- Call res# mbr **said son makes pmts**, I told her to have son call me and that I need 2 pmts now

**6/11/03**

- Called member's hm# left message w/ XYZ to return call
- Member called back in said that he made arrg with RH to pay last Fir then again this Fri the 13<sup>th</sup> and the following Fri the 20<sup>th</sup> then will be caught up

**6/17/03**

- Res# no answer

**6/18/03**

- Pd 1746.54 on 6/16/03

**6/23/03**

- (Indirect ) 2 pymts on 6/16/03 for 1746.54 returned NSF

**6/25/03**

- Called res# left message w/ lady who acted like she could care less who may or may not pass the message to mbr

**6/26/03**

- Cld res and adv that we need \$2619.81 – loan isn't even a year old, and we always had del problems. Asked mbr if she could afford pymt and claims she could. Adv that why then is she always giving us bad checks? Mbr said she would have to get back with us because she thought April and May were paid. When I told her that ck came back like all the other cks she tried to cut me off. Told her she needed to just bring it in or we would pick it up, she said "whatever" and hung up.

# Results:

- Auto was purchased for member's son and he broke every promise made to credit union/collector. Collection notes continue for a year and auto not repossessed.

# Conclusion:

1. Get the car
2. Sue her and repossess the car from him
3. Quit talking to him
4. Are you still buying deals through this dealer, if so why?

**NOTE: The dealer knew this car was not for the 68 year-old but knew the young member would not qualify.**

# **Over-Financing on Dealer's Cash Price**

# Loan Application #3

**Amount Requested:** \$25,727

**Purpose:** 1999 Lexus RX 300

## Applicant

**Name:** Rosalina XXXXXX

**Address:** 123 Main Street

**City, State, Zip:** Anytown, USA 12345

**Status:** Rent for 1 year

**DOB:** 9/22/1975 **29 Yrs Old**

**Employer:** ABC Casa

**Position:** CSR

**Years:** 1 Year and 5 months

**Gross Income:** \$42,000

## Unreal Deal.

- **Financed 158% of dealership cash price**
- **29 years old**
- **Very limited credit**
- **Traded in a 2003 for a 1999**
- **Payment increased by \$50**

# Retail Sales Contract

<b>Buyer</b> Rosalina XXXXXXXXXXXX	<b>Creditor - Seller</b> Buick, Pontiac, GMC, Cadillac
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New/Used/Demo	Year	Make & Model	Odometer	Vehicle Identification Number
Used	1999	Lexus RX300	68676	JTXXXXXXXXXXXXXXXXXX

Annual Percentage Rate	Finance Charge	Amount Financed	Total of Payments	Total Sale Price
6.49%	\$4,476.31	\$25,773.29	\$30,249.60	\$30,246.60

<b>Your Payment Schedule Will Be:</b>		
Number of Payments	Amount of Pyments	When Payment are Due:
59	504.16	11/12/2004

<b>Itemization of Amount Financed</b>	
1. Cash Price (including \$1272.71 sales tax)	<u>\$17,599.72</u> (1)
2. Total Down Payment =	
Trade-In <u>2003 Nissan Xterra</u> Value = \$13000	
Gross Trade-In Allowance	\$13,000.00
Less Pay Off Made By Seller	\$20,201.32
Equals Net Trade In	-\$7,201.32
Cash	\$1,500.00
Other	
(if down payment is negative, enter "0" and see 4H below)	-\$5,701.32 (2)
3. Unpaid Balance of Cash Price (1 minus 2)	<u>\$23,301.04</u> (3)
4. Cost of Optional Credit Insurance Paid to Insurance	
A. Cost of Optional Credit Insurance Paid to the Insurance Company or Companies	
<u>Life</u>	<u>\$0.00</u>
<u>Disability</u>	<u>\$0.00</u>
B. Other Insurance Paid to the Insurance Company	\$0.00
C. Official Fees Paid to Government Agencies	\$0.00
D. Dealer Inventory Tax	\$0.00
E. Other Taxes Not Included in Cash Price	\$0.00
F. Government License and/or Registration Fees	\$174.00
G. Government Certificate of Title Fess	\$0.00
H. Government Vehicle Inspection Fees	\$0.00
K. Deputy Service Fee Paid to Seller	\$0.00
L. Documentary Fee	\$45.00
M. Other Charges (Seller must identify who is paid)	
to Service contract	\$1,700.00
to Gap for	\$495.00
to Smog	\$50.00
to N/A for N/A	\$0.00
Total Other Charges and Amounts Paid to Others on Behalf	<u>\$2,419.00</u> (4)
5. Amount Financed (3 plus 4)	<u>\$25,720.04</u> (5)

Rosalina XXXXXXX  
123 Main Street  
Anytown, USA 12345

SS: xxx-xx-xxxx

DOB: 9/22/75

-----**PROFILE SUMMARY**-----

Public Records	0	Past Due Amt	\$30	Inquiries	13	Satis Accts	2
Install Bal	\$20,156	Sch/Est Pay	\$459	Inqs/6 mos	11	Now del/drg	1
R Estate Bal	N/A	R Estate Pay	N/A	Tradeline	3	Was del/drg	0
Tot Rev Bal	\$69	Tot Rev Avail	0%	Paid Acct	1	Old trade	9-01

-----**SCORE SUMMARY**-----

Exp/Fair Isaac Auto Score 2 = 644

Score Factors:

- Serious Delinquency
- Insufficient or lack of revolving account information
- Number of accounts delinquent
- Length of time open installment loans have been established

Bankruptcy Watch Score = 451

Score Factors:

- Number of open sales – finance and loan – finance installment trades
- Balances of open trades
- Lack of open revolving trades
- 10 Ratio of balance to limit on open trades

-----**TRADES**-----

Subscriber	Open	Amt – Typ1	Amt – Typ2	Acct Cond	Pymt Status
Sub# KOB Typ Trm ECOA	Baldate	Balance	Pymt Level	Mos Rev	Pymt History
Account#	Last Pd	Month Pay	Past Due	Maximum	By Month
Macys	9-01	\$100 – L	\$129 – H	Closed	Delinq 180
xx DC Chg Rev 1	8-02	\$69	6-02	(11)	<u>65431</u> CCCCC
XXXXXXXXXXXX	1-02	\$5	\$30		

\*\*\*Account closed at credit grantor's request\*\*\*

Mitsubishi Motor Credit  
xx FF Aut 60 7  
xxxxxxxxxxxx

11-01  
7-03

\$18,374 - O

7-03

Paid  
(20)

Curr Acct  
CCCCCCCCCCCC  
CCCCCC

Nissan Motor Acceptance  
xx FA Aut 60 5  
xxxxxxxxxxxx

7-03  
9-04  
9-04

\$26,004 - O  
\$20,156  
\$454

9-04

Open  
(15)

Curr Acct  
CCCCCCCCCCCC  
CC

-----INQUIRIES-----

WFS Financial 10-14-04  
Fac-tty-auto 10-13-04  
Citi-usa-sears 10-10-04  
Cingular Wireless 10-02-04  
Pacific Capital Bank 9-13-04  
WFS Financial 9-13-04  
Credco 9-13-04  
Arcadia Financial 9-13-04  
WFFinaccpt 9-13-04  
Credco 7-02-04

**Do we really believe has any equity in any of these cars?**

**On a 60 month car loan, you don't have equity after 15 months, you have equity after 42 months.**

# Example of an area where credit unions are competitive against each other to get the dealer's business.

Competitor's asset size	Max Flat	Max Rate Mark Up	Max Term	Min. Amt. for 60/mo term	Min. Amt. for 72/mo term	Min. Amt. for 84/mo term	A+ Rate 60 months	A+ Rate 72 months	A+ Advance	A Advance	B Advance	C Advance	D Advance
266 mil	2.15%		84	\$10,000	\$15,000	\$25,000	4.99%	5.99%	125%	120%	115%	100%	90%
211 mil	2.00%		84	N/A	N/A	\$25,000	5.00%	5.50%	125%	125%	110%	100%	90%
93 mil	2.00%		84	\$10,000	\$20,000	\$20,000	4.90%	5.75%	100%	100%	100%	100%	100%
1.2 bil	2.00%		84	none	\$25,000	\$30,000	5.25%	5.50%	130%	130%	120%	110%	100%
408 mil	2.00%		84			\$10,000	5.49%	5.99%	100%	100%	100%	100%	100%
773 mil	2.00%		108	none	none	none	5.38%	5.63%	120+++%	120+++%	115+++%	105+++%	90+++%
348 mil	1.00%		84	\$8,000	\$20,000	\$25,000	5.25%	5.25%	100+++%	100+++%	100+++%	100+++%	100+++%
168 mil	1.75%	3%	84	none	\$20,000	\$25,000	4.70%	5.25%	120inv+++%	120inv+++%	110inv+++%	110inv+++%	none
254 mil	2.00%		84	\$10,000	\$15,000	\$30,000	5.25%	5.50%	110%	110%	110%	110%	110%

**Credit unions now feel the only way they can get the dealer's business is to give the dealer everything he asks for.**



# Loan Example #4

**Amount Requested:** \$30,136.72

**Purpose:** 2004 Toyota Highlander LSE

## Applicant

**Name:** Arthur XXXXXX

**Address:** 123 Main Street

**City, State, Zip:** Anytown, USA 12345

**Status:** 6 months

**DOB:** 9/22/1945 **59 Yrs Old**

**Employer:** ABC Engineering

**Position:** Engineer

**Years:** 2 months (previous 5 years)

**Gross Income:** \$54,000

## Applicant

**Name:** Anna XXXXXX

**Address:** 123 Main Street

**City, State, Zip:** Anytown, USA 12345

**Status:** 6 months

**DOB:** 11/29/1950 **53 Yrs Old**

**Employer:** Retired – SS & Pension

**Position:**

**Years:**

**Gross Income:** \$28,800

Arthur XXXXXXXX  
123 Main Street  
Anytown, USA 12345

SSN: xxx-xx-xxxx  
DOB: 09-09-1945

**Score Summary**

New XPN/Fair, Isaac Auto Model = **656** Score Factors: 40, 10, 36, 14  
40 – Derogatory public record or collection filed  
10 – Proportion of balance to high credit on bank revolving or all revolving accounts  
36 – Length of time open installment loans have been established  
14 – Length of time accounts have been established

**Score Summary**

XPN Bankruptcy Watch = **267** Score Factors: 45, 18, 36, 16  
45 – Presence of bankruptcy  
18 – Balances on bankcards  
36 – Average age of revolving trades  
16 – Number of open trades

**Can go anytime, knows how!**

**Public Records**

Court Name Status Date Court Code \$Amount Type  
US Bkpt 4/30/96 xxxxxxxxx \$25200 BK 7 – Dischg  
Ref #: xxxxxxxx  
Original Filing Date: 1/15/96

**Trades**

Subscriber	Open	Amt-Typ1	Amt-Typ2	AcctCond	Pynt Status
Sub # KOB TYP TRM ECOA	BalDate	Balance	Pynt Level	Mos Rev	Pynt History
Account #	Last Pd	Month Pay	Past Due	Maximum	By Month
Dime Savings Bank	03-02	\$175,000 O		Transferred	Curr Acct
Xxx FS R/C 360 2	10/31/02		10-02	(06)	BCCCCC
xxxxxxx					

Payment Counters: 06 (30)00 (60)00 (90+)00  
\*\*Account transferred to another lender

Subscriber					Open	Amt-Typ1	Amt-Typ2	AcctCond	Pymt Status	
Sub #	KOB	TYP	TRM	EOA	BalDate	Balance	Pymt Level	Mos Rev	Pymt History	
Account #					Last Pd	Month Pay	Past Due	Maximum	By Month	
Option One Mortgage					2-01	\$158,000 O		Transferred	Curr Acct	
Xxx	FM	R/C	360	2	07/06/01		07-01	(02)	BC	
xxxxxxx										
Payment Counters: 02 (30)00 (60)00 (90+)00										
**Account transferred to another lender										
Providian Financial					11-01	\$2,000 L	\$1047	HCR	CD Lost	Curr Acct
Xxx	BC	CRC	Rev	1	01/31/03		01-03	(16)	BCCCCCCCCCCCC	
xxxxxxx										
Payment Counters: 16 (30)00 (60)00 (90+)00										
RNB – Target					11-98	\$378 L	\$125 H		Closed	Curr Acct
Xxx	DV	Chg	Rev	2	04/11/04		10-02	(44)	B0000000000000	
xxxxxxx										
Payment Counters: 44 (30)00 (60)00 (90+)00										
**Credit line closed – consumer’s request – reported by subscriber										
MBGA/JCPenney					>10yrs	\$800 H		Closed	Curr Acct	
Xxx	DC	Chg	Rev	4	10/28/94		10-94	(99)	B	
xxxxxxx										
Payment Counters: 99 (30)00 (60)00 (90+)00										
**Credit line closed – grantor’s request – reported by subscriber										
Capital One Bank					11-97	\$1851 H		Open	Cur was 30-2	
Xxx	BC	CRC	Rev	3	04/03/04	\$1382	02-00	(77)	CCCCCCCCCCCC	
xxxxxxx										
					03-04	\$41 S		01-00/1	CCCCCCCCCCCC	
Payment Counters: 77 (30)02 (60)00 (90+)00										
RNB Target					11-98	\$900 L	\$1868 H		Open	Curr Acct
Xxx	BC	CRC	Rev	2	04/17/04	\$857	04-04	(21)	CCCCCCCCCCCC	
xxxxxxx										
					04-04	\$22 S			CCCCCCCC	
Payment Counters: 21 (30)00 (60)00 (90+)00										

Subscriber Sub # KOB TYP TRM ECOA Account #	Open BalDate Last Pd	Amt-Typ1 Balance Month Pay	Amt-Typ2 Pymt Level Past Due	AcctCond Mos Rev Maximum	Pymt Status Pymt History By Month
Capital One Bank Xxx BC CRC Rev 1 xxxxxxx Payment Counters: 05 (30)00 (60)00 (90+)00	12-03 04/15/04 03-04	\$1236 H \$1284 \$63 S		Open (05)	Curr Acct CCCCC
Providian Financial Xxx BC CRC Rev 1 xxxxxxx Payment Counters: 30 (30)00 (60)00 (90+)00	11-01 04/13/04 02-04	\$2000 L \$2026 \$60 S	\$2026 H 04-04	Open (30)	Curr Acct CCCCCCCCCCCC CCCCCCCCCCCC
Lowes/MBGA Xxx BC CRC Rev 2 xxxxxxx Payment Counters: 16 (30)00 (60)00 (90+)00	02-03 04/06/04 03-04	\$1000 L \$965 \$21 S	\$974 H 04-04	Open (16)	Curr Acct CCCCCCCCCCCC CCC
Chrys Fncl Xxx FA Aut 072 2 xxxxxxx Payment Counters: 15 (30)00 (60)00 (90+)00	02-03 03/31/04 03-04	\$26084 O \$22647 \$468 S	Trading in 03-04	Open (15)	Curr Acct CCCCCCCCCCCC CC

**Inquiries**

Keyes Motors	4/25/04
Capital One Bank	12/17/03
ADP/Valley Dodge	2/22/03
CU	2/20/03

**Profile Summary**

Public Record	1	Past Due Amt	0	Inquiries	7	Satis Accts	21
Install Bal	\$22647	Sch/Est Pay	\$226	Inqs/6 mo	1	Now Del/Drg	0
R Estate Bal	0	R Estate Pay	0	Tradeline	24	Was Del/Drg	3
Revolving Bal	\$6514	Revolving Avil	38%	Paid Acct	17	Old Trade	07-86

**8.75%....Can't have equity!**  
**Member will need to pay minimum of 50 payments before breaking even.**

Anna XXXXXXXX  
123 Main Street  
Anytown, USA 12345

SSN: xxx-xx-xxxx  
DOB: 11-29-1950

**Score Summary**

New XPN/Fair, Isaac Auto Model = 609 Score Factors: 38, 10, 09, 36  
38 – Serious delinquency and public record or collection filed  
10 – Proportion of balance to high credit on bank revolving or all revolving accounts  
09 – Number of accounts opened within the last 12 months  
36 – Length of time open installment loans have been established

**Score Summary**

XPN Bankruptcy Watch = 273 Score Factors: 45, 18, 16, 36  
45 – Presence of bankruptcy  
18 – Balances on bankcards  
16 – Number of open trades  
36 – Average age of revolving trades

**Public Records**

Court Name	Status Date	Court Code	\$Amount	Type
US Bkpt	4/30/96	xxxxxxxxx	\$25200	BK 7 – Dischg

Ref #: xxxxxxxx  
Original Filing Date: 1/15/96

**Trades**

Subscriber	Open	Amt-Typ1	Amt-Typ2	AcctCond	Pymt Status
Sub # KOB TYP TRM ECOA	BalDate	Balance	Pymt Level	Mos Rev	Pymt History
Account #	Last Pd	Month Pay	Past Due	Maximum	By Month
Dime Savings Bank	03-02	\$175,000 O		Transferred	Curr Acct
Xxx FS R/C 360 2	10/31/02		10-02	(06)	BCCCC
xxxxxxx					

Payment Counters: 06 (30)00 (60)00 (90+)00

\*\*Account transferred to another lender

Subscriber Sub # KOB TYP TRM ECOA Account #	Open BalDate Last Pd	Amt-Typ1 Balance Month Pay	Amt-Typ2 Pymt Level Past Due	AcctCond Mos Rev Maximum	Pymt Status Pymt History By Month
Option One Mortgage Xxx FM R/C 360 2 xxxxxxx	2-01 07/06/01	\$158,000 O		Transferred (02)	Curr Acct BC
Payment Counters: 02 (30)00 (60)00 (90+)00 **Account transferred to another lender					
RNB – Target Xxx DV Chg Rev 2 xxxxxxx	11-98 04/11/04	\$378 L	\$125 H 10-02	Closed (44)	Curr Acct B0000000000000
Payment Counters: 44 (30)00 (60)00 (90+)00 **Credit line closed – consumer’s request – reported by subscriber					
MBGA/JCPenney Xxx DC Chg Rev 4 xxxxxxx	>10yrs 10/28/94	\$800 H		Closed (99)	Curr Acct B
Payment Counters: 99 (30)00 (60)00 (90+)00 **Credit line closed – grantor’s request – reported by subscriber					
Capital One Bank Xxx BC CRC Rev 1 xxxxxxx	11-97 04/03/04 03-04	<del>\$1851 H</del> <del>\$1382</del> <del>\$41 S</del>		Open (77) 01-00/1	Cur was 30-2 CCCCCCCCCCCC CCCCCCCCCCCC
Payment Counters: 77 (30)02 (60)00 (90+)00					
Capital One Bank Xxx BC CRC Rev 1 xxxxxxx	10-01 04/23/04 04-04	<del>\$1038 H</del> <del>\$946</del> <del>\$28 S</del>		Open (31)	Curr Acct CCCCCCCCCCCC CCCCCCCCCCCC
Payment Counters: 31 (30)00 (60)00 (90+)00					
RNB Target Xxx BC CRC Rev 2 xxxxxxx	11-98 04/17/04 04-04	<del>\$900 L</del> <del>\$857</del> <del>\$22 S</del>	\$1868 H 04-04	Open (21)	Curr Acct CCCCCCCCCCCC CCCCCCCC
Payment Counters: 21 (30)00 (60)00 (90+)00					

Captial One FSB 12-01 \$1227 H Open Curr Acct  
 Xxx BC CRC Rev 1 04/03/04 \$1062 (29) CCCCCCCCCCCC  
 xxxxxxxx 03-04 \$31 S CCCCCCCCCCCC  
 Payment Counters: 29 (30)00 (60)00 (90+)00

GECCCC 03-03 \$2023 L \$2024 H Open Curr Acct  
 Xxx FF Chg Rev 1 03/31/04 \$821 (14) CCCCCCCCCCCC  
 xxxxxxxx 03-04 \$20 S C  
 Payment Counters: 14 (30)00 (60)00 (90+)00

RNB - Mervyns 12-97 \$600 L \$539 H Open Curr Acct  
 Xxx DC Chg Rev 1 03/21/04 \$390 (25) CCCCCCCCCCCC  
 xxxxxxxx 03-04 \$20 S CCCCCCCCCCCC  
 Payment Counters: 25 (30)00 (60)00 (90+)00

Beneficial/HFC 03/04 \$5000 O WOW! 29% Open Curr Acct  
 Xxx FP Nte Nte 1 3/20/04 \$5000 (01) C  
 xxxxxxxx 3-04 \$158 S  
 Payment Counters: 1 (30)00 (60)00 (90+)00

~~Chrys Fncl 02-03 \$26084 O Open Curr Acct  
 Xxx FA Aut 072 2 03/31/04 \$2547 (15) CCCCCCCCCCCC  
 xxxxxxxx 03-04 \$468 S CC  
 Payment Counters: 15 (30)00 (60)00 (90+)00~~

Direct Merchants Bank 10-02 \$5000 L \$5055 H Open Curr Acct  
 Xxx BC CRC Rev 1 2/29/04 \$4667 (16) CCCCCCCCCCCC  
 xxxxxxxx 02-04 \$117 S CCC  
 Payment Counters: 16 (30)00 (60)00 (90+)00

**Profile Summary**

Public Record	1	Past Due Amt	0	Inquiries	9	Satis Accts	23
Install Bal	\$28130	Sch/Est Pay	\$281	Inqs/6 mo	2	Now Del/Drp	0
R Estate Bal	0	R Estate Pay	0	Tradeline	28	Was Del/Drp	5
Revolving Bal	\$11090	Revolving Avil	25%	Paid Acct	15	Old Trade	07-86

# Results

- Bankrupt less than 3 months, very predictable
- Way over-financed
- Approved \$30,155 (highest bid 3 to 4 months later is \$16,000)

10/27/04

- New FICO score = 481
- New BK predictor = 1037 (This does not show risk.)



## Look at Previous Example:

Member's Original BK 4/96.

**NOTE: Member can file another Chapter 7 after 7 years or 4/03**

## Is There a Need to File?

**Unsecured Debt: \$19,400 + \$7,000 (negative equity from trade-in)**

Capital One	\$1382	Beneficial	\$5000
RNB Target	\$857	Capital One	\$1062
Capital One	\$1284	GECCC	\$821
Providian Fin.	\$2026	RNB – Mervyns	\$390
Lowe's	\$965	Direct Merchants	\$4667
Capital One	\$946		

## Reasons Member went Bankrupt:

**To rid themselves of unsecured debt and of the auto they were upside down on.**

**Who Wins?**

**The Dealer**

**Who Loses?**

**The Member and the Credit Union**

# How to Determine if there is any Equity in a Trade-In

## Formula:

1. The number of months the trade-in was originally financed for (i.e. 60 months).
2. Multiple 60 times 70% = 42 months

This assumes if a member financed retail or close to retail, due to appreciation the member would have no equity for the first 70% of the contract. Another way of stating this is if a member trades in the vehicle before making their 42 payment they will be upside down, regardless of what the contract says. Unless:

- a. They made a very large down payment.
- b. The car they trade-in is in mint condition and with very low mileage.
- c. They accelerated their payments throughout the contract.

# Rates for Over-Financing

Adjust base rates due to additional risk.

## For Example:

72 months finance up to 100% retail would be 6.5%

101-110%	add 1 point
111-120%	add 2 points
120%+	add 3 points

**Always Follow the Money Trail.**

**Who's Making the Money?**

# **Car dealers are paying money to 3<sup>rd</sup> parties, not credit unions, to sign up & do business with credit union**

1. \$1,200 + upfront
2. \$500 monthly to stay on program
3. Annual cost \$6,000 + initiating fee of \$500 per month

The Point is the 3<sup>rd</sup> party wants to keep the dealers happy. Can they or will they apply the pressure necessary to get the dealers to buy back fraudulent contracts?

# What We See as We Go Around the Country:

- **Policies**: 3<sup>rd</sup> parties often encourage credit unions to relax their policies for certain scores on items such as: employment verification.
- **Credit union stipulations**: If the credit union is requiring that negative items such as collections are paid, the dealer will often pay the negative item.
- **Automated approvals**: Credit unions using automated approval process are quickly learning the car dealers know and understand it well and they know how to get someone approved without the credit union looking at the deal by:
  1. Inflating the income they just have the member lie about their salary.
  2. Change the length of employment.
  3. Inflate the value of the trade-in.

# Straw Purchases

Dealers will often use a different credit bureau than the credit union's (one the credit union doesn't typically use). If they see that the member will not qualify, they get the member to produce a 3<sup>rd</sup> party and put the loan in their name. They did not submit the application knowing the automated approval system will say "yes" and deliver the car.

# **Selling Credit Life, Disability,**

# **Extended Warranties and GAP**

Dealers are telling members, who are somewhat marginal, that the credit union is more likely to approve the loan if the member agrees to protect the loan, making it sound like it's a condition of the approval coming from the credit union, yet the dealer is making all the money.



# **Adding Equipment to Inflate the Value that Doesn't Exist.**

Dealers are sending in purchase orders showing a car equipped a certain way and when the car is repossessed, the added equipment basically never existed.

# **What Needs to be in Your Contracts with the Dealer?**

*(Check with your attorney first.)*

# Sample Contracts

## **PERFECTION OF SECURITY INTEREST IN MOTOR VEHICLE PURCHASES**

The Dealer agrees to complete the necessary forms and documents at the time of sale of the vehicle to Buyer and deliver them, together with all required fees, to the appropriate public officials for recording or filing the Credit Union lien upon the vehicle. The Dealer agrees to repurchase the LOAN DOCUMENT from the Credit Union for an amount equal to the unpaid balance under the LOAN DOCUMENT and pay any damages suffered by the Credit Union, including consequential damages and attorney's fees, should the Credit Union's lien not be perfected within twenty (20) days from the loan date. The Dealer will apply for title and record such documentation as may be necessary for the perfection of the Credit Union's lien.

## **DEALER'S REPRESENTATIONS AND WARRANTIES AND COVENANTS**

With regard to each and every transaction wherein financing by the Credit Union is requested, The Dealer unconditionally makes the following promises, representations and warranties and covenants to the Credit Union:

- A. That all written documentation furnished to the Credit Union by or on behalf of Dealer is validly executed by the authorized party, that Buyer is of legal age necessary to enter into a binding contractual obligation.
- B. That the written documents submitted to the Credit Union accurately reflects the transaction with respect to selling price, down payment, trade-in allowance, listed vehicle options, and all other items shown thereon.
- C. That the Dealer has not misrepresented any information respecting the transaction with the Buyer, and neither knows of nor suspects that there are any misstatements or untruths in any financial or other information furnished by the Buyer;
- D. That the Dealer has good title to the property being sold to the Buyer, and has the right to transfer title to the property. The vehicles purchased by the Buyers are and will be free and clear of all liens, claims, security interests and encumbrances whatsoever (other than the Credit Union's security interest hereunder);
- E. That the security interest to be taken by the Credit Union is superior to any and all other security interests, liens and encumbrances in the subject property and that the security interest in favor of the Credit Union is first priority and not avoidable, and cannot be divested by any administrative or judicial proceeding including, but not limited to, proceedings under the federal Bankruptcy Code.

- F. That the down payment shown on the documentation furnished by the Credit Union was paid in cash by the Buyer, and that no part of the down payment was advanced by the Dealer;
- G. That all information disclosed in the vehicle title and odometer statements is correct and has not been altered.
- H. That prior to the delivery of any vehicle, the Dealer shall disclose in writing to both the Buyer and the Credit Union the fact that a vehicle has been reconstructed, rebuilt or salvaged.
- I. That the Dealer has delivered the property described in the LOAN DOCUMENT to the Buyer in proper working order and has provided the Buyer a copy of all documents executed by such Buyer in connection with the purchase of the vehicle and the submission of the transaction for financing by the Credit Union.
- J. That the Dealer shall not misrepresent any information furnished to the Credit Union in conjunction with proposed funding.
- K. Discounts and cash rebates by the manufacturer or Dealer must be disclosed to the Credit Union at the time the Dealer offers the application.

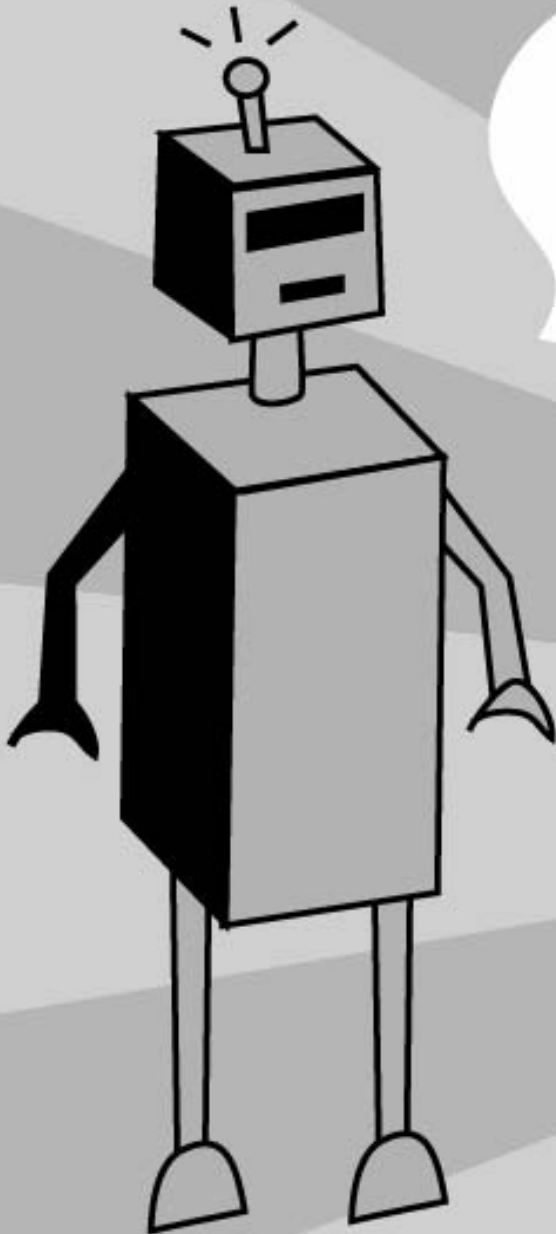
#### **BREACH OF AGREEMENT AND INDEMNIFICATION**

- A. If the Dealer breaches any of its representations or warranties or covenants under **Section VI**, or fails to fulfill any of its obligations under this agreement, the Dealer shall purchase from the Credit Union the LOAN DOCUMENT with respect to which the breach occurred and shall promptly pay to the Credit Union the unpaid balance of principal and interest hereon, the origination fee, and any other sums due under the LOAN DOCUMENT, as calculated by the Credit Union, together with all of the Credit Union's losses and expenses, including reasonable attorneys' fees, related in any way to the Dealer's breach of its warranties and representations or failure to fulfill its obligations under this Agreement. Upon payment of such amount by the Dealer, the Dealer shall succeed to the rights of the Credit Union under the LOAN DOCUMENT, and the Credit Union shall assign the LOAN DOCUMENT to the Dealer without recourse.
- B. If the Dealer breaches any of its representations or warranties or covenants under Paragraph VI, or fails to fulfill any of its obligations under this Agreement, the Credit Union shall have the right to immediately terminate this Agreement. This right to terminate shall be in addition to any and all rights set forth in paragraph (A) immediately above.
- C. The Dealer agrees to indemnify and hold the Credit Union harmless from and against any claims, loss, liabilities, expenses, damages, and costs, including reasonable attorneys' fees and court costs, if a court of competent jurisdiction determines that such claim or defense is in whole or in part meritorious, resulting from the Dealer's breach of any representation or warranty or without limitation, such as may arise under any applicable federal, state, or local law, ordinance, rule or regulation.

# Are You Seeing These Trends?

## Test Yourself !

	<u>1/04</u>	<u>1/05</u>	<u>%</u>	<u>\$</u>
• 2+ mos del	_____	_____	_____	_____
• Charge-Off 12 mos ending 1/04 vs 1/05	_____	_____	_____	_____
• Loan growth indirect 03 vs. 04	_____	_____	_____	_____



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loan  
interviewers  
become  
robots?**

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