Steer Clear:

How Credit Unions Help Car Buyers Avoid Predatory Loans

National Credit Union Foundation
Investing In Your Community Through Credit Unions

William Myers,
Field Coach, National Credit Union Foundation's REAL Solutions® Program,
Senior Fellow, The Aspen Institute

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This research was funded by the Annie E. Casey Foundation. We thank them for their support but acknowledge that the findings and conclusions presented in this report are those of the authors alone, and do not necessarily reflect the opinions of the Casey Foundation.

Preface

Founded in 1948, the primary mission of the Annie E. Casey Foundation is to foster public policies, human-service reforms, and community supports that more effectively meet the needs of today's vulnerable children and families. In pursuit of this goal, the Foundation makes grants that help states, cities, and neighborhoods fashion more innovative, cost-effective responses to these needs.

One of the Annie E. Casey Foundation's investment areas is expanding social and economic security for families in poor communities. In 2006 the Casey Foundation expanded the focus of its work on payday lending and check-cashing to fund research on auto lending. The Casey Foundation funded a report by Remar Sutton of the Consumer Task Force for Automotive Issues. *Car Financing for Low and Moderate Income Consumers* assessed this key component of the auto finance market.

In addition, the Casey Foundation funded a documentary and discussion guide entitled *Pursuit of the Dream: Cars & Jobs in America*, to explain the importance of affordable, reliable transportation for building the economic success of low-income families and their communities.

Around the same time, a separate report demonstrated how one credit union successfully serves borrowers with low credit scores. *University Federal Credit Union's Analysis of Sub-Prime Lending Program* presented a case study of a credit union in Austin, Texas, using a pure risk-based lending technique.

These initiatives led to two meetings at The Aspen Institute during the first half of 2007 to bring together parties interested in collaborating on ways to provide affordable car financing to more low- and moderate-income borrowers. One of the participants was the National Credit Union Foundation (NCUF).

As the philanthropic and social responsibility leader of America's credit union movement, NCUF raises funds, makes grants, manages programs, and provides education empowering consumers to achieve financial independence through not-for-profit credit unions. Donations to NCUF enable credit unions to help their members reach life-changing goals. Through NCUF grants and programs, credit unions create greater access to affordable financial services, provide widespread financial education, and empower more consumers to save, build assets, and own homes.

To further credit unions' efforts to serve consumers with low wealth and modest means, NCUF in 2007 began the national expansion of REAL Solutions® as its signature program. Upon reviewing the Annie E. Casey Foundation research on auto lending, NCUF proposed the current project, which examines a full range of credit union innovation in non-prime auto lending.

This project is jointly funded by the Annie E. Casey Foundation and NCUF. The Aspen Institute helped facilitate the work under this grant.

This project brought to light both commonly held assumptions and unclaimed innovations.

I would like to express my appreciation to the Annie E. Casey Foundation and the National Credit Union Foundation for providing the funding for this report. Special thanks are due to Steve Delfin, Executive Director of NCUF, for his early recognition of the critical importance of this issue, and to Irene Skricki, the Annie E. Casey Foundation's Program Manager for Assets and Savings, for her ongoing insights and support.

William Myers,
Field Coach, REAL Solutions®
Senior Fellow, The Aspen Institute

Acknowledgments

This project would not have been possible without the credit union industry executives, service providers, and friends of credit unions listed below, as well as the 251 credit unions that provided survey responses. Your inventiveness, enthusiasm for service, and willingness to participate in this project is sincerely appreciated.

Shelly Berryman, Director of Member Advocacy
Schools First Federal Credit Union
Santa Ana, CA

Larry Blanchard, Senior Vice President—Special Projects
CUNA Mutual Group
Madison, WI

Tom Boos, President/CEO
Billings Federal Credit Union
Billings, MT

Steve Bosack, Deputy Director
National Credit Union Foundation
Washington, DC

Paul Budvidas, Regional President
Walkaway USA
Irving, TX

Bob Falk, President/COO
Purdue Employees Federal Credit Union
West Lafayette, IN

John Flynn, President/CEO
Open Lending Inc./Lenders Protection, LLC
Austin, TX

Brooke Gilchrist, National Marketing Manager
Enterprise Car Sales
St. Louis, MO

Barbara Goodwin, President/CEO
Fitchburg ME Federal Credit Union
Fitchburg, MA

John Goodwin, Senior Vice President—Commercial Products
CUNA Mutual Group
Madison, WI

Yulanda Grant, Executive Administrator
National Credit Union Foundation
Washington, DC

Douglas Grout, Senior Vice President—Credit Union Operations
SELCO Community Credit Union
Eugene, OR

Bill Hampel, Chief Economist
Credit Union National Association
Washington, DC

Carolyn Hayden, Managing Partner
MGH Consulting, LLC
Springdale, MD

Vicki Joyal, Field Coach—REAL Solutions®
Madison, WI

Lois Kitsch, National Program Manager—REAL Solutions®
National Credit Union Foundation
Washington, DC

John Lass, Senior Vice President—Strategy & Product Development
CUNA Mutual Group
Madison, WI

Kirsten Moy, Director—Economic Opportunities Program
The Aspen Institute
Washington, DC

Jeffrey Purvis, National Impact Center & Database Manager
National Credit Union Foundation
Washington, DC

Betty Saiz, Vice President—Indirect Lending
U.S. New Mexico Federal Credit Union
Albuquerque, NM

Linda Stephens, Vice President—Consumer Lending
Wright-Patt Credit Union
Fairborn, OH

Corey Stone, CEO
PRBC (Payment Reporting Builds Credit)
Annapolis, MD

Pete VanGraafeiland, Manager—Loan Retailing and Servicing
Coastal Federal CU
Raleigh, NC

Jim Wagy, Senior Vice President/Chief Operating Officer
Tropical Financial CU
Miramar, FL

Margy Waller, Executive Director
The Mobility Agenda
Washington, DC

Executive Summary

Despite rapidly rising gas costs, the vast majority of Americans (88%) continue driving to work. A Brookings Institution Policy Brief[1] lamented that "fewer than 5% of workers took public transportation to work." In many situations (e.g., single-parent households), public transportation is not available or is not practical for taking children to daycare or school and arriving to work at a designated time, at a location far from home. Cars can provide convenience, flexibility, safety and the opportunity for lower-income people to work for employers that are not located near public transportation.

Thus, an important strategy for strengthening economic mobility and our economy is to ensure that workers with low wages and/or low credit scores are able purchase reliable, affordable cars.

Non-prime auto lending represents a substantial nearby opportunity for not-for-profit credit unions to expand their markets, build net income, and attract new loyal members by giving them a substantially better deal.

This research report identifies the lending techniques by which credit unions are making large and sustainable inroads into the non-prime auto market. The findings are presented as seven lessons.

Market Opportunity

The market for non-prime used auto loans is large and has not historically been served by most credit unions. This is unfortunate as some borrowers are subject to excessive charges and credit unions are missing a large and economically viable service opportunity.

Consider this: Over 40 million used vehicles are sold each year in the U.S.—2½ times the number of new vehicles sold. Eight million (20%) of these cars are sold to low- and moderate-income borrowers.[2] Many of these borrowers end up buying their cars through predatory lenders such "buy-here-pay-here" and "auto title" outlets.

While vehicle lending has traditionally served as credit unions' "bread and butter," credit unions are now struggling to make loans. Used-vehicle loan growth rates have dropped considerably in the past three years after a decade of growth rates in the 10% to 20% range. The mortgage market has slowed, but there are plenty of needy consumers wanting to buy a car.

As other lenders tighten their standards or exit the non-prime market altogether, a significant opportunity exists for credit unions to meet the needs of consumers whose options have narrowed and may be pulled to predatory lenders. Those credit unions with strong capital positions and stable balance sheets are in a solid position to take advantage of the opportunities that this market offers, even during the current economic slowdown.

Credit unions' programs and techniques for making vehicle loans may not be working as well as they should. Techniques such as "See Us First" have proven to be only modestly successful for securing loans before members head to showrooms and become exposed to finance and insurance (F&I) salesmen. Indirect lending has created loan volume, but at the price of having dealers represent the credit union as the member's primary contact. Credit unions uniformly report that indirect lending leads to single-service members. Auto loan recapture programs have shown some success, but again at the price of ceding the initial relationship to dealers and other lenders.

Time for Change?

Perhaps it's time for credit unions to change it up—to enter new markets and employ new models in order to increase and strengthen their vehicle loan portfolios.

Some credit unions across the country are successfully implementing non-prime used auto loan programs. Some are revising their programs after a less-than-successful launch, while others are just entering this market.

Sadly, given that credit unions account for only 5% of non-prime used auto loans, it becomes obvious that the majority of credit unions are not serving this market.

Why not? Potential reasons why credit unions are not serving borrowers with low credit scores include uncertainty and unfamiliarity, downside loss potential, lack of data about this market, board apathy or reluctance, and regulatory concerns.

[1] *Margy Waller, The Mobility Agenda, "Brookings Institution Policy Brief." 2000.*

[2] *Remar Sutton, Consumer Task Force for Automotive Issues, "Car Financing for Low and Moderate Income Consumers." April 2007.*

Why Serve this Market?

So why should credit unions lend to more low- and moderate-income borrowers? Two principal reasons:

1) It's good business. Survey responses that form the basis of this report demonstrate examples of used auto lending programs that have proven successful — both in terms of providing affordable car ownership for non-prime borrowers and sustainable business strategies for credit unions.

2) It's credit unions' mission. Federal credit unions and many state credit unions are chartered with a statutory mission to serve "people of modest means." And even where state credit unions do not have this mission expressly written in their charter, it is implicitly written in their history. All credit unions in the U.S. are member-owned, not-for-profit cooperatives established as part of a movement to provide consumers with more affordable alternatives to the for-profit banking industry and to put predatory loan sharks out of business. Whether this mission is written or unwritten, all credit unions to some extent are expected by lawmakers, regulators, consumer groups, foundations, the media, and the public to help people who are not being served by banks and who are vulnerable to predatory lenders.

Learn from Innovators

Now the question is: Can credit unions viably lend to more low- and moderate-income borrowers in a safe and sound manner?

This project focused on finding the answer from innovators. And it became clear that with sufficient information and properly designed programs, the answer is a resounding "Yes!"

Our surveys and interviews revealed many examples where credit unions have developed innovative loan products and features to meet the needs of non-prime used auto loan applicants—without sacrificing financial safety and soundness.

All of the credit unions and suppliers profiled in this report encourage more credit unions to engage in non-prime used auto lending. Our sources invite other credit unions to consider replicating or adapting their products to serve non-prime borrowers across America.

Seven Lessons

The information derived from credit unions and from suppliers that have developed products/services to meet the needs of this market can be summarized in the following seven lessons learned:

LESSON 1: Non-prime used auto lending is a financially viable line of business.

Given the pervasiveness of lenders charging excessively high rates in this marketplace, credit unions are able to price non-prime loans for risk and effort and provide members a better deal. Price + a lender that has the borrower's best interest in mind = a better deal. Credit unions' non-prime used auto loan rates, while necessarily higher than credit unions' prime rates, are significantly lower than what borrowers could receive from other lenders.

LESSON 2: Reduce the underwriting gap by transferring traditional character lending techniques into an automated decision-making process.

Old fashioned, high-touch character underwriting is effective for non-traditional borrowers, but the process needs to be more fully automated and efficient in order to effectively compete in this marketplace.

LESSON 3: Get in front of dealers by assisting members in finding cars.

Whether through an agreement with a select few dealers, an online car buying service, or by sponsoring used car sales, this is a good way to maintain direct contact with borrowers and to ensure that members get good deals on reliable used cars. Credit unions can effectively steer members away from modern loan sharks.

LESSON 4: Employ a "hard close" to cement bonds with members.

Verify information, educate the borrower, and reinforce the value of membership when closing every loan. This process of documentation, education, and loyalty building provides a solid defense against the increased delinquency that comes with moving down the credit score scale.

LESSON 5: Insure borrowers against events out of the realm of their control.

From credit disability and credit life to guaranteed asset protection, mechanical breakdown insurance and debt cancellation, a successful low-score auto loan program will include protections for the borrower as well as the credit union.

LESSON 6: Export risks by using available loan loss insurance products and guarantees.

Default and collateral protection insurances exist to minimize the credit union's risk with non-prime borrowers.

LESSON 7: Keep in touch with borrowers by allocating resources to monitor and collect the loan at the first sign of trouble.

It's critical for credit unions to modify their existing collections processes to include "proactive collection." This is an aggressive but not abusive practice.

Credit unions are able to successfully enter (or re-enter) the non-prime auto lending market by incorporating the lessons above into loan programs designed specifically to meet the needs of emerging markets.

Method

How Credit Unions Help Car Buyers Avoid Predatory Loans identifies credit union lending techniques that can successfully expand auto lending to non-prime borrowers. The research contained within this report was derived using qualitative methods and a self-selected sample. It is not statistically representative of all credit unions – but it does showcase innovative product features and practices that not-for-profit credit unions are using to assist members who might not otherwise qualify for vehicle loans.

Targeted Auto Loan Survey

In mid-December 2007, an invitation to take part in the National Credit Union Foundation's (NCUF's) Auto Loan Survey was e-mailed to the entire group of nearly 400 credit unions that have participated in NCUF's REAL Solutions® program to provide products and services to low-wealth and low-to-moderate-income households. An identical invitation was e-mailed to the entire group of Credit Union Development Educators (CUDEs), nearly 800 graduates of NCUF's immersion training in cooperative principles and credit union values.

In addition, on January 18, 2008, *Credit Union Times* published a full-page article about the project as well as the survey URL.

Finally, on February 10, 2008, an invitation to complete the survey was e-mailed to 12,000 credit union executives representing all 8,400 U.S. credit unions.

In each instance, the invitation from William Myers, who was also serving as a REAL Solutions® Field Coach, specified that the survey was designed for credit unions that were doing "innovative work with low credit score auto borrowers." So the population of interest for this project is limited to credit unions that are implementing innovative approaches to D and E paper auto loans. Each e-mail included a link to the online survey.

The survey instrument consisted of six multiple-response questions, each with a set of pre-determined response categories, plus an "other" field to capture responses that didn't fit neatly into one of the categories. The six questions covered underwriting, car sourcing, risk mitigation, insurance, marketing, and partnerships. In addition, a final question asked whether the respondent's low credit score auto lending program was successful, and to describe lessons learned.

By March 10, 2008, a total of 251 responses had been received from credit unions of all asset sizes, fields of membership, and geographic service areas.

In-Depth Interviews

In-depth telephone interviews were then conducted with a dozen credit unions representing the various innovation areas identified in survey responses. These interviews gathered additional information about their non-prime vehicle loan programs. Many of the interviewed credit unions are profiled in this report.

Finally, in-person interviews were conducted with vendors that were frequently identified by survey respondents and interviewees to gather information about their product/service offerings related to non-prime vehicle loans.

What Do We Mean?

For purposes of this report, the definition of:

▶ **"Low credit score"** is a FICO score (Fair Isaac Corporation's credit score) below 600.

▶ **"D-paper"** refers to loan applicants with FICO scores between 550 and 599.

▶ **"E-paper"** refers to loan applicants with FICO scores below 550, with thin credit files or no credit records at all.

▶ **"Low-to-moderate income"** and **"low wage"** refers to households with annual incomes of less than $40,000.

▶ **"Emerging markets"** is used in this report to refer to growing markets that have not been fully served by insured depositories: immigrants, youth, the unbanked, and low-income.

▶ **"Non-prime"** is used to redefine and emphasize the business opportunities that exist beneath "prime" and above "sub-prime." Non-prime has historically been lumped together with sub-prime—and thus depicted as a potentially dangerous market for regulated lenders to enter. Non-prime today is not exclusive to "low-to-moderate income" or "low-wage" borrowers. Non-prime can also include middle-income borrowers with other credit issues. Given the current credit crunch and the importance of obtaining credit to ensure transportation to work sites, all non-prime consumers could also be considered "people of modest means."

Similar to the lack of affordable child care, lack of transportation is a common problem facing low-wage workers trying to get—and keep—a job. Improving job opportunities for all Americans is crucial to strengthening our communities. Unfortunately, not owning a car is increasingly a barrier to economic mobility.

According to Margy Waller, executive director of The Mobility Agenda:

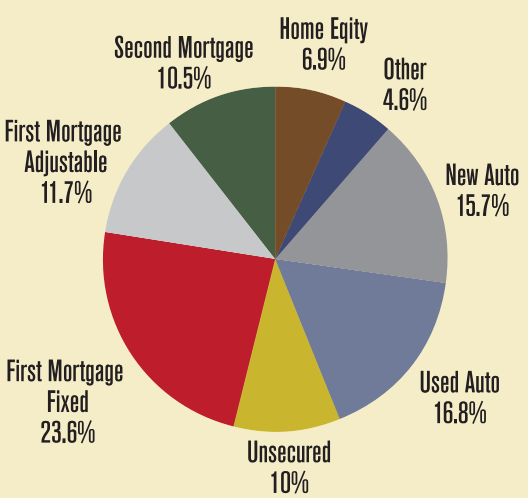
"Transportation is the second-largest consumer expenditure after housing. Most American workers (88%) drive to work. Public transportation—when available—takes double the time of driving, and can be unreliable and unpredictable. In 2000, less than 5% of employees used public transportation to get to work, mainly in three large cities. Transportation is key to finding and keeping employment. In recent years, as more jobs have moved to the suburbs, access to a car creates greater access to jobs. Reliable, flexible transportation allows consumers to earn more, to get better jobs, and to have more choices in terms of housing, schools, and activities. In fact, access to a car is positively correlated with an increase in work hours and higher earnings."

Thus, an important strategy for strengthening economic mobility and our economy is to ensure that workers with non-prime credit can purchase reliable, affordable cars.

So, what is the fit between not-for-profit credit unions, car-buying, and non-prime auto lending?

FIGURE 1

Distribution of Credit Union Loans
(as of March 2008)



Source: CUNA Economics & Statistics' Monthly Credit Union Estimates

Used vs. New

First of all, a huge opportunity exists for credit unions to increase their market share and portfolio of used car loans. Consider that over 40 million used vehicles are sold each year in the U.S.—more than twice the number of new vehicles sold. At year-end 2007, used auto loans represented 12% of credit union assets: $92 billion.

Figure 1 depicts the distribution of credit union loans as of March 2008. Note that the credit union loan portfolio dollar distribution of used auto (17%) versus new auto (16%) loans is nearly identical.

With an average loan amount of roughly $11,000, it takes considerably more used auto loans to match the dollar volume of new auto loans. But the potential market of used auto loans is also more than twice as large.

Real Estate vs. Vehicles

After many years of solid real estate loan business, the sub-prime mortgage loan debacle has caused the overall mortgage market to slow. Many homes decreased in value and as a result, the home equity market has diminished as well.

Real estate markets are likely to remain soft or to become unstable in the coming years. If credit unions shift now, well collateralized used auto lending could grow steadily.

The used auto loan market will be "hot," according to CUNA Economist Steve Rick in a May 2008 *Credit Union Magazine* article[3]. And "even in a down economy, people still have to buy cars," reasons Barry Rose, Vice President of Insurance and Sales for Citadel Federal Credit Union's indirect lending credit union service organization, Member Financed Autos, LLC.

Loans vs. Investments

More important in the long term—and in any economic climate—will be finding ways to permanently rebuild credit unions' loan-to-share ratio. Credit unions' very name clearly indicates their purpose as cooperative lenders rather than as simple savings or investment clubs. Yet perhaps in part because credit unions have not tapped their potential to serve the non-prime auto lending market, credit unions' loan-to-savings ratio has hovered between 70% and 80% for decades. This means most credit unions could reallocate significant funds from investments into productive lending programs.

Credit Union Auto Loans Skidding

Eight million used cars (20%) are sold to low- and moderate-income borrowers. Credit unions captured 15% of the total U.S.

auto finance market in 2007. But credit unions' market share for non-prime loans is a mere 5%. Sub-prime lenders (60%) and banks (30%) dominate the market.[4]

For the past three years, credit unions' used auto loan growth rates have averaged less than 1.7%. (See Figure 2.) Credit unions would certainly benefit from a jump start in used vehicle loans.

Potential to Accelerate

If credit unions would choose to approve loans for members with FICO scores below 600, their potential used auto market would immediately expand by 15%. Furthermore, if credit unions could find a way to underwrite borrowers without FICO scores, their non-prime market potential would grow by an additional 40%.

Narrowing Options

Unfortunately, the options available to consumers with non-prime credit have narrowed—both with respect to the number of lenders willing to approve these loans, as well as the loan terms. Fallout from the sub-prime mortgage crisis is causing some lenders to tighten standards and step back from making non-prime loans.

In January 2008, more than 4% of sub-prime auto loans were 60 or more days delinquent, according to Fitch Ratings. This is an increase of 43% from January 2007 and the highest in 19 years. A recent article in *Automotive News*[5] reports:

"The credit crunch is forcing many would-be consumers to buy cheaper models, or purchase a used vehicle instead. If customers with shaky credit can get loans at all, often they must make a bigger down payment, pay higher interest rates and accept loans of shorter duration."

An *Automotive Fleet* article[6] reports:

"Banks are reluctant to lend, even as their cost of funds declines, because they are short on liquidity, are more risk averse, demand a higher risk premium, and need to increase profits to rebuild balance sheets. Also, more lenders are putting caps on how low a FICO score they're willing to fund, often above the threshold of subprime borrowers."

Yet another *Automotive News*[7] article reports that lenders are adjusting their sub-prime strategies by making fewer underwriting exceptions, working to acquire more prime borrowers to balance the risk of non-prime borrowers, and tightening loan-to-value ratios.

Credit unions can fill the void in the non-prime market in ways that are financially viable—with appropriate pricing, underwriting, and risk management.

Concerned Consumers

Yet today there are fewer options available for non-prime borrowers—those whose livelihoods could depend on a lender who is willing to give them a chance. Economic uncertainty, high food and energy prices, and

[4] *Remar Sutton, Consumer Task Force for Automotive Issues, "Car Financing for Low and Moderate Income Consumers." April 2007. [5] Donna Harris, "Lenders shun subprime market," Automotive News. February 18, 2008.*

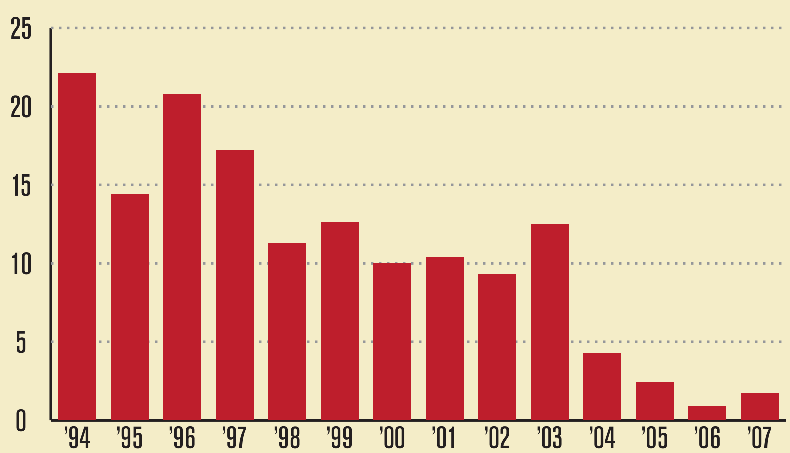
[5] *Donna Harris, "Lenders shun subprime market," Automotive News. February 18, 2008.*

[6] *Mike Antich, "Subprime Crisis Metastasizes to Fleet Resale Market," Automotive Fleet. April 21, 2008.*

[7] *Rosland Briggs Gammon, "Lenders adjust subprime strategies to ease risk," Automotive News. November 12, 2007.*

FIGURE 2

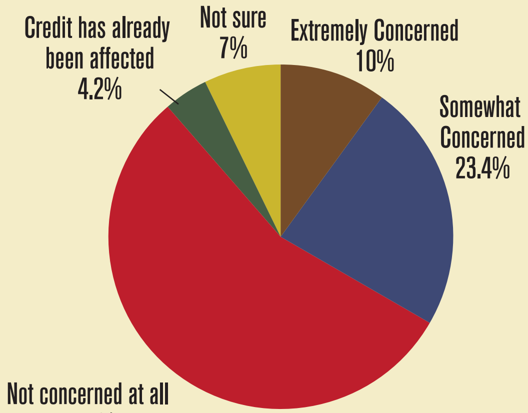
Distribution of Credit Union Loans
(as of March 2008)



Source: CUNA Economics & Statistics' Credit Union Report, Year-end 2007

FIGURE 3

Consumer Concern About Ability to Obtain Credit



Source: Synovate/GDNAuto Survey of Consumers, October 2007

less access to credit have caused some consumers to worry about their creditworthiness.

An October 2007 survey[8] commissioned by GDNAuto revealed that one in three consumers are concerned that fallout from the sub-prime mortgage crisis will affect their ability to obtain credit for "something like a car loan." Even more disturbing: 4% of survey respondents reported that their ability to obtain credit "has already been affected." These survey results are illustrated in Figure 3.

As would be expected, some groups of consumers are more likely to be worried than others. Those *most* worried about their ability to obtain credit for a car loan include the very groups of people likely to possess low or no credit scores:

▶ consumers 18 to 34 years of age;
▶ those who are not married;
▶ those with children;
▶ consumers with annual household incomes of $25,000 to $50,000;
▶ those from Southern states;
▶ consumers who categorize themselves as a race/ethnicity other than white.

GDNAuto President Michael Sheridan said the survey "highlights the continuing need to offer lending to a number of cash-strapped segments." A majority of credit unions are in a position to do so in ways that will benefit new members as well as their credit unions.

Predatory Competition

Many of those who compete with credit unions in the non-prime auto market are doing borrowers no favors. The predatory nature of "buy-here-pay-here" and "auto title" lending has been documented in the Aspen Institute's 2007 report, *Car Financing for Low and Moderate Income Consumers.*

The auto title loan process involves the borrower driving the vehicle to the title broker for the purpose of pawning the title but retaining the car. Often, the borrower must present the vehicle's key to the lender to facilitate repossession, if necessary. Some states require the borrower to sign a power of attorney form so the lender has the right to transfer the vehicle title to the lender if the borrower defaults on the loan. In other states, the borrower sells the vehicle to the title lender in a sale/leaseback arrangement.

Buy-here-pay-here independent used auto lots use so-called "opportunity pricing." In reality, this means they base the price of the car on what the buyer can afford. Each buyer is first asked how much he or she can raise from friends and family for a down payment. The down payment amount usually covers the dealer's entire vehicle cost. Then the dealer adds financing on top. For example:

▶ The dealer purchases a used car with 100,000 miles for $1,000.
▶ The buyer is asked to put $1,000 down and finance $5,000.
▶ If the buyer misses even one payment by one day, the car is repossessed.

Buy-here-pay-here dealers follow a standard operating model to turn over each car five times per year.

Opportunities for Credit Unions

A review of the non-prime used-car loan market reveals:

▶ Consumers with non-prime credit scores need (and want) to own cars in order to improve their economic situations;
▶ Credit unions need and should want to make more car loans, especially in this slow-growth economic environment.
▶ There is considerable room for credit unions to improve their market share of the vehicle loan market and to jumpstart used vehicle loan growth.
▶ As other lenders tighten their standards or exit the non-prime market altogether, a significant opportunity exists for credit unions to meet the needs of consumers whose options have narrowed and may now be limited to predatory lenders.
▶ Those credit unions with strong capital positions and stable balance sheets are in a solid position to take advantage of the opportunities that this market offers, even during the current economic slowdown.

This report will go beyond temporary factors and present ongoing strategic reasons why credit unions should serve the non-prime market to ensure long-term viability.

[8] *GDNAuto is an online marketplace that enables dealers and lenders to package car loans so they can be sold as asset-backed securities.*

Lessons Learned

The surveys and interviews conducted through this project reveal many examples where credit unions have developed innovative loan products and features to meet the needs of non-prime used auto loan applicants without sacrificing financial safety and soundness.

The information derived from credit unions and from suppliers that have developed products/services to meet the needs of this market are summarized according to seven lessons that contribute to a successful non-prime auto lending program.

LESSON 1: Non-prime used auto lending is a financially viable line of business.

Credit unions frequently approach emerging markets with charity on their minds. This approach is limiting and counterproductive. There are most certainly financial opportunities in non-prime auto lending. After all, sub-prime financial service providers charge unseemly rates and accumulate over-the-top profits. When credit unions adopt a charity perspective, they have only a fractional percentage of their assets to engage. When credit unions build a viable business model, they have their full asset base to lend.

Risk-Based Lending

One existing credit union practice that can be used for reaching consumers with lower credit scores is risk-based lending—where the loan rate charged depends on the borrower's credit rating in order to match the anticipated risk with an appropriate interest rate.

In 2007, James Nastars, Senior Vice President of Lending at University Federal Credit Union (UFCU) in Austin, Texas, presented a research paper[9] on his credit union's two-year experience with a pure risk-based lending auto program that features:

- ▶ loans priced according to credit risk for those with credit scores as low as 420;
- ▶ encouraging members to come to the credit union to get a loan approved *before* they go to an auto dealer;
- ▶ loans underwritten to mitigate the lender's credit and collateral risk;
- ▶ a full understanding by the borrower of the loan terms and his/her obligations under the loan agreement;
- ▶ a collections process that includes quick identification and resolution of failing loans.

The UFCU analysis revealed that just under half of sub-prime applications are approved or "conditioned" for the borrower.

However, only about half of approvals are actually funded. Those that go unfunded do so because the borrower can't meet or is dissatisfied with the loan terms, or he/she obtains financing at the dealership.

Applications that were not approved initially were typically denied for at least one of four primary reasons:

- ▶ excessive debt in relation to income;
- ▶ lack of down payment, resulting in excessive loan-to-collateral value ratios;
- ▶ previous negative car credit;
- ▶ lack of a previous relationship with UFCU.

These reasons reinforce UFCU's sound underwriting criteria.

Due to the higher rates determined by risk-based lending (as depicted in Figure 4A), UFCU

[9] *James Nastars, "Analysis of Sub-Prime Lending Program," University Federal Credit Union*

FIGURE 4A

Spread Analysis for UFCU's Sub-Prime Auto Loan Program

	A+ paper	E paper
Loan Interest Rate*	6.00%	17.00%
Cost of Funds	2.25%	2.25%
Originating Costs	0.72%	1.32%
Servicing Cost	0.32%	0.72%
Loan Losses	0.03%	4.79%
Net Spread	**2.68%**	**7.92%****

**Assumes a 60-month term*
Note: This example uses the interest-rate environment in place as of 12/31/06. At the time UFCU was charging 17% on E-paper loans, sub-prime lenders were charging 25% or more. Borrowers were still receiving a much better deal at the credit union.

netted more income on loans to low-score borrowers ("E-paper") than to high-score borrowers ("A+ paper). According to Nastars:

"...the spread increases in the lower credit tiers in order to provide a reserve against future losses. In economic downturns, it is likely that sub-prime loans will go bad at faster rates than prime loans, as these borrowers do not usually have a secondary source of repayment. Higher margins are needed to fund reserves against such events."

** It should also be noted that this analysis took place during a period of strong economic growth. These E-paper loans were made before the sub-prime mortgage crisis and the unprecedented rise in gas prices. As Nasters predicted, net spreads on E-paper loans during economic downturns are typically much lower than the spread that UFCU netted in 2006.

Figure 4B illustrates what would happen if loan losses were to double on UFCU's E-paper loans: Net spreads would nearly even out with "A+" loans. This explains the need to charge relatively higher interest rates on E-paper loans in order to build reserves to cover future loan losses.

With sufficient experience, credit unions will be able to adjust rate premiums to reflect their loan loss rates.

Risk-Based Lending Success Factors

When asked about the success of their non-prime auto lending programs, some credit union executives took the opportunity to point out that these loans can be priced to cover risk and still offer a better deal for members. Others indicated that delinquencies and charge-offs are acceptable and manageable. Here are their comments:

- *"Our portfolio yield is more than 120 basis points above our peers, and more than makes up for our (above-)average charge-offs. It is a business strategy that both fulfills our social mission and has a positive financial impact to the credit union."*
- *"We find that low-income members have a great sense of pride when they commit to these loans. Our delinquency rate is less than 1%."*
- *"It has been successful with delinquency and charge-offs better than industry [standards]."*
- *"Loss ratios continue at the 3% to 4% level. [It is] more than adequate to make this part of our portfolio productive."*
- *"We have been able to save the members money when they initially had the loan financed elsewhere and we can refinance that auto loan with the credit union. We normally can beat their rate by several basis points."*
- *"We find that many times the A paper quality borrower is slow to pay more than the D or E paper borrower, which is surprising. Members are so thrilled that the credit union gave them an opportunity to borrow—they work hard at keeping their payments current."*
- *"We have been able to provide members financing with rates that are considerably lower than they would receive from other finance companies."*
- *"We have had record years of auto loan growth in this market and have learned some things along the way to improve it."*
- *"We have seen some losses higher than peer on our portfolio, but generally the interest rate earnings offset the losses."*
- *"...we've been able to serve these lower score applicants at reasonable rates as compared to their other alternatives, all while keeping delinquencies/charge-offs in check."*

Given the pervasiveness of predatory lenders in this marketplace, credit unions are able to price these non-prime loans for risk and effort and provide members a better deal. Even during the strongest economies and lowest interest rate environments, car-buyers captured by predatory lenders will typically pay at least 7 percentage points more than the federal credit unions' statutory interest rate cap of 18%.

FIGURE 4B

If E-paper Loan Losses Double

	A+ paper	E paper
Loan Interest Rate*	6.00%	17.00%
Cost of Funds	2.25%	2.25%
Originating Costs	0.72%	1.32%
Servicing Cost	0.32%	0.72%
Loan Losses	0.03%	9.58%
Net Spread	**2.68%**	**3.13%****

Credit unions, as member-owned cooperatives, have a vested interest in helping members become better credit risks.

Price + Lender with the borrower's best interest in mind = Better Deal

The comments of one NCUF Auto Loan Survey respondent concisely summarized the assertion that non-prime auto lending does not have to be considered charity work:

"Don't focus on just losses. Price for the risk taken, and the overall profitability will be there even if losses are high."

LESSON 2: Reduce the underwriting gap by transferring traditional character lending techniques into an automated decision-making process.

Prior to 1995 and the advent of credit scoring, credit unions used a form of loyalty relationship lending they called "character" lending. Credit unions historically maintained better than industry charge-off levels through a homogenous field of membership: knowing members, knowing employers and workplace policies, and using co-signers. Credit unions do recognize the value of their own data and relationships with members. Old fashioned, high-touch character underwriting is effective for non-traditional borrowers.

Character lending allows credit unions to build an underwriting basis that goes beyond the credit score. At credit unions that responded to NCUF's Auto Loan Survey, the most important underwriting criteria (other than credit score) are:

- ▶a good relationship and history with the credit union,
- ▶a good payment history on auto loans,
- ▶stable employment and residence,
- ▶and payroll or other automatic payment.

(See Figure 5.)

Character Lending Success Factors

The link between character lending and successful non-prime auto loan programs is illustrated by the following comments from NCUF Auto Loan Survey respondents:

▶ *"We do not make loans based on credit score alone. We look at the 'whole picture' when making a credit decision."*

▶ *"...over the years, we have built a reputation—both through the membership and our indirect dealers—that we will not discount any application solely due to their credit score. We will always consider 'character' and circumstances before making an underwriting decision."*

▶ *"We underwrite based on judgment, then price the loan based on the risk it presents."*

▶ *"The key is to evaluate each individual on their own merit."*

▶ *"We look at each applicant's qualifications, no matter what their credit score, and try to find a way to make the loan and educate the member when appropriate. The credit score is*

FIGURE 5

Underwriting Criteria for Non-Prime Auto Borrowers

Source: National Credit Union Foundation (NCUF) Auto Loan Survey, March 2008 *a tool used primarily for pricing, not decision-making."*

This lending process is similar to situation-specific financial education, where the loan officer serves as a consumer advisor to the member. The member is educated on credit scores, debt ratios, auto buying and how to maintain a strong, positive relationship with the credit union. Using this approach, credit unions try to thoroughly understand why the credit score was low, pay attention to positive or negative movement in the score, and evaluate what plans the member makes to improve their situation. This hand-holding also acts as a risk mitigation measure.

This approach can be extended from going over the credit report with borrowers, to building a budget, to car-buying workshops, to assisting the members in reviewing the paperwork from a dealer.

Bad marks on the credit report are treated seriously. Tax liens and medical debt must be in repayment. Some credit unions track the borrower's credit score twice a year. Weak records trigger the need for higher loan-to-value ratios or a co-maker.

There are drawbacks to character lending: long processing time, and a need for specially trained and experienced loan officers. This is another reason why loan rates need to be higher to cover costs of lending to non-prime borrowers.

Since character lending is based on close relationships (as with "friends, neighbors, and co-workers"), it has not been practical to expand to new markets. While over 80% of credit union survey respondents use expanded loans processing, less than half of the survey respondents apply these techniques to low credit score borrowers.

There is no doubt that credit scoring is a quick, useful and consistent tool to assess the risk of loan applicants. Introduced in 1995, credit scoring quickly became prevalent among lenders due to many attractive features: It's fast, uniform, and inexpensive; simplifies pricing; encourages competition, and is not subjective or discriminatory.

However, there is evidence that credit scores can be affected in part by the borrowers' income, not just their likelihood of repayment.

When Income Drives Credit Scores

Corey Stone, CEO of Payment Reporting Builds Credit (PRBC), presents two situations that suggest income could drive credit scores—even for consumers with identical repayment performance on loans:

1. The percentage of available revolving credit line utilization is an important factor in credit scores. A lower utilization makes for higher scores because it means you can tap lines to make payments in the short term. Income is an important factor that lenders use in extending and augmenting credit lines, so a consumer with higher income is more likely to have

Alternative Credit Bureau Profile

Payment Reporting Builds Credit (PRBC) *www.prbc.com*

Thin-file consumers—those with little or no credit history—make up an estimated 35 million to 50 million adults in the U.S. This represents about 20% of the adult population. Youth, immigrants and emerging markets typically fall into this "thin-file" category.

Payment Reporting Builds Credit (PRBC) is a service designed to enable lenders to better evaluate these thin-file applicants who have little or no recent credit history. PRBC acts as an "alternative credit bureau" that tracks rent and other payments such as utilities, phone, cable, and wireless that are not considered by the main credit bureaus. This alternative allows potential borrowers with little or no credit history to build a credit file.

Fair Isaac recently announced a collaboration with PRBC to collect, verify, and score rental and bill payment data with consumers' approval. The collaboration combines PRBC's verified data with FICO® Expansion® Score data and analytics. The companies promise to deliver a more complete and accurate assessment of applicant risk—one that meets Fannie Mae, Freddie Mac, and HUD requirements. Their goals are to address several problems for lenders, and help qualify creditworthy customers among the large no-hit/thin-file group.

The combination of a FICO Expansion Score with PRBC bill payment data could help uncover signs of risk that would otherwise go unnoticed.

higher available lines and lower utilization rates. (This is true on a percentage basis, if not in absolute dollars).

2. The number of trade lines is an important factor in credit scores—the more the better, up to a point. In general, higher income people are more likely to receive unsolicited offers of credit. In turn, higher income people can support more active trade lines. For example, a person who has enough income to support a car loan plus three active credit card accounts will probably have a higher score than someone who can only support a car loan and one active credit card account even though they have the same overall utilization rates.

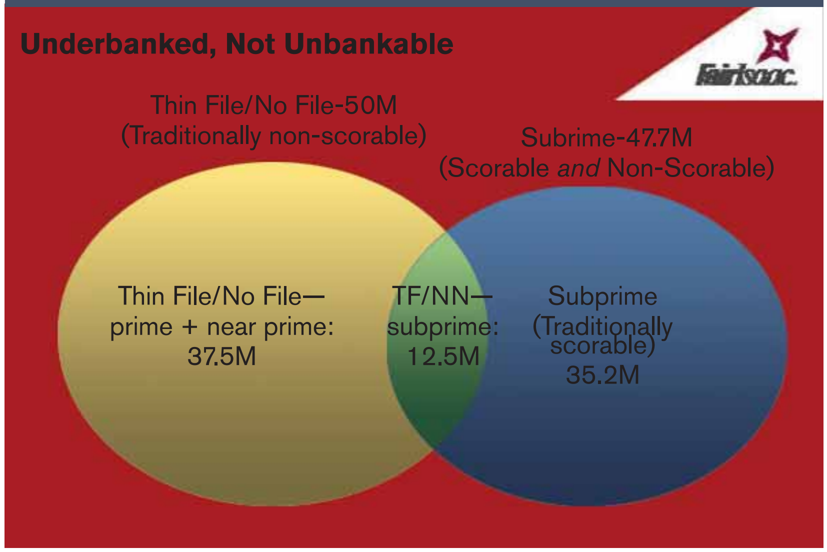
Automating Character Traits

The trick for credit unions in non-prime auto lending will be to automate the use of its traditional underwriting process—character traits included—to supplement credit scores, or to evaluate and subscribe to bureaus that gather a wider spectrum of consumer data.

Several credit bureaus and scoring agencies are trying to offer scores to assess credit risk among people with "thin files." Among the products available:

- ▶ eBureau from Experian;
- ▶ FICO Expansion Score from Fair Isaac;
- ▶ L2C from TransUnion;
- ▶ Market Max from Equifax;
- ▶ RiskWise from LexisNexis.

This is good news. All of these products are intended to devour as wide a range of data as possible to make up for missing bureau data. This includes receipts from rent, layaway payments, utilities, and online bill payment data.



A recent paper from the Center for Financial Services Innovation suggests that alternative credit scores offer the potential to reliably measure the credit risk represented by far more

Alternative Lending Solution Profile

Forum Credit Union / Capital Lending Strategies, LLC

Assets: $1.06 Billion
Members: 103,789
Location: Indianapolis, IN
Contact: Steve Mundell
Website: *www.forumcu.com*

Forum Credit Union has developed a non-prime auto lending partnership with Capital Lending Strategies, LLC, of Irving, Texas.

The credit union is leveraging Capital Lending Strategies' Alternative Lending Solution (ALS). This product intends to increase an institution's return on assets (ROA) by creating incremental direct and indirect auto lending opportunities. ALS combines the platform of its Internet-based, automated loan decisioning system with the benefits of a carrier rated "A" (excellent) by the A.M. Best rating agency.

The carrier's Collateral Value Insurance product claims to substantially protect the lender against financial losses resulting from repossession. The result, according to Capital Lending Strategies, is an origination system featuring scalability, confidentiality, on-line decisioning, and 24/7/365 user-friendly accessibility, backed by a leading insurance provider.

Capital Lending Strategies (CLS) claims to be "one of the few companies in the country" that can provide Collateral Value Indemnity coverage on a loan-by-loan basis." CLS says this benefits both lenders and borrowers. Lenders have an opportunity to protect their assets while providing auto loans to borrowers that fall outside of their existing prime lending guidelines. Borrowers with less than prime credit ratings can finance their auto purchases through financial institutions.

CLS concludes that lenders like Forum Credit Union could "readily capture 30% to 60% of their current turn-down business," while reducing required loan loss reserves and increasing ROA.

ALS is available with virtually no "upfront" costs.

Second Look Loan Program Profile

Capital Lending Strategies, LLC

www.clstrategies.com

As reviewed in Forum Credit Union's Forum Solutions Blueprint: Subprime Auto Lending, Capital Lending Strategies (CLS) provides software that takes a second look at loans that are declined by the credit union as prime loans. The average FICO approved by this method is into the 600s, but loan decisions are made for FICO scores of as low as 500.

FICO analysis is done by Mercer RFI. Additional data reviewed includes proof of income and proof of residency. There are eight credit tiers in the matrix built by CLS, with categories including debt-to-income and loan-to-value.

The process flows from the dealer, who sends an application to the credit union. The credit union gets the application. If declined, the full file automatically passes to CLS staff at the credit union. If CLS approves the loan, it is funded by the credit union. CLS purchases CUNA Mutual Group's Lenders Protection (profiled in this report under Lesson 6).

The dealer prepares a package (proof of income, mileage of car) and sends it to CLS to confirm terms. The credit union services the loan.

Of the loans initially rejected by the credit union, CLS is able to approve about 50%. About 25% of those approvals are accepted and closed by the dealer and the borrower.

Competing loan-decisioning systems include FIData, Appro, SWBC, CRI and Agon.

Car dealers are also building systems to bring this type of finance back under their control. (See *www.dealertrack.com*.)

Typically, credit unions expect acquisition fees of $700 to $1,200 from dealers. As the risk increases, the net yield is higher.

individuals than can be assessed with traditional data.

Credit unions have used non-traditional credit criteria in the past, and continue to do so. But, these systems are not compatible with the time frames required to be competitive, especially with indirect lending.

LESSON 3: Get in front of dealers by assisting members in finding cars.

One way to recapture or maintain direct contact with members is to assist them in finding cars. This can begin as an extension of financial counseling. According to one NCUF Auto Loan Survey respondent, "We do review purchase agreements and will help negotiate sales price, especially with dealers that have excessive markups which impact loan-to-value."

Passive approaches include offering a Carquotes website (*www.carquotes.com* or *www.pricehub.com*). Credit unions may assist members with online price assessment of the cars they are trading and the cars they are purchasing, so that members can negotiate intelligently and confidently.

Credit unions will sell repos and returns of leasing from their parking lots. As depicted in Figure 6, several credit unions have relationships with local dealers to provide promotions and referrals in exchange for a fixed mark-up for members. More ambitiously, a few sponsor credit union owned dealerships.

Car buying services through Credit Union Service Organizations (CUSOs) are a fast growing option. Here, credit unions eliminate the middleman by establishing a credit union owned CUSO to work together to identify quality used cars with pre-arranged pricing. Existing programs include, but are not limited to:

- Credit Union Direct Lending (CUDL) (*www.cudl.com*)
- CU Fleet (marketed under the Central State Mortgage (CSMC) umbrella of CUSOs) (*www.cufleet.com*)
- United Buying Service (*www.ubs4cars.com*)

Motor Vehicle Certification Program (*www.mvcp.com/intro.php*)

- Cars for Members (*www.carsale.com*)
- Auto Resource Center (*www.cucompanies.net/pages/auto_about_us.asp*)
- Autoland (*www.autoland.com*)

Another NCUF Auto Loan Survey respondent wrote, "We recently partnered with Enterprise and introduced a program called SmartBuys. The program is specifically targeted to low- and middle-income members to assist them with locating a reliable and economical car."

Indirect Lending

Indirect lending generates an almost religious passion among credit unions on both sides of the issue. Some believe that credit unions have to do indirect lending to make enough loans to survive. Others believe that letting someone come between the credit union and the member is contrary to credit unions' mission.

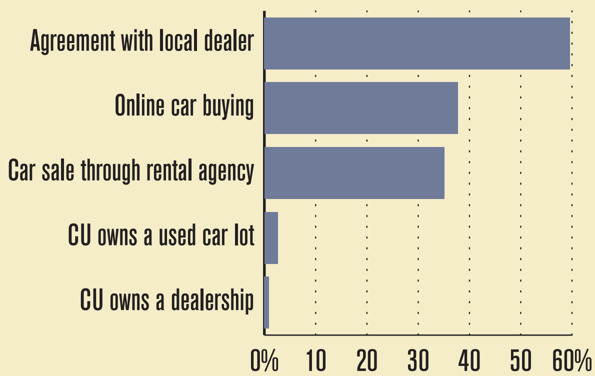
One point is undeniable: Indirect lending accounts for 40% of credit unions' auto lending. According to CUNA Mutual Group, about 63% of credit unions participate in indirect lending programs. These loans account for 80% of net auto loan growth.

Indirect lending does not get in front of dealers – but it does put credit unions in a position to get in front of borrowers they otherwise would not have an opportunity to reach with auto loans. Indirect lending dealerships in effect become mini-branches, which increases the credit union sales force.

However, when new members go to dealers first, the credit union is a nearly invisible wholesale lender. Converting indirect borrowers to full service members is not easy.

FIGURE 6

Types of Assistence Offered to Help Members Find a Car



Source: National Credit Union Foundation (NCUF) Auto Loan Survey, March 2008

Credit Union Finance Company Profile

SELCO Community Credit Union

Assets: $784 Million
Members: 77,324
Location: Eugene, OR
Contact: Douglas Grout
Website: *www.selco.org*

In June 2006, SELCO Community Credit Union established a separate finance company called The Lending Outlet to expand the credit union's target market and steer borrowers away from predatory lenders and predatory loans. Although The Lending Outlet looks like a finance company location and has a different feel from the credit union, the business offers the same rates as the credit union.

The look and feel of The Lending Outlet has attracted a new type of member for SELCO. About one-third of the loans derived from this company are in the D and E category. Interestingly, the business has also attracted about $1.5 million in platinum paper—borrowers with good credit but who may not have a trusting relationship with mainstream financial institutions.

The Lending Outlet (finance company of SELCO Community Credit Union)

- 728 members
- 48% of members generated from The Lending Outlet have household incomes below $40,000. This compares to 34% of SELCO's regular membership.
- 39% have a share and loan only.
- 43% have a checking account.
- 71% are homeowners.
- Average deposit balance: $853
- Average loan balance: $12,625 (10.95% weighted average rate)
- 2007 loan production: $7.5 million in loans; 627 new members; $54,110 in loan losses
- Average number of accounts per member: 2.77
- Average annual net income per member: $170

CUSO Profile

Credit Union Direct Lending (CUDL) *www.cudl.com*

Credit Union Direct Lending (CUDL) was established to provide point-of-purchase lending for the credit union community. CUDL has grown to become the nation's largest point-of-sale and indirect lending network owned by credit unions. Today, the CUDL network of credit unions and dealers serves nearly 18 million credit union members nationwide.

CUDL's most popular product is the AutoSMART program, a web-based interface designed to increase credit union member satisfaction by simplifying the buying process and getting members the best price when they buy a vehicle. The AutoSMART program also allows for co-branding opportunities.

Other CUDL services include back office indirect lending, web-based ASP solutions, and insurance for lost or stolen vehicles.

CUDL GAP™ offers a guaranteed auto protection product, which can be made available to credit union members at the auto dealership or directly at their credit union. When a member's vehicle is lost or stolen, CUDL GAP ensures that both the member's investment and the credit union's investment are protected.

CUDL Financial Services is a sub-prime program to auto dealerships, accessible through the CUDL platform. Members and non-members who do not qualify for credit union financing may qualify for CUDL Financial Services. This program promotes competitive financing with the same speed and convenience of the CUDL system.

Rental Car Sales Program Profile

Schools First Federal Credit Union/ Enterprise Car Sales

Assets: $7.5 Billion
Members: 376,789
Location: Santa Ana, CA
Contact: Shelly Berryman
Website: *www.schoolsfirstfcu.org*

SmartBuys

Partnerships are another way for credit unions to expand their offerings to members. Case in point: the "SmartBuys" program that Schools First Federal Credit Union has developed in partnership with Enterprise Car Sales. In a six-month pilot at one branch, the SmartBuys program provided 12 members with access to "low cost, reliable vehicles."

Based on its success, Schools First Federal Credit Union (formerly Orange County Teachers FCU) is planning to roll out the program in two additional branches this year. In this partnership, Enterprise will provide brochures and marketing materials, while the credit union has dedicated one team member to "keeping the hype," stocking brochures, and communicating the story.

The SmartBuys program allows the credit union to keep three vehicles on the property—priced $1,000 to $1,500 below Kelley Blue Book value. (For example, a recent selection of cars included a 2007 Chevy Cobalt at $9,999, a 2007 Chrysler Sebring at $13,999, and a 2007 Dodge Grand Caravan at $15,499.)

The program is specifically targeted at low- and middle-income members to assist them with locating reliable and economical cars. Enterprise works to ensure the quality of each car by first conducting a 109-point inspection by an ASE-certified technician. Each vehicle comes with a seven-day repurchase agreement so that it can be returned for any reason—no questions asked. After the first seven days, Enterprise guarantees car buyers' continued satisfaction by including a 12-month / 12,000-mile limited power train warranty and one year of roadside assistance.

TRIP—Timely Repayment Incentive Program

Another innovation for non-prime borrowers is a program called TRIP (Timely Repayment Incentive Program). TRIP allows all non-prime borrowers to improve the rate on their loan by .5% after 12 on-time payments. This is an opportunity for borrowers to automatically adjust their loan to the best rate that was available at the time their loan was originated (assuming a maximum risk up-charge of 50 basis points at origination). The earned interest rate reduction allows a greater percentage of each payment to go toward the principal.

Credit Union Partner Profile

Enterprise Car Sales *www.cuautodeals.com/ www.enterprisecarsales.com*

Enterprise Car Sales has partnered with credit unions for decades, providing used vehicles and guaranteeing that credit unions will get the financing. Today, Enterprise works with more than 1,000 credit unions across the U.S. to develop a successful plan to help drive credit union auto loan volume.

Partnerships with Enterprise are developed on a case-by-case basis. They usually focus on marketing strategies that range from providing basic marketing brochures to larger promotional events where Enterprise places cars on-site for members to view.

Enterprise offers haggle-free pricing and sells 120 makes and models of vehicles priced below Kelley Blue Book value. Vehicles from Enterprise are typically one to three years old. Each vehicle undergoes a 109-point inspection before being listed as one of nearly 8,000 cars available for sale online and in 178 car sale branches throughout the country. Each vehicle comes with a limited power train warranty, roadside assistance, and a seven-day repurchase agreement.

Many credit unions accept indirect borrowers as single service members.

Remar Sutton, with the passion of a converted car dealer, opined that credit unions will never be able to capture the ethical side of this financing market in partnership with dealers. CUNA Mutual Group figures show that credit union members are 37% more likely to repay than those who become members via the indirect route.

Indirect lending necessitates quick decisions and funding—10 minute turnaround. It thereby increases reliance on fully automated lending.

The longstanding bank model for indirect lending was to underwrite the dealership through a floor plan commercial loan. The commercial banking relationship with the dealer provided some recourse and discipline to lessen indirect fraud exposure. However, credit unions usually do not have a commercial loan relationship with the dealer.

Saver's Loan Program Profile

Fitchburg ME Federal Credit Union

Assets: $25 Million
Members: 3,174
Location: Fitchburg, MA
Contact: Barbara Goodwin
Website: *www.fitchburgmefcu.com*

Fitchburg ME Federal Credit Union has developed a savings program for low credit score borrowers or borrowers who can't get a co-signer. This includes young people without credit.

In most cases, the vehicle purchased is a used car.

The savings program allocates 10% of the loan payment into a dividend-bearing account, which is secured until the loan is paid. The loan is pledged into the savings account and the savings earns dividends at a low rate (e.g., 0.5%).

Loans are for a 10-year maximum term with a 90% loan-to-value ratio. Usually a five-year loan will be paid back in four or 4-1/2 years.

Fitchburg ME FCU also participates in the Enterprise Car Sales program profiled under Lesson 3 in this report.

Regional Differences

There is an astounding variation in regional auto markets, based on the amount of market share credit unions control. Where credit unions are bit players, credit unions pay dealers for referrals. In areas where credit unions dominate the market, dealers pay credit unions a loan loss reserve. (One credit union calls this their "acquisition fee: $495 from dealers to reserve for loan losses").

It's as if in some areas a customer pays for goods at Wal-Mart and, and in another area, Wal-Mart pays the customer to take the goods. Similarly, in some regions, an 80% loan-to-value (LTV) ratio is standard, while in others, credit unions are not getting loans unless they go to 125% LTV.

Is indirect lending worth the price? Credit unions have found success on both sides of this line in the sand.

LESSON 4: Employ a "hard close" to cement bonds with members.

About half of responding credit unions found a "hard close" to be an effective way to improve loan repayment performance. Since dealers come between members and the credit union during the sales process, a hard close allows the credit union to cement bonds with members and get them started on the right foot.

To employ a hard close: When members are ready to sign for a loan, take some extra time to:

▶ Thank them for their business;

▶ Verify information in their loan application;

▶ Review and confirm that the members understand loan terms and consequences such as the monthly payment amount, date due, insurance requirement, late fee and penalties;

▶ Reinforce the value of membership by explaining that the credit union is willing to assist if/when there are problems so the members should stay in contact with the credit union;

▶ Cross-sell appropriate products such as direct deposit and automatic payment.

Credit union representatives witness the signature, and detailed information about the collateral is collected, including a picture of the vehicle.

This documentation and education process provides a solid defense against the increased delinquency that comes with moving down the credit score scale.

"Hard Close" Success Factors

Several NCUF Auto Loan Survey respondents mentioned the significance of hard-closing the loan as a key to the success of their program:

▶ *"A strong loan closing is very important."*

▶ *"A need to gain a firm commitment from the borrower at closing (i.e., the hard close) [is a lesson we learned]."*

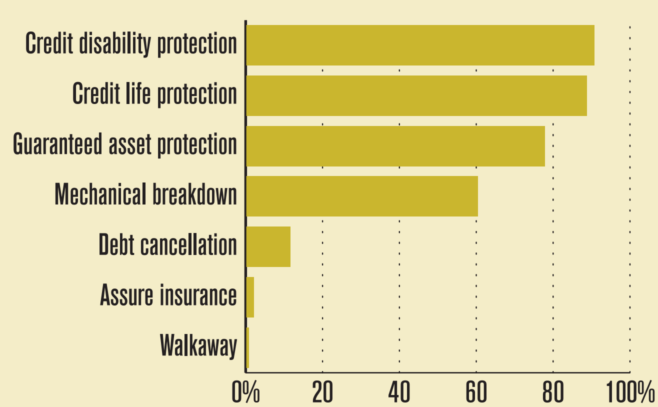
▶ *"We always educate our members about credit scores and budgeting. Lesson: Closing the loan properly is a must."*

▶ *"The pre-close counseling includes awareness of what the financing means to them financially and for the future.... We commit that if they pay us, they can depend on future auto loans as long as we can see positive financial management efforts. They see us as a partner in their financial success."*

▶ *"Close the loan hard at time of closing. Also we tell member[s] that building credit with us will help them for future needs."*

FIGURE 7

Insurance Coverages for Non-Prime Auto Lending



Source: National Credit Union Foundation (NCUF) Auto Loan Survey, March 2008

LESSON 5: Insure borrowers against events out of the realm of their control.

Ninety percent of credit union respondents to the NCUF Auto Loan Survey offer member-paid insurance coverage(s).

Credit disability and credit life are the protections most commonly offered, followed by guaranteed asset protection (GAP) loan deficiency or residual value insurance, and mechanical breakdown insurance (MBI) or extended warranties. In addition, some credit unions offer debt cancellation products to cover events such as divorce, injury, and/or loss of job. (See Figure 7.)

These coverages particularly benefit lower-income borrowers who are less likely to be covered by other private insurance policies.

Insurance Success Factors

Some credit union executives suggested that one key to the success of their non-prime auto loan programs is borrower insurance:

▶ *"Get them to take mechanical breakdown insurance because they cannot afford the repairs later."*

▶ *"GAP insurance is a definite [to have] these days."*

▶ *"We push for … acceptance of disability, GAP and life insurance…."*

▶ *"We also implemented [the] same loan payment with or without insurance. We simply extend the term of the loan to cover the cost of insurance protection. So far, members don't mind the extra payments as long as the payment fits their monthly cash flow/budgets."*

According to a recent survey of low-income car ownership programs, the most prevalent causes for non-prime borrower defaults are losing a job, budget constraints, and car failure. (See Figure 8.)

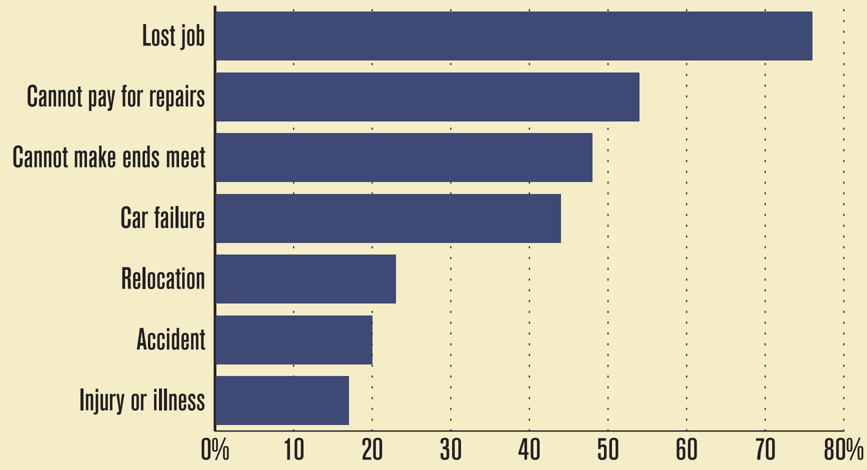
All of the write-offs identified in Figure 8 (except for the third related to budget constraints) are losses that could be insured with the aforementioned products.

Credit unions wishing to engage in this higher-risk profile market can build a combined package of insurances that make the net income of these non-prime auto loans more predictable. These coverages primarily protect the member, and secondarily the credit union. Nonetheless, CUNA Mutual Group has found that the more insurance products on the loan, the better the loan performs.

There is an opportunity for credit unions to provide a package of finance and insurance that offers each borrower a car with the assurance that payments are only required when the car works and the member has a job.

FIGURE 8

Primary Causes of Default Among Loan Financing Programs with a Loan Component



Source: National Credit Union Foundation (NCUF) Auto Loan Survey, March 2008

Concept in Motion

Walkaway Protection *www.walkawayprotection.com*

U.S. credit unions now have access to programs that allow drivers to walk away from their lease or loan when certain circumstances occur. One such package is offered by Walkaway, a Canadian company that now serves U.S. credit unions.

A standard Walkaway program covers:

- involuntary unemployment;
- physical disability;
- loss of driver's license due to medical impairment;
- self-employed personal bankruptcy;
- international employment transfer.

An elite Walkaway program provides more protection by covering:

- temporary lay-off from a full-time, non-seasonal job;
- mental health disability;
- accidental death.

Credit Union Insurance Profile

Tropical Financial Credit Union

Assets: $721 Million
Members: 66,136
Location: Miramar, FL
Contact: Jim Wagy
Website: *www.tropicalfcu.org*

To protect against losses, Tropical Financial Credit Union (TFCU) offers two forms of insurance—credit life and credit disability—for the majority of the loans in its $220 million portfolio. Underwritten by Minnesota Life, the insurance pays in full with no fees or additional costs if the borrower passes away or becomes disabled.

Each insurance policy adds approximately $20 to $30 to the monthly payment of the loan.

The optional insurance has been widely used by TFCU's members since 1991. About 80% of TFCU's auto loans include either credit life or credit disability.

The credit union has found that credit-challenged borrowers generally like the product, because they don't usually have much insurance.

Preferred Dealer Profile

Coastal Federal Credit Union / CUDL

Assets: $1.8 Billion
Members: 170,000
Location: Raleigh, NC
Contact: Peter VanGraafeiland
Website: *www.coastalfcu.org*

At Coastal Federal Credit Union (CFCU), four out of five auto loans come through indirect channels. So developing solid partnerships and offsetting risks from borrowers who may never visit a credit union office are high priorities.

In 2003, CFCU became the first credit union in North Carolina to use the Credit Union Direct Lending (CUDL) programs profiled under Lesson 3 in this report.

CFCU estimates that there are approximately 500 dealers in its operating area alone. Realizing that 500 dealers may be overwhelming for members, and that the majority of CFCU's loans come from a small pool of dealers, the credit union developed a "preferred dealer" relationship with approximately 30 dealers in the area.

The preferred dealer arrangement allows the dealership to upload a flyer of deals and offers directly onto CFCU's website, building a closer relationship between the credit union, members, and the dealership.

Protection against loss is especially critical for indirect loans, as indirect borrowers are less likely to build a connection with or loyalty to the credit union. To mitigate losses, CFCU insured itself with Lenders Protection from CUNA Mutual Group. (See the Lenders Protection Profile.)

Lenders Protection charges a technology fee for the service (in the range of 2% to 3% of the total amount financed). However, CFCU believes the fee is well worth the offset in risk. CFCU originally used Lenders Protection for loans with a credit score of 640 and below. But starting in February 2008, the credit union decided to have Lenders Protection cover its entire portfolio.

Lenders Protection Profile

Lenders Protection *www.cunamutual.com*

Lenders Protection is a web-based technology from CUNA Mutual Group that delivers instant decisions and loan alternatives to members.

Lenders Protection offers 72-month loan terms and 125% loan-to-value, plus rebate-able add-ons. Coverage applies both to current model year vehicles and models up to seven years old.

To ensure that each borrower receives a competitive interest rate, the cost of insurance is calculated based on the risk each individual borrower presents—not on a blanket rate across all eligible loans.

Loan decisions with Lenders Protection are made through an Internet-based insurance decision system. If the applicant meets the insurance criteria, the system communicates back to the loan officer the appropriate deal structure, including the suggested contract interest rate and loan term. This contract interest rate enables the credit union to recover the cost of the program and build a reserve to cover uninsured risks.

The lender pays CUNA Mutual Group an upfront fee, which is recovered as the loan is repaid. Should the borrower pay off early, a partial premium refund is available.

In cases of default, Lenders Protection pays the difference between the loan balance and the greater of:

(a) 80% of the wholesale trade value of the vehicle at the time of default, or

(b) the amount for which the credit union has sold the repossessed car. (Repossession is a prerequisite for submitting a claim.)

Lenders Protection also pays up to 60 days interest to give the credit union time to repossess and sell the vehicle.

The intent is for credit unions to manage and pool the risks of default on direct and indirect loans.

The insurance costs a credit union between 2% and 22% of the loan value, depending on the risk evaluation.

About 60% of premiums are paid out to cover losses. The average loss on a non-prime auto loan is $7,000.

Competitors in this market include Ameriquest, Capital One, and Triad at Ford Motor Company (which approves FICO scores from 525-580).

LESSON 6: Export risks by using available loan loss insurance products and guarantees.

Different sets of coverages protect the credit union directly. Default and collateral protection insurances exist to reduce the credit union's risk.

A completely different approach is envisioned by the corporate credit union network with Charlie Mac and its CARPooL program. Such loan sale and

Non-Profit Profile

Opportunity Cars *www.opportunitycars.com*

Opportunity Cars is a network of more than 150 non-profit organizations dedicated to increasing private automobile ownership for low-wage working families to support their ability to find and retain quality employment, and to improve their overall well being.

Several credit unions have partnered with Opportunity Cars organizations to export risks and receive certain guarantees. Potential partnership configurations are outlined here:

- Opportunity Cars can offer a partial guarantee to a credit union in the event of a deficiency after repossession.
- Opportunity Cars could set a guaranteed earnings rate for a mutual fund type pool of loans, based on its write-off experience. (This means Opportunity Cars would "profit" if defaults were lower.)
- A credit union could provide floor plan inventory finance as working capital (i.e., the credit union underwrites Opportunity Cars).
- A credit union could finance fixed assets of Opportunity Cars.
- A credit union could set a binding agreement to finance a second car upon timely repayment of the Opportunity Cars loan.
- A savings component could be added to the loan to build an insured depository account.
- If Opportunity Cars offers tiers of service, a credit union could begin by financing the top tiers and move down as it gains experience and confidence.

Opportunity Cars organizations help approximately 10,000 low-income families with their transportation needs each year by using one or more of the following approaches:

- Providing a car;
- Providing a low cost loan;
- Matching consumers' savings for car purchases or down payments.

When programs are providing cars directly to families, some of the cars are provided at no or low cost. Others are sold using a tiered pricing model and supported by technical assistance. About half of Opportunity Cars programs have financial institution partners.

Each program is different. Many rely on donated cars, but some programs purchase cars from dealers, at auctions, or through government fleets.

Organizational funding comes from different sources including Job Access and Reverse Commute, Temporary Assistance for Needy Families, Community Service Block Grants, the Office of Refugee Resettlement, private foundations, and revenues generated through car sales.

Opportunity Cars organizations offer an array of additional services to help ensure their clients' success. At the start of the relationship, they either directly deliver or make referrals to partner organizations that deliver support services including financial counseling, assistance with insurance, and car maintenance workshops.

Pre-qualifying could include requiring employment or a commitment for employment, possession of a valid driver's license, or review of the driving record. If a car buyer is receiving a car loan, the program may help ensure the borrower receives an affordable and reliable car by arranging for the car to be inspected, determining the fair market value, checking the car history, or providing assistance with online auto shopping.

After the sale, Opportunity Cars organizations may provide other services including ongoing repair and maintenance training, a warranty or service agreement, and in some cases, an escrow for repairs in the financing.

The average Opportunity Cars loan is $3,200 for a 24-month term with an 8% interest rate. The down payment is accomplished through a $2,400 grant. The delinquency rate is 7%.

participation programs enable credit unions to sell auto loans to a credit union-focused secondary market investor, while retaining the servicing.

Another approach is the National Federation of Community Development Credit Union's PRIDE program, which will absorb 25% of the losses when participating credit unions engage in aggressive outreach lending.

LESSON 7: Keep in touch with borrowers by allocating resources to monitor and collect loans at the first sign of trouble.

Across the board, credit unions recognize the benefits of modifying the collection process when originating non-prime auto loans. Loans based on lower credit scores will receive attention more quickly when collecting (e.g., on days 1 to 15) and repossessing (e.g., on days 30 to 60). (See Figure 9.)

The practice of "proactive collection" is aggressive, but it's not abusive.

Collections Success Factors

The following comments from credit union executives help to illustrate the importance of continual monitoring, early collections, and creating/maintaining open communications with non-prime borrowers:

▶ *"[We utilize] continuous monitoring of lower tier delinquency performance and open communication with our collections group to ensure that credit granting guidelines are reflective of loss experiences."*

▶ *"[Our program] has been successful because we monitor it on a regular basis."*

▶ *"We also feel that collection calls need to be done immediately (within seven days from delinquent account) instead of waiting to call them after 30 days past due."*

▶ *"We always try to work WITH the member at all levels, and by keeping in touch, we have been able to keep our delinquencies down. But the most important thing is to keep at it before it becomes too big to work anything out."*

▶ *"Good tracking and monitoring is the key to a successful program."*

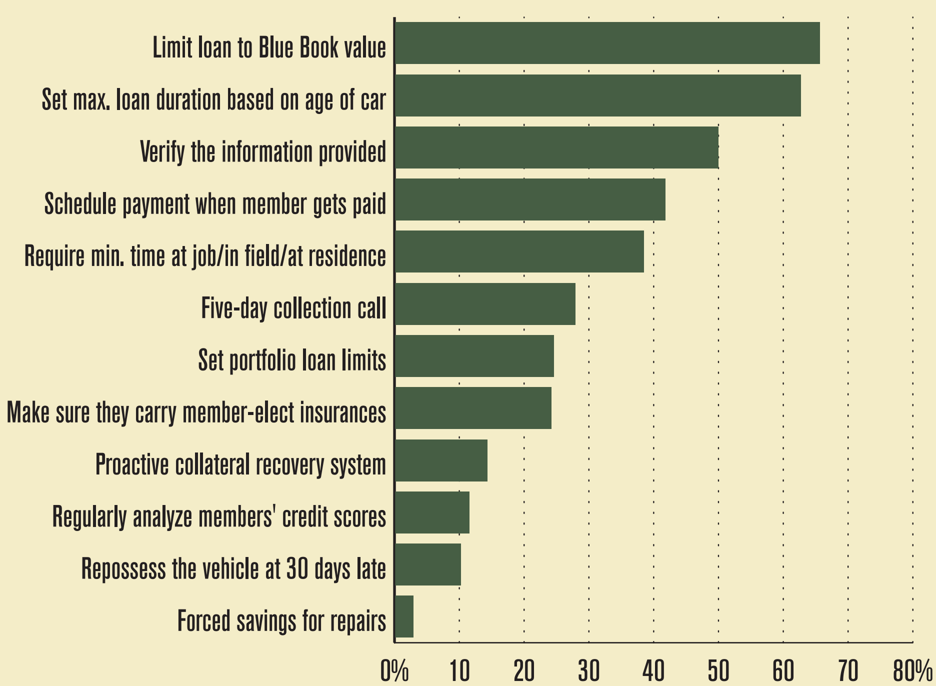
▶ *"You have to get in touch with [delinquent non-prime borrowers], sometimes at one day past due."*

▶ *"We work with members for payments when issues create late payment. Repossessions benefit no one. Collections department personnel speak to them. We tell them about the credit union difference and that we are taking a chance on them that other financial institutions would not take."*

▶ *"Our institution offers a delinquent borrower a $25 pre-paid card for visiting the collector in person. The focus is on healing the breach and restoring member loyalty and good will."*

FIGURE 9

Risk Mitigation Techniques for Non-Prime Auto Lending



Source: National Credit Union Foundation (NCUF) Auto Loan Survey, March 2008

Effective Collections

▶ **Billings Federal Credit Union**
- Look for ways to say "Yes"
- 25% of portfolio is C&D borrowers (<620)

▶ **Two Simple Collection Steps:**
- #1 Call delinquent accounts on Day 1;
- #2 When accounts become delinquent, take action quickly!

Direct Lender Profile

Billings Federal Credit Union

Assets: $64 Million
Members: 8,034
Location: Billings, MT
Contact: Tom Boos
Website: *www.billingsfcu.org*

Lending Overview
▶ $23 million portfolio
▶ 2,471 auto loans on the books
▶ Focuses on direct loans (88% of the portfolio)

With 15% of car loans in the "D" category, Billings Federal Credit Union has figured out how to serve riskier borrowers through relationship building.

By focusing on the direct lending channel, relationship building and loyalty to the credit union's mission begins in the initial interview process. The message for high-risk borrowers at Billings FCU is that "we're willing to help and work with you, but this requires a commitment."

Part of this commitment is financial. When pressed, the credit union has found that most people will be able to come up with a down payment. As a result, Billings FCU's riskiest loans have, on average, an 80% loan-to-value ratio.

Limiting the loan-to-value ratio helps mitigate losses. But losses do occur, and they can cause discomfort for credit union boards. An early strategy for engaging the board is to clearly communicate the reward for taking on additional risk. Although Billings FCU's charge-offs are higher than the norm (0.6% in 2007), the net yield – 110 basis points above peer group average – more than makes up for these higher charge-offs.

If a loan defaults, dedicated and focused collections and follow-up tactics are necessary. Billings FCU pays much more attention to borrowers with low credit scores. This improves their ability to keep the loans current. For "C" and "D" paper, the credit union's collection department will call on day one of the delinquency, whereas it will let "A" and "B" borrowers slide for 15 days.

Other Observations

Marketing Practices for Non-Prime Used Auto Loans

Many of the successful ideas revealed in the NCUF Auto Loan Survey are simple revisions in the way products are presented to members. The ideas reviewed in this section are generally product features and marketing approaches, rather than full lending products and processes.

Credit unions should consider utilizing the following marketing approaches when designing and promoting a non-prime auto loan program:

1. **Lower Interest Rates,** and interest rates tied to additional factors besides credit scores, are constant credit union themes.

2. **"See Us First"** is a popular attempt to get to members before the finance and insurance salesman does (at dealers without credit union partnerships). Sadly, even when members leave the credit union with a car purchase check in hand, half of approved borrowers are recaptured by a dealer.

3. **Auto Recapture** guarantees that the credit union will refinance loans from other institutions to a lower interest rate, often without a credit analysis, as long as members have paid "as agreed" for some period of time. Some credit unions pay members a $50 premium for refinancing.

4. **Timely Payment Reward** automatically lowers the interest rate when a member pays on-time for 12 to 24 months.

5. **Basic Transportation Program** is a bundle of services (used car, small loan, insurance premium financed) for car owners with modest means.

6. **Re-branding** is an ambitious approach to build a branch that looks like a finance company location, with a name different from the credit union. This concept has also been successful in reaching non-members with payday lending and check-cashing services.

7. **First Time Auto Loans** are loans to 16-year olds with a parent/guardian co-signer … or in another case, for military members only.

8. **Second Car Loan** is a clever follow up. Recent reports from the payday lending industry indicate that customers only stay with them for two years because a life event (e.g., new job, marriage, relocation) moves them to a different set of services. Credit unions, by engaging in the non-prime market, can assure that the next set of services is at a credit union by putting in place "step-up products" to ensure a continuous service pathway for migrating members.

9. **Saver's Loan** puts 10% of each payment into a dividend-bearing account, which is secured until the loan is paid. This can be marketed as a repair reserve or a down payment for the next car. Hybrid, linked, and bundled products build the cross-sell into the product.

10. **Marketing to Non-prime Borrowers** is handled through store branches, through dealer referrals, by staffing a desk at the dealership, and of course, by word of mouth referrals from other members.

11. **Premium Promotions** have been successful. A free gas card and a free mechanical inspection are two examples.

12. **Say "No" Better.** The adverse action process itself does not do justice to the not-for-profit cooperative credit union mission. Each loan denial is an opportunity to meet the member with a counter-offer; a counter-offer can be developed for every situation. No matter what the financial situation of the member, there is a financial step in the positive direction right in front of them. Opportunities Credit Union in Burlington, Vermont, uses a tag line, "We don't say no, we say 'when.'" That statement expresses their intent to turn loan denials into opportunities for both the credit union and non-prime members.

Accepting Market Segmentation, Not Discrimination

Unfortunately, some credit unions hesitate to promote non-prime vehicle loans to the distinct market segments that those loans are designed to serve. For example, as one respondent explained, "When [we] market, we market to all our members."

Verbatim comments from credit union survey respondents reveal that significant confusion exists between market segmentation and discrimination. Some credit unions believe that adherence to democratic principles means that they must treat all members the same—with no special deals, and no targeted approaches.

To suggest a non-controversial counter-example, a credit union wouldn't want to promote mortgage loans to middle school students. When you want to hit a target, you have to aim. When you want to reach a person, you have to talk to them in ways they find compelling. This discriminatory mindset must change and evolve before a credit union will be able to successfully serve untapped and underserved consumers.

That said, it will take time for some to change their institutional culture. One survey respondent lamented, "As a traditional 'A-paper' shop, we've found it difficult to change the mindset of the loan decision-makers." Attention has to be invested in justifying the focus on emerging markets and on training staff and the board on how to respond.

Along with any opportunity comes risk. In order to minimize the risk, successful credit unions adapt their products and practices to the market. In addition, successful credit unions use targeted marketing tactics to reach this segment of members and potential members with information about new loan programs designed especially for them.

Even as credit unions use risk-based pricing, non-prime borrowers have access to relatively better deals than prime borrowers could receive at credit unions when compared to their alternatives. Case in point:

▶ During the interest rate environment of late 2006 / early 2007, non-prime borrowers had access to 17% auto loan rates at credit unions. Other auto lenders were charging non-prime borrowers 25% or more.

▶ At the same time, prime borrowers had access to 6% auto loan rates at credit unions. Yet auto dealers and other lenders were enticing prime borrowers with financing as low as 0% (under certain conditions).

Partnerships with Product/ Service Suppliers

John Weiser, author of Untapped—Creating Value in Underserved Markets[10], conducted seven years of research and market testing with innovative companies seeking to successfully serve underserved markets. Weiser notes, "If we had to put everything we have learned into a nutshell, we would say that the most important overarching success factor is to create value for the community at the same time as you create value for business."

In order to create that mutual value, Weiser found that more than two-thirds of the companies that had successfully tapped underserved markets had "formed a partnership with an organization that brought new knowledge, skills, resources, or connections to their effort. Frequently, these organizations were drawn to working with the companies because they were seeking to create community benefits rather than trying to make a profit themselves."

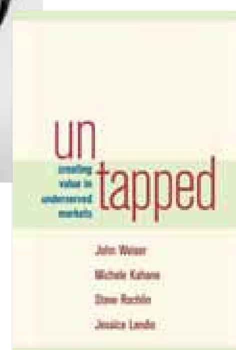
During the course of this project, it became apparent that not-for-profit credit unions that developed non-prime auto loan programs tend to rely on business partnerships for integral program components. Those businesses utilized most frequently have been profiled throughout this report.

The most popular partnerships regarding non-prime auto loans are for providing financial counseling. More than 85% of NCUF Auto Loan Survey respondents work with BALANCE, Accell, or a consumer credit counseling agency.

[10] *John Weiser, Michele Kahane, Steve Rochlin and Jessica Landis, Untapped—Creating Value in Underserved Markets, 2006.*

Potential Partnerships

Less than a third of survey respondents report more substantial and far-reaching partnerships. The most obvious opportunity for partnerships is with non-profit auto programs. The vendor profile of Opportunity Cars under Lesson 6 in this report suggests some avenues to explore… perhaps just to learn how this market works.



Interestingly, there was no mention in the surveys of peer-to-peer (P2P) lenders (e.g., Zopa and Prosper) which present a largely unanswered challenge to credit unions. Perhaps there is room in the marketplace for a "mutual fund" model for P2P lending where credit unions would offer the underwriting technology and a sophisticated web application interface. The interface could provide potential investors with underwriting information. Investors could then build their personal loan policies (e.g., two years of employment, credit score above 600, etc.). Credit unions could originate and service the loans. This would be an appropriate activity for a CUSO.

Overall, credit unions have a plethora of partnerships to explore and consider, including those designed to share expenses, share knowledge, and build referrals.

Concluding Comments

Part of the excitement of working with emerging markets is that no one has all the solutions for success.

Experiment!

Much of the current work is experimental.

"We built it, but they didn't come" is an all-too-common excuse for credit unions that have tried to enter new markets. Experience shows that account acquisition is the hardest part of the process of expansion.

Use Failure as a Path to Success

Among credit unions that have tried and eventually succeeded, a familiar theme is, "It turned out differently than I imagined – *but it was worth it!*"

Make sure to think of each product as an experiment that provides data about what works and what doesn't. This way, no products end as failures—just opportunities that open in hitherto unexpected directions.

Revise, Don't Reverse

Nobody gets a new market right on the first try. You must allow time to track outcomes and to revise policies and procedures.

Strategize...

- **Strategize at the board level**
- **Philosophical change from "the old days"**
- **Define your appetite for risk**
- **Get buy-in from front line staff**
- **Goals:**
  - Live your mission
  - Serve more members
  - Increase loan/share ratio
  - Increase net yield on portfolio
  - Develop loyalty

But make program changes through policy, not through drift. Once you have a policy in place, follow it or revise it.

NCUF Auto Loan Survey respondents overwhelmingly agree that once you stretch the boundaries, you "don't lend outside of policy."

One credit union several years ago started offering auto loans with an escrow for savings. Members' response was extremely positive. However, the implementation had a small flaw: the escrows could be breached for unusual car expenses or down payments with approval by the CEO. The credit union found that escrow withdrawal management was taking a significant amount of time, decided that the program was not a full out-of-the-box success, and dropped the program rather than investing in modifications and improvements.

Set Limits

Starting out, credit unions should consider setting portfolio limits, perhaps based on capital and staying within agreed parameters until the institution has gained experience.

Set aside a loan loss reserve for the program based on your board's perception of the value of the experiment and the risk capacity of the credit union.

Set a sunset date on the product with a specific date to present new data and revised proposals to the board.

Reap Rewards!

Besides reaching new members and achieving financial success, many credit unions rejoice in the positive member comments and experiences when they deliver credit union services to markets previously served by sub-prime lenders:

- *"We have reduced our denial rate by 50% in the last six months."*
- *"Members are grateful to have a low-interest loan."*
- *"It is a business strategy that both fulfills our social mission and has a positive financial impact to the credit union."*
- *"We find that low-income members have a great sense of pride when they commit to these loans."*
- *"People with low credit scores who do get a loan here tend to come back to us first when they are car shopping again."*
- *"We realize that when we help these type[s] of members, they will be loyal forever."*

Next Steps

The word "opportunity" came up many times in the surveys and interviews for this report. What can be done to move credit unions to expand non-prime used auto lending to build net income and to serve members by giving them a substantially better deal?

1) Get the Word Out!

Share this report with credit unions. The National Credit Union Foundation and state credit union leagues, through the REAL Solutions® program, can market this report directly to credit unions and to the trade press, speak on this issue at conferences, and feature these ideas on their websites. A short brochure and PowerPoint would be useful.

A bolder approach would be to build a Steer Clear nationwide branded product that gives credit union identity to non-prime used auto lending.

2) Build a Toolkit

Operationalize the research. Build a "How to" toolkit. Make it easier and quicker to implement non-prime used auto lending. This toolkit would delve down deeper into each of the seven lessons.

3) Fill in Gaps

Encourage vendors, including CUSOs, to fill in the product gaps: insurance, loan guarantees, automated underwriting, secondary market, etc.

4) Replicate and Collaborate

Identify suitable partners and build a replicable model for partnerships with non-profit car programs. Collaborate on a platform that would match credit union products to non-profit client needs.

5) Document Results

Collect data to document and analyze credit unions' non-prime used auto lending. Organize a pilot project to study in detail the results and profile one or more credit unions.

6) Design New Non-Prime Products

Research other products that could be added to the non-prime portfolio of credit unions. For example, the REAL Solutions® process includes original insights into financial markets (e.g. the value of emerging markets), research on opportunities in those markets, identification of credit unions already engaged in best practices, and (working through the leagues) sharing product approaches and case studies with credit unions interested in implementing new products.

Determine what other needs credit union members have, and build a project to design products to meet these needs. Products that appear to be on the close horizon for emerging markets include prepaid cards, mortgage triage products, and micro-enterprise.

Opportunities to increase market share and vehicle loan volumes, while fulfilling credit unions' mission to improve the financial situation of people of modest means, should drive credit unions to help car buyers "steer clear" of predatory loans.

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About the Author

William Myers is Senior Fellow of the Aspen Institute, focusing on the Economic Opportunities Program. He also serves as a Field Coach for REAL Solutions®, the signature program of the National Credit Union Foundation.

Mr. Myers founded Alternatives Federal Credit Union and was its CEO through mid-2007. From its inception, Alternatives successfully focused on serving emerging markets through innovative products and partnerships. Noted innovations include a volunteer income tax preparation site, five youth credit union branches, small business training and lending, volunteer-staffed financial planning, and Individual Development Accounts.

Mr. Myers continues his work researching, consulting, and speaking on innovative product design and partnerships. His most recent projects include payday lending models, pre-paid cards for emerging markets, a scale and sustainability study, and a pilot using back-office consolidation as a merger alternative.

Mr. Myers is a graduate of Cornell University. He has twice co-facilitated Credit Union Development Education, the training program funded by the National Credit Union Foundation to teach cooperative principles and credit union values in the modern marketplace.

He has served on the boards of the National Federation of Community Development Credit Unions and the Opportunity Finance Network. He has also served three initiatives of the Credit Union National Association: the Federal Credit Union SubCommittee, the Renaissance Commission, and Project Differentiation. And he is currently the List Manager of the Community Development Banking listserv.

William Myers

Appendices

Survey Invitation Letter

As part of a pilot program involving the National Credit Union Foundation's (NCUF's) REAL Solutions® program, The Annie E. Casey Foundation, and The Aspen Institute, we are surveying credit unions for their innovative work with low credit score auto borrowers. Working together, we believe we can substantially increase auto lending to low-wealth and modest income working families and grow credit unions.

We appreciate your assistance in helping us recognize the innovative work you are already doing by taking less than 10 minutes to complete this survey at http://tinyurl.com/2x3heh

Thanks for your continued support of the National Credit Union Foundation and REAL Solutions®.

William Myers,
Field Coach, REAL Solutions®
Senior Fellow, The Aspen Institute
wmyers@realsolutions.ncuf.coop
(607) 227-0934

Results and Verbatim Comments

Credit Union non-Prime Auto Lending Study

Responses through 3/10/2008

Name and Contact information.

Answer Options	**Response Percent**	**Response Count**
Your Name:	99.6%	246
Your Title:	98.8%	244
Your Credit Union:	98.8%	244
Your EMail Address:	99.2%	245
Your Phone Number	98.0%	242
	answered question	**247**
	skipped question	**4**

The verbatim comments that appear on the following pages have been reproduced without editing. This is meant to ensure that all survey respondents' thoughts are conveyed to you exactly as they were communicated to us.

What underwriting criteria have allowed your Credit Union to safely extend its lending to low credit score borrowers?

Answer Options	Response Percent	Response Count
Good payment history with the CU	82.7%	206
Good payment history on auto loans	64.7%	161
Strong employment	62.7%	156
Payroll or other automatic payment	59.4%	148
Credit Scores below 620	49.0%	122
Lower credit scores require a higher down payment	41.4%	103
Higher equity ratio required	38.2%	95
Low unsecured debt	36.5%	91
Offer share secured loan instead of auto loan	26.1%	65
Advance money down in CU savings account	12.0%	30
Length of membership requirement	12.0%	30
No credit score required	11.6%	29
Lend on ITIN	6.0%	15
Internally generated credit score	4.0%	10
Other (please specify)	26.9%	67
answered question		**249**
skipped question		**2**

- *A partnership with a non-profit orgagnization called BonnieCLAC which provides assistance in locating cars, counseling to borrowers and a partial guarantee to the credit union in the event of a deficiency after reposession*
- *All of our Loans are risk based priced.*
- *Alternative payment histories, landlord, length of residency, employment*
- *automatic payments strongly encouraged, but not mandated.*
- *Checking relaltionship.*
- *Common sense*
- *co-signer*
- *CO-SIGNERS*
- *Credit Counseling prior to close of loan*
- *CUNA Mutual Lender Protection*
- *CUNA Mutuals Lender Protection Program*
- *Detailed information about the collateral in-*

cluding taking a picture.

- *excellent disposable income and debt to income ratios*
- *go over their credit report with them. In visiting with them, we get a better understanding of their intent to pay. Sometimes we require a small loan history first.*
- *grant unsecured consolidation loan for collection items and or to lower other payments to make loan possible to be within debt ratio limitation.*
- *Higher lending rates in a risk based program.*
- *If a member has a plan for a major purchases,and wants to reduce the amount of the financed by the credit. We offer special share accounts for that purpose.*
- *If no credit score, then we ask for about an 80% LTV if no guarantor/co-maker is possible.*
- *Insurance for defaults on lower scores*
- *It is really a combination of the factors listed above. I'm not sure this is a clear picture. One person does not have to have all the factors I checked.*
- *Just providing opportunity. Each person is different - may have short term or long term employment. May have large or little down. May have some good credit or none at all. May be entering credit world or in it for 20 years. All depends upon person - but providing chance is what they need.*
- *Lender's Protection*
- *loan officer underwriting training to mitigate risks*
- *loan officers decision loans based on member's income to debt, time of employment and residence, credit history trends, relationship with cu, and collateral. beacon scores serve no purpose other than the pricing bases for the loan.*
- *Low credit scores require a co-maker or shorter terms.*
- *May offer a co-maker if first auto.*
- *May require a qualified co-signer.*
- *May require guarantor. Also will not finance sales tax.*
- *Min credit score requirement is 580. We can make exceptions when some of the above apply and with management approval.*
- *Minimum length of residence, income verification on all loans, minimum 3 references, If BK, no derogatory after BK, no more then one repo/foreclosure, length in file 9 months, no tradeline greater then $5000 derog in last 12 months, tax liens $2500+ must be in repayment, one year paid as agreed on a trade or auto, no private party sales and minimum $500 down pmt.*
- *A program where new autos are deeply discounted by dealers which creates equity for the member along with extended warranties*
- *Our underwriting guidelines still allow a number of variables that - when added together - enable us to offer collateralized loans to members that have had credit problems in the past -- In other words, good seniority, length of time with us, member's willingness to take "ownership" (such as a good downpayment), etc. will allow the loan officer to make a positive determination on the loan.*
- *Parent/guardian cosigner if NO credit Low credit scores due to BAD credit, we counsel them how to improve their score but do not do the loan.*
- *Payroll or automatic payments are voluntary and can be stopped at anytime. We do not weigh these payment types in our underwrit-*

ing. We also won't usually finance add-ons such as MBI, GAP. We look for a strong LTV ratios so if we have to repo the vehicle, we are more apt to sell it with little or no loss. Also with thinking future repo, we look to see how attached they are to theie community. If they have been established in their community for some time and have family/friends/work ties to the community, they are less apt to skip.

- *Purchase a vehicle that is make sense for the borrower.*

- *Reduced LTV through a larger vehicle down payment with savings (member "buy-in" to the vehicle).*

- *Require collections to be paid; 6-12 mo. good payment history required on all credit obligations*

- *Require minimum 2 open tradelines with I1/R1 status and must be current for last 6 months. Minimim credit score of 500. Minimim annual income of $20,000. We offer 100% financing on a $15,000 car, plus tax, Warranty and GAP. No cash down required. We limit term to 48 months.*

- *Requiring risk mitigating products such as Default Protection.*

- *RESIDENCY STABILITY NECESSITY VS. LUXURY AUTO INSURABILITY DEBT RATIO CO SIGNERS*

- *risk based lending*

- *«risk based lending imple- mentation*

- *Risk based pricing*

- *Special policies for credit scores in the D and E tier.*

- *Stability in residence and employment. Structure based on risk - less risk = less structure. high risk requires more structure to loan. We also track mbr's credit score twice a year and can trend their performance over 5 years. You can determine whether the mbr has always had struggles or whether it was a more recent issue.*

- *This is a hard question to answer. When we evaluate a low FICO member, we look a the specific circumstances of each member. So depending on the member, we may request use one or more of the requirements listed above. . IT is also important to note that we must separate between a member with a low FICO and a low-wealth/modest income family. A low FICO is generally one that has not paid their bills on time. Most low-wealth/modest income people have either no FICO score because they lack any traditioanl debts or have no Social sec. number.*

- *Thoroughly understanding why the credit score was low and taking into consideration how it may have improved and what plans were in place on the part of the member to improve it*

- *to obtain another loan with CU the mbr must have a positive payment record of 12 mo. or mot to receive and unsecured loan.*

- *Use non-traditional credit score from Trans Union*

- *use of Auto Title deposits to offset higher risk exposure also, direct verification of employment, residence and other non-traditional credit references*

- *We also look to see if the member owns a home.*

- *We combine our internal signature value taking into consideration if the member has gone through our financial education program. Length of time on job or in the same field is considered. How long they have lived at their residence is taken into consideration, income and some other things in addition to collateral value. The higher the risk, the shorter term of the loan. co-signers are also very good.*

- *We do not have a loan program specifically for low beacon scores. We do risk price our loans,* *so members with a lower beacon naturally have to pay more down to obtain financing.*

- *We do not make loans based on Credit Score alone.   We look at the "whole picture" when making a credit decision.*

- *We frequently lend to persons with scores below 600. We rely on a strong employment history (most of our members are Federal employees) and a debit ratio that may not exceed 45% of gross earnings. Most of our members elect to repay via payroll deduction--although we do not require it, nor do we make it a condition of the loan. We choose not to do this because persons frequently transfer to another Federal facility and payroll deduction does not automatically continue if they leave.*

- *We give board -appointed loan officers flexibility to look for ways of approving loans. We have no hard and fast rules for credit score or debt ratio.*

- *We have a "Savers" loan, which the member puts 10% of payment into a div baring account, which is secured until the loan is paid.. This may allow no co-signer, and a reduced rate*

- *We have a program referred to as our Basic Transportation loan. It is designed to help members with lower credit scores have transportation to and from work. Max loan amount is $7500 and we limit the mileage on the vehicle to 75,000 miles. We will also include in the loan amount six months insurance premium if needed.*

- *We have also implemented a very competitve risk-based lending matrix.*

- *We have developed a program that requires minimum length of employment or membership, together with non-traditional personal attributes (including a background check) in exchange for a dependable vehicle (vehicle limitations are part of the program) at an affordable price and an affordable rate of interest.*

- *We have used non-traditional credit in the past. We request receipts from rent, layaway payments, utilites, etc.*

- *We just rolled out Lenders Protection through CUNA Mutual to help better serve these members with their automobile financing.*

- *We look at the overall relationship with the Member. How long have they been a member, previous loans that paid as agreed, checking acct.,direct deposit are all positive factors in building low scored members.*

- *We pay special attention to stable employment, debt to income ratios, and loan to value.*

- *we qualify our borrowers on an income to debt ratio. We do not use risk base lending practices at this time.*

- *We underwrite all high-risk laon with Default insurance from Lender's Protection.*

- *When low scores are a result of lack of credit history we have used alternative sources to document payments as well as documenting diplomas from college graduation.*

Do you assist members in finding a car?

Answer Options	Response Percent	Response Count
Agreement with Local dealer	59.6%	68
On line car buying	37.7%	43
Car sale through rental agency	35.1%	40
Own used car lot	2.6%	3
Own a Dealership	0.9%	1
	Other (please specify)	105
	answered question	**114**
	skipped question	**137**

- *a Special program involving dozens of local dealerships.*
- *Agreement with Enterprise Car Sale*

Auto Advisor Program

- *Auto Advisor service through third party*

- *auto advisors*

- *Auto broker service*

- *Auto Broker utilized for the last 20 years!*

- *auto buying service*

- *Auto Expert*

- *Auto Sales by Dealers*

- *Car buying service companies (discounted pricing): United Buying Service Motor Vehicle Certification Program*

- *Car buying service through CU owned CUSO*

- *Car buying services*

- *Car sales through sales agency. Auto buying service. We recently partnered with Enterprise and introduced a program called SmartBuys. The program is specifically targeted to low-middle income Members to assist them with locating a reliable and economical car. I'd be happy to discuss further if you are interested.*

- *___ "best price" and "best dealers" service*

- *Counsel members and also use a car buying service*

- *Credit Union Direct Lending*

- *CU Direct Lending, Autoland, local auto finder*

- *a local company where several credit union send reposessed vehicles.*

- *CUDL*

- *CUDL service*

- *Direct our members*

- *F2F CUDL on website*

- *Fleet Dealers in our area*

- *Generally speaking there is not enough time in a day for credit union loan officers to get in-*

volved in the car buying process for a member, but they can certainly advise them to go anywhere except a dealership for the best deal.

- *Have refferal program*

- *If a member requests our help, we will speak to the car dealership in their behalf and attempt to negotiate the sale. We have written agreements with a few area dealers. However, we will personally speak to the sales representative at any dealership. Whether we'll intervene in a sale depends on how the car has been priced. Sometimes is so high above "retail" that we can't stand it, so we'll call and say "can you drop the price?" They usually do.*

- *Indirect auto program*

- *Indirect Lending CUSO*

- *Indirect Lending through Members Financed Autos*

- *Indirect Lending with dealerships, Auto Wholesale Direct Auto Brokers*

- *member finds auto*

- *N/A*

- *indirect relationships with all area dealers that will allow the member to contract at the dealership.*

- *no (13 responses)*

- *No we don't.*

- *No, we currently have no affiliation with any type of dealership in the area. Most members purchase cars from the owners.*

- *Non profit BonnieCLAC does this for their clients. For those clients who have not completed their counseling program they have "loaner" cars that can be used in the interim.*

- *Not at this time but will by 2nd qtr 2008.*

- *Note: Used Car Lot: We have an agreement with a local dealer at our headquarters location to sell our repos and their good used cars.*

- *Occasionally we sell repos because we offer one rate financing versus risk based on those loans.*

- *On-line resources*

- *Only through Indirect relationships*

- *Our indirect lending department will assist*

- *own a dealership ???? not sure what that means*

- *Partnership with social service agency to provide financial counseling*

- *use Members Auto Source - Auto Purchasing Service through a FCU's CUSO.*

- *pre-approvals and assist our members with vehicle value information before they go to dealership.*

- *Pre-arranged pricing and auto locating through car-buying services and buyers club*

- *refer to local smaller dealer that sell for less*

- *Re-marketing of previously financed vehicles(repo's) to buyers who do not meet regular guidelines.*

- *The credit union works with an Auto Buying Broker Service*

- *the local dealer offers vehicle buyer services in our branches and is CU owned*

- *a program which assists members with pre negotiated prices and follow up on pricing.*

- *Utilize CUDL's Auto Smart program to help borrowers identify potential dealers and vehicles*

- *We also have an Auto Resource Center which is a vehicle locate service. We have strong re-*

lationships with many area dealers and negotiate deals for our members. We also sell our off lease vehicles and have a strong relationship with a used car dealer.

- *We are a large indirect lender with over 250 participating dealerships.*
- *We are in the developing stages with our indirect program to offer online inventory with specific dealers*
- *We assist informing member with information as to the value of the vehicle. NADA & New car book.*
- *We do business with Enterprise (Rental), where they offer no haggle buying and under Kelly Blue Book prices. The credit union will also take 25 basis points off of the base rate*
- *we do carbuyer workshops in English and Spanish, and advocate on their behalf. For example, we recently filed a NYS Attorney General complaint against a dealer who we believe is "packing" extended warranties, etc. on sales to Hispanic immigrants*
- *we do not assist in finding a car*
- *We do not assist members with vehicle location services. Our staffing does not allow for that.*
- *We do not assist the member in finding a car but we do review purchase agreements and will help negotiate sales price, especially with dealers that have excessive mark ups which impacts LTV.*
- *We do offer a car buying service through an auto broker that members have an option of using for a fee.*
- *We do refer to local dealer, however, do not have a written agreement.*
- *We find the value of the car thru NADA and ensure that they do not pay more than the car is worth.*
- *We have a car buying service for our members*
- *We have a car buying service that assists members in locating a desired car. We use dealers that are part of our indirect network and have agreed to give our members the best deal possible.*
- *We have a car buying service.*
- *We have a partnership with Enterprise. There are several sales lots in North Carolina that our members can visit.*
- *We have a program that includes dozens of used and new dealerships allowing purchases at cost plus.....*
- *we have an auto buying service at no cost to members.*
- *We have an Auto Scout,the member gets preapproved lets us know what they are looking for and he go looking and negotiate for the member.*
- *We have an Auto Scout,the member gets preapproved lets us know what they are looking for and he go looking and negotiate for the member.*
- *We have an indirect program with a local credit union. We purchase loans from them.*
- *We have our own in-house auto buying service*
- *We have referred members to a "car broker" who will help with purchase of japanese autos. He is known to many members and staff and has done a great, affordable service, so if the members asks for help we will suggest they contact this person. We also know certain dealers where members have been ripped off by poor quality cars and we will tell members if we see them looking at a car from one of those dealers - warning them of our concern and*

the experience of other members. We also will condition some loans on having the car cleared by one of two local mechanics that the CU trusts to give an assessment of the vehicle and the purchase price. Members have been very happy with this service. We also let members look at Consumer Reports information on vehicles and talk about and share information on gas mileage.

We may recommend dealers that we have an Indirect relationship with, but we do not assist members in finding a car.

- *We partake in CUDL....so our members finance at the point of sale....we drive our members to our dealer partners*

- *we participate in an auto buying service,plus we have relationships with local dealers*

- *We promote a program, which is the Credit Union Systems' indirect lending program.*

- *we publish our CUDL Dealers on our website.*

- *We require that they huy the car through one dealer.*

- *We tried agreements with local dealers and could not make the program work. If the credit union could have an ownership interest in a used car lot it would solve most of the problems.*

- *We use an auto buyer- independent third party*

- *We will help the member with "on-Line" price assessment of the car they are trading and the car the are purchasing so that they can negotiate intelligently.*

- *We will help them to value cars they do find. In one case, with a low-funtioning member, my loan processor did find a car for them in their price range.*

- *We work with Enterprise and Carquotes.*

- *work with the member's debt ratio and budget to suggest a sales price and payment they can afford*

- *Yes, as much as possible. We provide them with the values of the vehicles they are looking at. Assist them with the negotiating process, sometimes a little too much! We also have a few local dealerships that sell their vehicles at less than retail and we will tell members the names of the 2-3 dealerships that do that.*

What Risk Mitigation techniques do you employ?

Answer Options	Response Percent	Response Count
Limit loan to Blue book value	65.6%	160
Set maximum loan duration based on age of car	62.7%	153
Verify the information provided.	50.0%	122
Schedule payment when member gets paid	41.8%	102
Require minimum time at job or in field, at residence, etc.	38.5%	94
5 day collection call	27.9%	68
Set portfolio Loan Limits	24.6%	60
Make sure they carry the member elect insurances, etc.	24.2%	59
ProActive Collateral Recovery System	14.3%	35
Regularly analyze members' credit scores	11.5%	28
Repo at 30 days	10.7%	26
Repossess the vehicle at 30 days late	10.2%	25
Forced savings for repairs	2.9%	7
	Other	61
	answered question	**244**
	skipped question	**7**

- *60 DAY REPO*
- *7 day collection notice, repo at 45 days*
- *Active collection techniques employed by loan resolution team understanding reason for delinquency, strong closing of loans by FSRs, emplying solutions to work out of problem situations, close monitoring of early default loans*
- *All C & D borrowers receive collection calls on Day 1. Most other mitigation techniques suggested above are employed, but none are set by policy.*
- *Analyze the financial situation of the member. Debt to income ratio not to exceed 40% of their monthly income.*
- *Any high risk loans are "queued" to the collection department to be followed on a regualar basis for any signs of "stress". Collection efforts would begin immediately once the loan becomes delinquent.*
- *Applicants with less than 12 mos credit must be on job at least 6 months and are limited to a loan <= 60% annual income and 80% LTV. These applicants and applicants with FICO scores <620 are also limited to a 100k mileage cap. Employment/Income is also verified on these applicants.*
- *As mentioned in #2 - we track scores twice a year and if the mbr is trending down - we will monitor the accts more closely.*

- *Borrowers must have completed Financial Fitness training course*

- *Budget and action plans, financial education classes*

- *Call at 14 days. Grace Period is 15 days*

- *Charge fee on certain credit rebuilding loans*

- *Collectin notices genrated daily at 5, 15 and 25 days CUNA Mutual Lender Protection Collectin Policies based on rehabilitation first, recovery second*

- *Collection Call at Day #10.*

- *Collections department personnel speak to them. We tell them about the Credit Union difference and that we are taking a chance on them that other FI's would not take.*

- *Debt structure considered e.g. retail v. installment, capacity, previous borrowing experience for similar loan request; negative amortization mortgages, and a keen emphasis on "reserves"!*

- *DIRECT DEPOSIT OF INCOME*

- *Hard close.*

- *Have a proactive collection department*

- *Here again each individual request will determine conditions.*

- *Limit Grade D to a % of capital. Price according to score. The lower the score, the higher the rate.*

- *Limit loan to a percentage of NADA value, differing by credit tier*

- *Limit loan to black book value*

- *limit loan to retail of NADA, duration based on age of car, require collision and comprehensive on auto's over $5k, member employed 90 days of more unless job change for better pay.*

- *Limit to black book values as they are more accurate.*

- *Loan only 90% of value on credit score 619 and under*

- *Maximum debt/income ratio; require auto debit for payments*

- *More aggressive collections but not abusive repo rules. These members have a higher than average luikelihood of incurring financial glitches but will be the most loyal as we prove that we are for them...*

- *Must be acceptable collateral wiithhin policies.*

- *A WELL STAFFED AND PROACTIVE COLLECTION DEPARTMENT.*

- *Price appropriately for the risk.*

- *repo at 60*

- *Repo at 60 days. We normally do not allow redemption after repo unless they pay loan off in full. (Does not apply to Reese-Levering Act vehicles)*

- *Repo collateral @ 30 or 60 days depending on if member is working with us or ignoring us*

- *Repo is set to occur if loan is delinquent 60 days or more. The blue book value is limited to the trade in value of the vehicle.*

- *require 10% of total loan in shares*

- *REQUIRE loan Default Protection*

- *Require payroll direct deposit with automatic payment distribution. GAP Insurance on new cars.*

- *run credit reports on all loans and questions mbr if need be about the report (things being pd in full or still owing) Tax leins, judgements, repo's , foreclosures and bankruptcy*

- *See answers to number 3. Complete applications with references - especially for first time borrowers. We also do monitor first-time borrowers and first payments very closely and will make calls to them until we see regular payments occuring, preferably thru direct deposit and automatic payment.*

- *Set maximum age and mileage of car.*

- *Solid Co-Makers when needed.*

- *start repo at 30-45 days*

- *Tiered pricing to offset our risk*

- *Until recently we did not offer a loan for more than 48 months if the loan was for less than $15,000. We offered 60 months if greater than $15,000. Now we allow our members an additional 12 months if they purchase GAP (at $225) through us.*

- *Used Vehicles - 100% Retail Value As Listed By The Blue Book*

- *Usually repo at 60 days*

- *Various others....LTV limits, term limits, no BK's, POI etc....*

- *We do a 5 day collection letter for members who are C and D paper.*

- *We do collect higher risk loans differently than we do low risk loans. Much closer follow-up.*

- *WE DO NOT RELY UPON MEMBERS TO GET CAR INSURANCE. ALL OUR AUTO LOANS ARE COVERED BY A BLANKET COLLATERAL PROTECTION INSURANCE POLICY VIA CUNA.*

- *We found that a large precentage of our delinquent loans were young people just starting out, now we always figure in a rent payment even if the member is still living at home. That way if they move out, they should be able to afford the vehicle and the rent.*

- *we have a first time buyers program that limits amount financed,down pmt requirements,length of emp,references, letter from emp and poi*

- *We have a strong loan closing and collection department but it is not one size fits all.*

- *we have the ability to use lender's protection to protect the loan if it were to default*

- *We use a credit bureau pre-approval to generate the offers, using the criteria above in #3*

- *We use CUNA Mutual's Lender's Protection Program*

- *We will collect by credit score in the very near future. Lower credit scores will receive quicker attention when collecting and repossessing.*

- *We will only lend up to 90% of the blue book value.*

- *When we add forced placed insurance we force member to increase their payment to cover the cost*

- *work with members for payments when issues create late payment, repo benefits no one.*

Do you offer insurance coverages with the loan product?

Answer Options	Response Percent	Response Count
Credit disability protection	90.8%	218
Credit life protection	88.8%	213
Guaranteed Asset Protection	77.9%	187
Mechanical Breakdown Insurance	60.4%	145
Debt Cancellation	11.7%	28
Assure insurance	2.1%	5
Walkaway	0.8%	2
	Other (please specify)	18
	answered question	**240**
	skipped question	**11**

- *All of the above are available, but not required.*

- *auto insurance*

- *Collateral Protection Insurance is all from CUNA!*

- *Credit Disability is member paid and the Credit Life is paid by the credit union up to $25,000.*

- *GAP Insurance*

- *GAPP coverage*

- *Lender Protection*

- *Life and disability it is optional.*

- *Loan protection for all members paid by credit union.*

- *no*

- *none*

- *Other insurance offered by the dealership.*

- *our dealers can sel whatever backend products as long as the don't go over our max advances.*

- *The dealers offer these products and we include the cost in our financing.*

- *The life and disability protection is part of our Debt Cancellation package.*

- *These are offered through an arrangement for a discounted price from selected dealers*

- *We also implemented same loan payment with or without insurance. We simply extend the term of the loan to cover the cost of insurance protection. So far, members dont mind the extra payments as long as the payment fits their monthly cash flow/budgets.*

- *We also offer GAP.*

How do you market to potential low wage members?

Answer Options	Response Percent	Response Count
Encourage members to get CU financing first	88.7%	180
Recapture Loans (with member premium)	28.6%	58
First time auto Loan	25.6%	52
Timely payment reward	7.9%	16
Branch looks like a finance company location (different branding than the credit union).	1.0%	2
	Other (please specify)	53
	answered question	**203**
	skipped question	**48**

- *acquire many through indirect lending*

- *Applicants come through social service agency office*

- *Area used car dealers are aware that we have the best rates for high risk low-income borrowers and because they want to sell cars send applicants to us. All applicants must come into credit union for face to face interview with loan officer.*

- *Basic Transportation Program is noted in our newsletters, brochures and website.*

- *Constantly feature auto loans with rate price leader and deal locator service.*

- *Credit Union lobby,Newsletters,payroll insert, Bulletin Board at work sites.*

- *Dealerships know that if they are having trouble financing a customer they can refer them to us.*

- *Discounted rate for saving a certain amount monthly along with the car payment.*

- *Establish credit with secure products and monitor payback period and start limits with low amounts!*

- *financial education seminars*

- *Hope you are not confusing the low wage situation with the low credit score one, we have experienced many people who make a high wage and can't manage their money leading to a low credit score*

- *If a member has paid an auto loan with another financail institution "as agreed" for 12 mos., we guarantee to refinance without a credit analysis.*

- *LCU has Modified Direct and Indirect relationships with Used Vehicle Dealers that are risk based priced for new and existing Members.*

- *Loans to 16 year olds with parent/guardian cosigner.*

- *Local dealers recognize our CU as one most likely/willing to help credit challenged borrowers*

- *Lower interest rates*

- *LOWER INTEREST RATES, AND INTEREST RATES NOT TIED TO CREDIT SCORE.*

- *Make ourselves available for financing at the dealerships through our local Credit Union Auto Loan Network - which requires the dealers to*

- *Marketing efforts are to total body of church members as a whole. First time auto loans and refinance of existing in addition to new/used purchases are pushed.*

- *Most of our marketing to low wealth members is done through our Community outreach programs. We work with non-profit organizations, and political leaders to help us identify and market to low-wealth and immigrant individuals.*

- *Most of our members fit in this category. I do email blasts to staff.*

- *N/A*

- *no special marketing. we use an outboand sales center.*

- *None of these...Encourage to get a garantor.*

- *Offer Auto Buying seminars to educate members*

- *Our first time auto loan program is currently being used for our Military members only.*

- *Our members are Federal employees. Even the loweset wage earning makes at least $25,000 annually.*

- *referrals from other members*

- *REPOSESSIONS VERY VISIBLE AND AUCTION ON OUR WEBSITE*

- *SCU has branchs inside several Wal*Mart locations*

- *They actually seem to find us with little/no marketing*

- *through used car dealerships*

- *Various promotions have been held to encourage members to come in and meet with loan personnel to see if better payment terms can be offered through a refinance program.*

- *Via quarterly newsletters, inserts in mortgage bills, in lobby displays, web site*

- *we are constantly reaching out and looking to improve marketing consistency in an effort to steer them clear of predators and get them out of bad loans when they don't come to us first*

- *We do joint marketing with the non-profit agency, borrowers must be referred by them.*

- *We do recapture loans and are able to get the member a better rate than they have elsewhere.*

- *we don't*

- *we don't have any special programs on our indirect side for low wage....we do have limited loan amounts for our members who are college students etc...these are all branch loans though...not indirect loans.*

- *We don't proactively market to this segment*

- *We don't specifically market to this area yet.*

- *We have a branch in a non-profit cooperative that serves unbanked people.*

- *We have trained our staff to conduct very in-dept interviews. Marketing pushes people in the door, the staff does the rest.*

- *We mail a pre-approval letter to these members monthly*

- *We offer discounts to members that pay satisfactorily when they pay off by reducing the rate by .25%.*

- *We try to educate low wage members about how much car they can really afford.*

- *We use a preselected list and market by invitiation only*

- *we will refinance loan from other institution to lower payment without extending term if within book value*

- *We work with 3 used car dealers in town who refer potential customers to us*

- *when a mbr joins the CU we have a handout with all of our information about loans, checking, debt cards etc. If they come in asking about a particular loan we will explain to them what they would need to get the loan and if they are not able to get the loan we go over the credit report with the member to try to help them improve their score so we can help them the next time they come in.*

- *When market, we market to all our members.*

- *word of mouth mainly.*

- *Word of mouth. Advertising in Hispanic market of radio and television.*

Do you use partnerships to assist in serving this marketplace?

Answer Options	Response Percent	Response Count
Financial Counseling	85.4%	88
Non profit partnerships	29.1%	30
Partner with mechanic for pre-purchase inspection	4.9%	5
	Other (please specify)	38
	answered question	**103**
	skipped question	**148**

- *Accell*
- *again, we do carbuying workshops and financial ed at various partner locations*
- *Balance*
- *BALANCE*
- *Balance*
- *Balance*
- *Balance*
- *balance program*
- *Consumer Credit Counseling*
- *cplc.org and its many service outlets.*
- *Federation's PRIDE program supports with 25% support.*
- *Good News Garage -Education on owning a maintaining a car includes practical session with mechanic.*
- *If a members participates in the a Financial Counseling Program, we offered a reduced interest rate on their loan (range .25, .50, .75 or 1.00%). The rates are in a turn barrel and the member is allow to pull one label which indicates the rate deduction they receive.*
- *In the wake of current conditions, financial planning seminars and materials are needed for all member segments!*
- *In-house auto buygin service.*
- *n/a (2)*
- *No (9)*
- *None (2)*
- *None of these...*
- *our financial counseling is done within the credit union*
- *PEFCU has there own Financial Couselor and is offered free to our membership.*
- *We have an inhouse community education*

department

- *We Have Our Own Financial Counseling Program - Not Through A Partnership*
- *We have our own financial counseling service*
- *We partner with a company that provides free financial education and debt management counseling to members of participating credit unions.*
- *We use the Balance program.*
- *We work with the local Consumer Credit Counseling Services in the markets we serve as well as the Family Support divisions for the Bases we serve.*

Has your low credit score auto lending program been successful? What lessons have you learned?

Answer Options	Response Percent	Response Count
Open Comments	71.7%	180
	answered question	**180**
	skipped question	**71**

- *A need to price for the risk. A need to gain a firm commitment from the borrower at closing (i.e., the hard close). A need to collect aggressively, including repossession at no later than 60 days. A need to monitor yield, delinquency, charge offs, and net yield by individual paper grade to ensure we're pricing appropriate and can make adjustments to both pricing and underwriting standards when necessary. Our portfolio yield is more than 120bp above our peers, and more than makes up for our above average charge offs. It is a business strategy that both fulfills our social mission and has a positive financial impact to the CU.*

- *A strong loan closing is very important. Also, we have a very aggressive collection program.*

- *Actually, we do not have any specific programes related to the low score members. The credit decision is done by an analyst who analyze them individually .*

- *Admittedly, our "program" is not formal. We look at each applicant's qualifications, no matter what their credit score, and try to find a way to make the loan and educate the member when appropriate. The credit score is a tool used primarily for pricing, not decision-making.*

- *Although we have had RBP for 10 years we have been doing risk base lending a short time, maybe 1-2 years, so we do not have alot of history to work from. I would say it has helped but we will need 1-2 more years to really effectively measure the results.*

- *Any lending program can be successful if you plan it correctly.*

- *As successful as risk allows. Member education on credit scores, debt-ratios, auto buying and how to maintain a strong, positive relationship with CU have mitigated risk.*

- *Average success. Had to quit CMG program due to large losses. We see good results from our first time buyers in our graduating senior program.*

- *Continous monitoring of the lower tier delinquency performance and open communication with our collections group to ensure that credit granting guidelines are reflective of loss experiences.*

- *Cover rent in debt ratio, have at least six months of current job history, review credit history with us, get co-signers, or extra collateral. We also review credit after 6-12 months and* will reduce interest rate if credit has improved.

- Currently reviewing with potential of making requirements less restrictive.

- Down payment requirement (10%) helps to offset some risk.

- Down payment should be required on questionable loans. Shorter term limits depending on the age of the auto being financed. Offer more education on the auto buying process.

- Even though there have been some lates in the past 10 months, we have not yet had a repossession. Our portfolio contains over 100 members and $1.9 million.

- Extremely. We find it very important to accurately value the vehicle and to do a lower loan to value than on our regular lending. We also attempt to obtain as much cash down as possible so the buyer has a vested interest in the vehicle. We have been doing this for a very long time.

- For us it's important to have member loyalty to our CU and those members refer members and some even co-sign to help newcomers. If we make a bad decision we tend to lose about $5K on our used car repos. Not sure we've been doing it long enough to be successful.

- Fortunately, we have had very good luck with our auto lending program. We find that low income members have a great sense of pride when they commit to these loans. Our delinquency rate is less the 1%,

- Get them a payment they can afford.   Get them to take Mech. Breakdown Ins. (because they cannot afford the repairs later). Make them go through some Financial Counseling to help understand the ramifications of failures. Start off into the vehicle at the reasonable value. Help them make the deal and do not let a dealer take advantage of them up front. That helps everybody from the start. -- The internet can be a very good tool and freind in todays world.

- Good returns. You must verify employment and income if you are buying these loans on an indirect basis.

- Great success with low or no credit score applicants, specifically matricula and ITIN holders

- Has higher losses in the past but we recognize this and limit the total outstandings in the portfolio.

- I don't think it is any more or less successful than typical underwriting standards.

- I have helped a number of credit unions achieve success with high-risk auto lending by training staff and management on how to do this lending well.

- If the member has good job time & payroll deduction we usually will do the loan but watch doing ACH Origination from their bank - do it directly with the employer. Much better results!

- if the member is "loyal" to the credit union, they will pay us back and of course, if they have issues, we will also work with them

- In 2002 - 2004 we participated in a lending partnership with 2 auto dealers with rather disastrous results. But we didn't want this experience to dampen our hopes to serve our members so we now do our auto lending program without dealer partnerships. If a loan applicant has a low credit score we will work with them to tell them what they need to do to qualify for a car loan - including letting us get to know them by becoming a active members, putting savings away to help towards a downpayment to give us a better LTV. If they have *a high debt-to-income ratio, we ask them to put the equivalent of the payment and insurance in a savings account for three months or more to see what it's easy to live without that money. This usually convinces the member that perhaps they are better off without the car or that a smaller car loan would be better than the one they were thinking about. The key is member education.*

- *It has a good ROA yet but the time employees spend collecting these loans has increased. Direct deals are better than indirect deals and new members are definitely more risky than existing members when it comes to lower scores.*

- *It has been marginally profitable. We are raising rates on C, D, and E paper to shore up this market profitability.*

- *It has been moderately successful with a higher reposession rate.*

- *it has been successful because we monitor it on a a regular basis*

- *IT HAS BEEN SUCCESSFUL FOR PURCHASES. IT HAS NOT BEEN USEFUL TO TAKE OLD BEATERS FOR COLLATERAL*

- *It has been successful with delinquency and charge off %'s being better than industry. We did underestimate the collection efforts for our higher risk paper and had to tweak those rates up accordingly.*

- *It has been successful. We always educate our members about credit scores & budgeting. Lesson: Closing the loan properly is a must.*

- *It has not always been successful. Having the member but some money down towards the vehicle is a plus. GAP insurance is a definate these days to have.*

- *IT HAS NOT BEEN ENTIRELY SUCCESSFUL. ONE LESSON LEARNED IS TO BE WARY OF AUTOS REGISTERED OUT OF STATE. ANOTHER IS TO INCREASE THE SHARE DEPOSIT REQUIRED, GIVEN THAT AUTOS DEPRECIATE SO RAPIDLY. WE HAVE NOT GENERALLY DONE NEW CAR LOANS, WHICH IS MAYBE A GOOD THING SINCE THE VALUES ARE HIGHER, YET THE AUTOS LOSE FAR MORE OF THEIR VALUE. TAXI LOANS, HOWEVER, HAVE BEEN A BETTER BET THAN PERSONAL AUTO LOANS.*

- *IT is beginning to be more now that we have closed some loopholes that have impacted our losses significently...i.e. tighter policies and retraining loan officers. We will make to low credit scores done in the member's and credit union's best interest.*

- *It is not uncommon for us to approve a vehicle loan for memebers whose score is below 600. We look at their work history, their payment history with the credit union and their ability to pay. Most people in this category rely on their vehicle to get back and forth to their job and they will let their house payment get behind before they will not pay for their vehicle.*

- *Just returning. Lendr protection may be the key*

- *Just rolled it out within last 6 months. Volume is good, but portfolio has not matured enough to determine if successful.*

- *Just started this past October.*

- *length of employment is a great mitigating factor and repayment of preceding loans with the credit union.*

- *Looking closer at these deals and usually reviewed by more than one lender prior to approval, remember that we are here to do* *loans!!*

- *Loss ratios continue at the 3 - 4% level. More than adequate to make this part of our portfolio productive*

- *Low credit scores can be considered a relative term. We consider low 600-650. We don't do many of these loans as the member must also qualify under normal underwriting standards (debt to income--etc.). However, the loans that we have approved have all been successful so far.*

- *Low Fico scoring members must have a strong profile (CU relationships, job time/type, home time/type), and have proper cash down*

- *Low scores are indicative of fundamental underlying issues. Financial education, action plans and tools such as our tracker loans address the underlying causes making members more likely to be successful. Without behavior changes, budgets and better planning, these loans will have higher losses making lending to this market not sustainable.*

- *Marginally Sucessful- Low Credit Members have their outlets for borrowing - It's a tough job to convince them we are serious about saying "Yes" to them.*

- *Members with very poor credit or no credit are extremely risky. The Credit Union must find compensating factors to make these types of loans.*

- *Moderately successful with Lenders Protection Program. We do not promote it but rather use it as a tool to make loans that we would not otherwise.*

- *Modest success.*

- *N/A*

- *N/A*

- *N/A*

- *Our Auto Lending it's not successfull, because we don't have a demand for it. I think it has to do with marketing, paper work, requirement and convinience. I know you can go to a Car Dealer and drive a car the same day. Taking a loan with the credit union depends on the borrowers, if they provide all the required documents, if the member qualify base on income. Overall, our auto loans are successful, but don't make tha many.*

- *OUR DELIQUENCY RATE IS LOW. WE SEND REPO NOTICE EARLIER IF WE HAVE THE TITLE. CARS UNDER $4000 ARE PERSONAL LOANS*

- *Our Members Have Been Happy To Have A Car And We Have Been Successful In Repayment; Many Low Scores Are Related To Past Credit Which Has Been Corrected*

- *Our partnership with CUDL and Lender's Protection has been vitial to ur sucess as a top lender in the NC marketplace.*

- *Our program is approximately 7 years old. We typically originate 50 or so each month. We currently have about 5,600 on our books. When the program was started, not enough emphasis was placed on the member's ability to repay. We tweaked that after about two years and required a Senior Vice President approval if the credit score is below 540.*

- *Our program is less than 2 years old. Members are grateful to have a low interest loan. Delinquency has been very minor*

- *Our program provides rates based on credit scores. members with 550 score or less require qualified comaker of 650 or higher or 100% share secured. Our members are also* *counseled as to how to clear up credit report and how to save money.*

- *Our teenage borrowers have gone on to be stable adult borrowers.*

- *Our terms for lower scores have higher rates. For first time buyers, or those with three trades or less, we offer $10K max loan, with 10% down payment minimum. We can override the max $10K loan with a Regional Director approval. Enterprise has been a good partner in assisting us with members who need reliable vehicles within this price range or close to it.*

- *Pretty much. We just scrutinize their application very carefully.*

- *Since we leave the door open to loan to anyone - regardless of their credit score - our loan officers have the authorization to meet member needs if the history of the member assures us that their adverse credit is not due to lack of financial responsibility - but, due to situations out of their ocntrol, such as illness, loss of income, etc. Therefore, over the years, we have built a reputation - both through the membership and our indirect dealers - that we will not discount any application solely due to their credit score. We will always consider "character" and circumstances before making an underwriting decision.*

- *So far, so good. On the indirect side, we use LPI - Lenders Protection(a CUNA insurance program) to assist in writing lower credit on that business.*

- *So far. Most CU loyalists pay the credit union regardless of situation.*

- *Somewhat successful. People with low credit scores that do get a loan here tend to come back to us first when they are car shopping again.*

- *somewhat we must watch the credit scores & unsecured debt*

- *Somewhat, but not as successful as we had hoped.d planned. This program has allowed us to made loans to members previously denied. But, even with policy changes and assistance offered, we find that members are still making still making impulsive purchases and using payday. Therefore, continued financial counseling is needed with emphasis on planned spending over impulsive and the value your credit union offers.*

- *Stability of employment is major concern.*

- *Stay within agreed parameters.*

- *Still a work in process - too early to evaluate*

- *Still to early to tell.*

- *The pre-close counseling includes awareness of what the financing means to them financially and for the future...we commit that if they pay us, they can depend on future auto loans as long as we can see positive financial management efforts. They see us as a partner in their financial success.*

- *the structure of the loan is important. Member needs to have money in the vehicle. We have been able to save the members money when they initially had the loan financed elsewhere and we can refinance that auto loan with the credit union. We normally can beat their rate by several basis points.*

- *This is not a special program but an extension of our philosophy of meeting members' needs and those of our community.*

- *To early to tell*

- *to early to tell - looking for viability of high rate lowering on successful payment history but in* *its infancy stages.*

- *To-date it has been successful. We don't have a lot of sub 620 credit score members but we have tried to be more aggressive in this area -- trying to assume more risk. We have utilized risk based pricing and by being more aggressive, we have reduced our denial rate by 50% in the last 6 mos.*

- *Too new to assess but originations have clearly increase to D and E borrowers. Loss history is needed.*

- *Toughest lesson is that you can't simply say you're doing risk-based lending. As a traditional "A-paper" shop, we've found it difficult to change the mind-set of the loan decision makers. I would say that our low credit score auto lending program is only marginally successful. Between our "A-paper" reputation and the fact that our decision makers are still maturing in the low score arena, the business we put on is not relatively significant yet.*

- *Very successful*

- *We believe that it has been succesful. We underwrite based on judgement, then price the loan based on the risk it presents. What one really has to pay attention to are young people having thin file A/B Credit Quality. They'll get ya almost every time. They don't have the experience handling loss of income problems that leads then to poor Credit Ratings later.*

- *We do not have a "low credit score auto lending program". These are just common sense lending guidelines we use to reduce the risk to the credit union when loaning to members with lower credit scores.*

- *We do not have a formal program. We look at each situation on an individual basis. Most mainline lenders do not loan on older cars, so our members appreciate the opportunity we provide.*

- *We do not have a long enough history to assess success.*

- *We do not have a specific low score auto lending program, but it is certainly incorporated into our overall lending. We make sure all policies are followed and want to see some equity in the collateral and job stablilty. Income and residence is always verified with current pay stubs.*

- *WE DO NOT HAVE A STRUCTURED PROGRAM.*

- *We do not offer a low score auto lending program!Our program has been successful by portfolio analysis of response to FICO score requirements equivalent to first mortgage FICO scores that mirror less likelihood of default; raising the bar for participation in the program with higher FICO requirements; we determined that FICO score of 750 was the top tier for 35% of borrowers applying and the low rate being the reward. Lower scores have corresponding rates much more scrutiny, since the colleratal depreciates 1% to 3% monthly, we have refined loaning against the vaule, despite low or high credit scores!*

- *We do think that we have been successful helping members that have lower scores - we have learned that it is important to also analyze the amount of unsecured debt that the member is carrying.*

- *We do very little of this financing*

- *we don't actually go by credit score, we use debt to income ratio, low score usually has issues that need to be addressed, we assist in resolving*

- *We don't actually have a "program", but rather look for ways of making loans to as many* *members as possible.*

- *We don't have a specific low score auto lending program.*

- *We don't have a specific program for low credit score borrowers.*

- *we don't proactively market it, just have it available*

- *We experimented an increase in delinquecies and charge-offs this year and had to tighten up on our loan policy and underwriting criteria. We increased financial counseling by referring members to our our in-house financial counselor. We also feel that collection calls need to be done immediately (within 7 days from delinquent account) instead of waiting to call them after 30 days past due.*

- *We find that many times the A paper quality borrower is slow to pay more than the D or E paper borrower which is surprising. Members are so thrilled that the CU gave them an opportunity to borrow - they work hard at keeping their payments current.*

- *We have a good lending program. We strive to put the member in the car they can afford and not the one they want most times. Our individual credit counseling help them to be clear about the amount of payment they can afford. We also remind them that a car loan is more than a payment, it is several payments (Insurance, tag/tax, gasoline,repairs etc.*

- *We have a higher charge off ratio than the other auto portfolio. We are serving our mission by assisting our members in auto financing.*

- *We have a very low delinquency/loss ratio and have been on risk based lending/pricing for about 5 years. Look at each case for mitigating factors and try to make them work.*

- *We have always had auto lending for all memebers, including those with low scores (or as we call them - on the edge), even long before we used credit scores. We always try to work WITH the member at all levels, and by keeping in touch, we have been able to keep our delinquencies down. But the most important thing is to keep at it before it becomes too big to work anything out.*

- *We have always lent to borrowers with scores less than 600. Borrowers have an excellent paying history.*

- *We have been able to offer car loans...especially the saver's loan..Members like this because, they have savings after the car is paid off... They now know how to SAVE*

- *We have been able to provide member's with financing with rates that are considerably lower than they would recceive from other finance companies.*

- *We have been successful in those that we have done. However, our portfolio balance in the low credit score area is fairly low.*

- *We have certainly seen losses in low credit score autos. We will not accept a low score new member through the indirect loan channel.*

- *We have had reasonable success given the economic conditions of Michigan*

- *We have had record years of auto loan growth to this market and have learned some things along the way to improve it.*

- *We have implemented the program about 6 months ago - it is too early to tell at this point. We have seen asset growth as a result of our changes.*

- *We have learned that notall D & E credit* *members are the same. We try to loan to D & E members whose scores are on the way up and D & E members who aren't currently delinquent that are trying to be responsible. There are other D & E credit members who are just sorry with everyone. Those are the ones we stay away from. The only way to tell the difference is to take the time and actually go through their credit report line by line.*

- *We have not had much luck with low credit score auto loans. Harder criteria and cash down at the CU helps to insure better pay history.*

- *We have only been doing it for a year so we do not have a matured portfolio yet.*

- *We have seen some losses higher than peer on our portfolio, but generally the interest rate earnings offset the losses. We do look closely at their prior relationship with the Credit Union and their job stability. We also offer to look at a good cosigner(home ownership/high credit score) as an option to approve financing.*

- *We have seen success in offering vehicle loans to low scored members who have an established relationship with our Credit Union. In fact we do repeat business with the. We have learned we can build a lower risk loan with these members that we are not able to extend to new members especially those acquired through the Indirect Channel.*

- *We have seen that about 65% of the borrowers in this program have been able to increase their credit scores through an affiliation*

- *We haven't pushed this program at this point.*

- *We incorporate risk based lending at all credit quality levels. Many of our members are in the 620 and below score range, so we are more diligent in obtaining pertinent information before making the loan decision.*

- *We just started our first time auto loan program in January, so the jury is still out.*

- *We learned the hard way in the beginning and dug too deep into sub-prime. We reviewed policies & procedures and changed the way we were lending and is proveing to be much more successful now.*

- *We partnered with a mid-prime company several years ago, but discontinued last year as portfolio did not perform as it should have.*

- *We recently revised our First Time Auto Buyer Program and added a requirement that the insurance premium be part of the debt to income ratio.*

- *We specialize in auto lending and it has been successful. One lesson we have learned is that whenever we've repossessed a vehicle and given it back to the member, it was not the best decision.*

- *We treat our auto lending like all loan programs - we provide an opportunity - which many people in this realm (low income, low credit score) need.*

- *We use risk-based pricing . Low score doesn't ALWAYS mean someone will default.*

- *We've been able to make a few loans to members that would otherwise have to turn to finance companies for loans. Given the economy, loans of this type are riskier. When prudent, we will continue to help our members in this fashion.*

- *We've had no major problems so far.*

- *We've learned the impact of lending to lower credit scores with short term employment.*

- *Yes*

- *Yes*

- *yes*

- *Yes - close the loan hard at time of closing. Also we tell member that building credit with us will help them for future needs*

- *Yes and no -- we have increased our lending in the underserved communities we serve -- but we have had to make modifications after absorbing higher than expected losses*

- *Yes and no. Having loan officers with experience making sub-prime loans is critical. Having good collectors is critical. Getting involved with the member before they visit a dealership is critical.*

- *Yes and No. We have grown balances and had some success. It is important to have ongoing training and monitoring to address issues along the way, especially when it comes to non-members through the indirect channel. Also, be aware of economic conditions in your area that could have an impact on your portfolio.*

- *Yes because of not going too deep in the low credit score, insurance backed, and focus on reasons for low score.*

- *Yes but we do know that it requires constant monitoring and immediate attention to delinquency.*

- *YES FOR THE MOST PART. WE HAVE FOUND THAT MOST OF OUR REPO'S ARE FROM PERSONS LOSING JOB OR PLANT CLOSING. THEN WE WORK WITH THE MEMBER TO COME TO AN EQUITABLE SOLUTION USING REPO AS A FINAL MEANS.*

- *yes I think it has been successful. We have been able to help them get their first auto with counseling on how important it is to keep current and pay their bills on time. Our big thing is about education for our members to teach them how clean up their bad credit so if they want to buy a brand new car or a home they would have a better chance with their credit score up because they have listened to what we tried to teach them. The lesson we have learned is that not all members listen to what you have to say. They just want what they came in for.*

- *Yes it has been successfully. Our credit union deliquency has been less than .5% We rarely, if ever have to actually repo a car. Although we have threatened to do so a number of times. I think its important for the credit union to help the member make the buying decision. Many of our members would buy more car than they could afford if left on their own. We try to educate our members and help them to choose a car that is affordable after the initial purchase.*

- *yes payroll deduction has been key to success of program. If they do not sign up for direct deposit, loan will not be made.*

- *yes so far.*

- *Yes, although it is still very new.*

- *Yes, but it is a small part of our overall lending program.*

- *yes, early education and intervention is key!*

- *yes, good tracking and monitoring is the key to a successful program*

- *Yes, it has been. Imperative to ensure proper documentation since these loans do tend to have higher delinquency and charge-off ratios.*

- *Yes, it is successful but we have found that following up on insurance and lien on title is very* *important.*

- *Yes, it's been successful considering we've been able to serve these lower score applicants at reasonable rates as compared to their other alternatives; all while keeping delinquencies/charge-offs in-check.*

- *Yes, our low credit score auto lending program has been successful. We have learned over many years that we can take more risks with a relationship member than we can with a new member (indirect channel) who has not developed that relationship with us.*

- *Yes, the program has been cuccessful. A prudent review of the application, credit history, ability to repay and collateral is a must.*

- *Yes, very successful. We have learned that the higher the risk the better the LTV must be. We push for direct deposit / payroll deduction, acceptance of disability, gap and life insurance, and sometimes we require weekly or bi-weekly payments coinsiding with their payroll.*

- *Yes, very successful. You need to price it high enough and charge enough fees to offest the losses. Also, using the credit bureau preapproval model eliminated the subjectivity of having a loan officer underwrite these loans.*

- *yes, we also require an acquisition fee of 495.00 from dealers to reserve for loan losses. be sure and verify all information on credit apps.*

- *Yes, we are not doing anything in specific. Our normal FOM is county employees. Many of them have lower income jobs so we were use to meeting their needs. We only use credit score of a rate. We look at the member in whole.*

- *Yes, we have a successfull first time car buying program and we are also looking at CUNA's Lenders Protection Insurance that helps to insure auto loans in the 580 - 640 credit score range.*

- *Yes, We have a very good track record of lending to lower credit score members while maintaining moderate loan losses. We look for ways to make loans to our members not send them away.*

- *Yes, we have been succesful. The key is to evaluate each individaul on their own merit. Let me reiterate once again that low FICO doesn't mean low wealth. Low FICO means bad creditworthiness and that can happen at all income levels.*

- *yes, we have been successful using centralized underwriting. We understand that verfying information on the front end is critical as well as speedy collections.*

- *Yes, we have transferred the risk to the consumer in relation to default insurance. The consumer pays the premium in relation to the interest rate charged.*

- *Yes.*

- *Yes.*

- *Yes. Aggressive Collection Activies On delinquencies.*

- *Yes. Don't focus on just losses, price for the risk taken and the overall profitability will be there even if losses are high.*

- *YES. EXTRAORDINARILY STRONG COLLECTIONS DEPARTMENT AT START OF LOW CREDIT SCORE LENDING PROGRAM. MAINTAIN BALANCE WITHIN PORTFOLIO. 75% A & B, 25% OTHER. REFINANCING OR WORKOUT LOANS DO NOT WORK. ONLINE AUTO AUCTION FOR REPOS MINIMIZES LOSSES. EV-*

ERYONE HAS A GOOD STORY WHEN THEY WANT SOMETHING. CONTINUOUSLY KEEP TRACK OF ALL POLICIES AND PROCEDURES FOR NECESSARY CHANGES.

- *YES. It is new, but so far it has been successful.*

- *Yes. It's an advange remaining a single seg credit union and fostering the trust and loyality of our membership.*

- *Yes. Members will pay for their transportation to their jobs. High FICO score does not guarantee members will pay for titled loans.*

- *Yes. Monitor the program closely and make adjustments quickly. Do a good job of tracking, analyzing and reporting to Sr. Mgmt and the Board of Directors.*

- *Yes. We have learned the it is very important to set and stick to specific LTV guidelines and other loan requirements (verification of income, set up direct deposit) to reduce the risk and losses that may occur more often with this type of loan.*

- *Yes. We have learned when treated right, low score borrowers are just as apt to pay timely as high score borrowers.*

- *Yes. We take a second look at loans turned down through normal channels. We base the decision in the individual and how they have paid car loans in the past*

- *Yes. Building the loan correctly is a key. Buying a vehicle that is reasonable, getting cash down, payroll deduction, and hard closing the loan are keys. We realize that when we help these type of members, they will be loyal forever.*

- *Yes. Learn from their credit history. Is their credit score low because they do not pay their bills on time or is it low because of a medical bill collection account? Are they requesting to buy a reasonable vehicle for transportation or are they trying to buy a Hummer? I will not generally loan to someone who has already had a repo. I look very closely to see if they are building debt and the potential for them to file bankruptcy. Today, I look carefully at all applicant's mortage loans. If they have an interest only loan or a negative am, I underwrite their loan using what their payment should be when that loan is fully amortized.*

- *Yes. Track them carefully for delinquency with unique coding and act quickly to stay in contact. Limit your exposure to deficiency balances and tendency to walk away by requiring enough money down.*

- *Yes. We have a very low repossession rate on low credit score loans. Using payroll deduction and ACH payments along with agressive early collection calls keeps delinquency to a minimum.*

- *Yes. We offer better financing rates to our members and we have not seen any increase in our delinquencies or charge-offs.*

- *Yes--always call if payment is 15 days late*

- *Yes--some members just need a break to get back on the right track. When we give the change they become lifetime dedicated to the Credit Union*

- *You have to get in touch with them, sometimes at one day past due. Try to get direct deposit or PRD.*

Notes

Notes

National Credit Union Foundation
601 Pennsylvania Ave. NW, Suite 600, Washington, DC 20004
5710 Mineral Point Rd., Madison, WI 53705
800-356-9655, extension 6772
www.ncuf.coop
www.cuaid.coop