

# Non-Prime Auto Loans

August 2011

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## About the Author/ Acknowledgements

### About the Author

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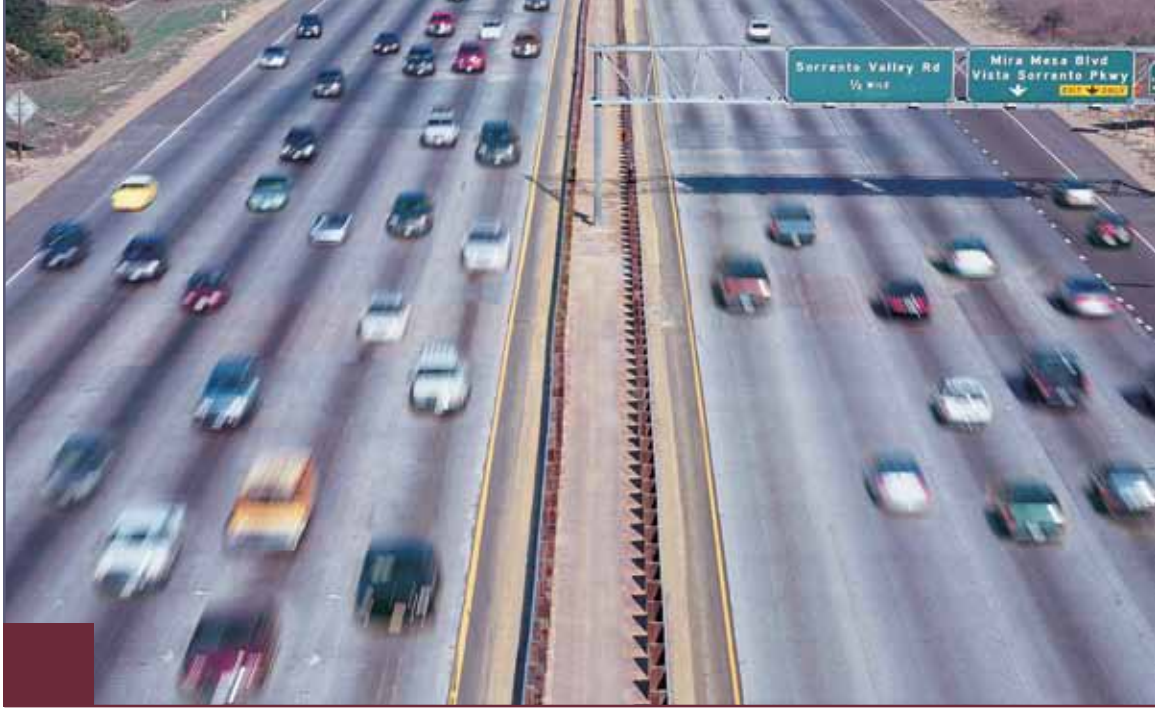
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# Executive Summary



Americans need their automobiles. In fact 88% of Americans drive to work. Without a car a person’s options for work, groceries, child care and/or health care become extremely limited and can keep a person mired in poverty.

Economic mobility then is strengthened through the mobility that comes with affordable, reliable wheels. This project endeavors to help credit unions make more loans to those who can benefit the most with a safe, reliable used car. This project endeavors to help consumers avoid the costly pitfalls that come with buying from the corner buy-here-pay-here auto lots. This project can mean more loans to non-prime borrowers. However, the intent of this project is to help credit unions accept more risk in their auto lending, but to do so by managing that risk prudently.

Americans need  
their automobiles.  
In fact **88%** of  
Americans drive  
to work.

There is tremendous opportunity for credit unions to reach out to a market that has been mis-served by predatory lenders and under-served by traditional lenders. Through prudent pricing for riskier non-prime loans credit unions can add to their bottom lines, while at the same time fill a social need of helping consumers improve their health and well-being through affordable credit for used cars.

This project recommends Enterprise Car Sales as a trustworthy partner to credit unions that engage in this project. Enterprise Car Sales already has a relationship with over 1,000 credit unions. Those partnerships are based on Enterprise’s 50-year history of competitive, no-haggle pricing and a rigorous certification that each vehicle must pass before being sold. The partnership assures credit unions they are offering their members good quality cars at reasonable prices.

This project guide is organized as follows:

**1. Introduction** – a brief explanation of the non-prime auto industry and the opportunity non-prime borrowers can present to credit unions;



- 2. Underwriting Guide for Nonprime Auto Borrowers** – a guide to help credit unions prudently underwrite riskier borrowers;
- 3. Techniques to Mitigate Risk for Nonprime Auto Borrowers** – a description of various methods credit unions can use to measure commitment on the part of the borrower and help minimize some of the risk to the credit union;
- 4. Pricing Guide for Nonprime Auto Loans** – includes a loan guideline from Southwest Bridge Corporate and an example of a spreadsheet yield analysis;
- 5. Loan Portfolio Management** – a discussion of how a credit union should manage their riskier loans, track performance, and set thresholds that trigger review;
- 6. Credit Union Partnership with Enterprise** – what credit unions can expect through a partnership with Enterprise Car Sales;
- 7. Community Partnerships** – a discussion of why credit unions may want to consider establishing a relationship with a community organization that could help with marketing the loan product to a target market;
- 8. Appendix A** – some real examples of credit unions and their nonprime auto loan programs;
- 9. Appendix B** – information on starter interrupter devices and examples of credit unions using them;
- 10. Appendix C** – a description of credit scores and credit bureaus, including nonprime bureaus;
- 11. Appendix D** – a list and description of various insurance products that can help minimize risk to the credit union;
- 12. Appendix E** – the sample yield analysis by tier;
- 13. Appendix F** – a sample confidentiality and non-disclosure agreement with Enterprise;
- 14. Appendix G** – Enterprise’s used car comparison worksheet;
- 15. Appendix H** – a list of references and additional resources.

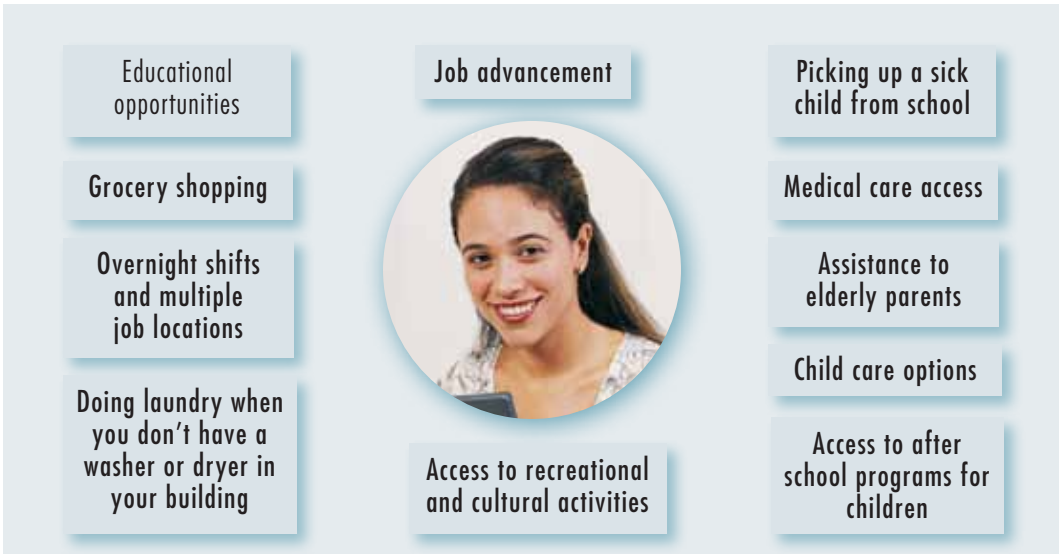
# Section 1:

## Introduction



Americans rely on automobiles for the basics of life necessities, such as getting to work, dropping kids off to school or child care, buying groceries, or obtaining medical care. According to the Annie E. Casey Foundation, 88% of American workers drive to work and two-thirds of jobs are located in suburbs. Relying on public transportation, if available, can double commute time. In fact, the foundation reports that ***not having a car is the single biggest barrier to escaping poverty.***

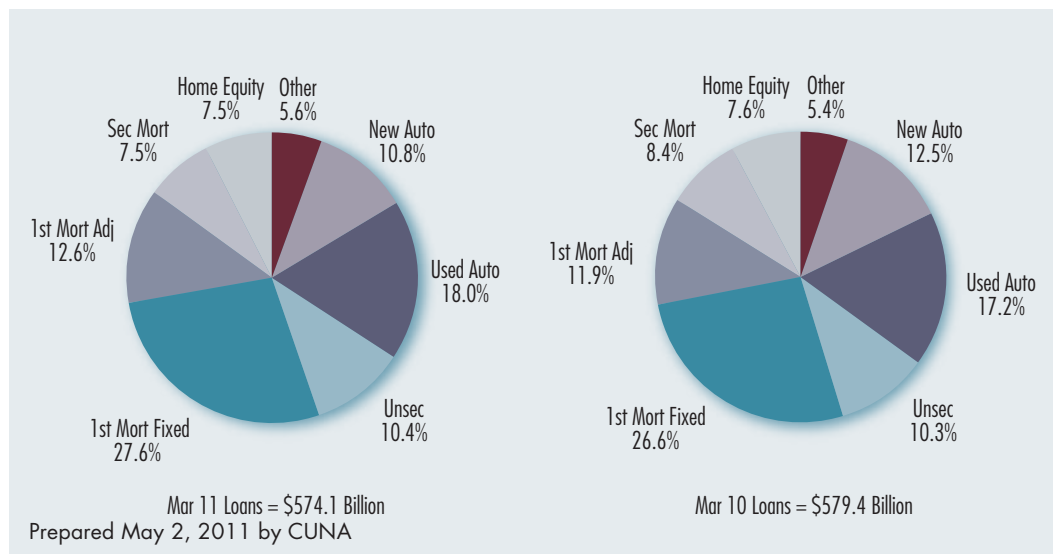
**IMAGINE: Your life without access to wheels!**



Think about it. Without a car, your housing options are limited to places within walking distance of public transportation that may not be the safest neighborhoods. Your job opportunities are limited, as well. Don't even think about a career ladder. And forget about shopping for groceries or clothing at stores offering the best prices and selections. It's whatever is closest. Child care or medical care? Again, options are very limited.

An important strategy for strengthening a household's economic well-being is to help it achieve economic mobility through a reliable, affordable car. Vehicle lending has served as credit unions' "bread and butter" in the past. The bad news is that auto loans as a percentage of credit unions' loan portfolio has been steadily declining for the past six years. New and used auto loans represented 28.8% of credit unions' loan distribution as of March 2011, down from 37% in 2005. The good news is that used auto loans represent the second largest share of credit unions' loan portfolio at 18% in March 2011 and offer credit unions greater opportunities in pricing structures. Rate competition for new car buyers with good credit leaves little room for profitable margins, whereas used

## Distribution of credit union loans



car borrowers with B and C credit offer more room to generate positive income. The key is to manage the risk prudently.

Total sales of new and used autos in 2009, according to the Bureau of Transportation Statistics were slightly over 46 million. Used car sales represented 77% of the total sales or just over 35 million.

## Non-prime Auto Loans

Non-prime or sub-prime lending refers to the practice of making loans to borrowers with weak credit histories or limited payment capacity. This can include delinquent payments, charge-offs, bankruptcies, judgments, high debt ratios or low credit scores. Non-prime loan portfolios will likely have higher delinquency and higher loss ratios than prime loan portfolios. NCUA's letter to credit unions in September 2004 (Letter No.: 04-CU-13) suggests that credit unions charge higher interest rates and fees to sub-prime borrowers to compensate for the higher risk which results in more intense collection efforts and higher losses. If properly managed, non-prime loans offer credit unions a means to increase their loan portfolios and meet the credit needs of borrowers that may otherwise have limited options.

The estimated size of the non-prime auto market ranges from \$100 billion to over \$200 billion.

## Buy-Here Pay-Here Auto Lots

*What are Buy-Here Pay-Here (BHPH) auto lots?*

They are used car dealers where the primary focus is to sell and finance vehicles for people that have (or think they have) poor credit or no credit and are unable to buy and finance cars through traditional dealers and lenders. The financing for the car is done by the dealer. Instead of making monthly payments to a traditional lender, the borrower makes weekly or bi-weekly payments at the dealership. Hence, the name buy-here pay-here.

***What are the risks of purchasing at a BHPH auto lot?***

1. The buyer/borrower can expect to pay in excess of 30% interest at a BHPH lot. Further, the dealer will try to get a down payment that is close to what he paid for the car. In other words, the down payment will cover the majority of the cost of the car. The payments and interest paid by the borrower are primarily profits to the BHPH dealer.
2. The car will likely have high mileage. Typically, the BHPH car lots sell cars that traditional dealerships would send to an auction, such as vehicles with mileage in excess of 75,000 miles. In fact, this is often where BHPH dealers buy their cars, as they can often purchase them very cheaply.
3. There may not be any warranty for breakdowns or expensive repairs. If the dealer includes a warranty, it may come with conditions such as a high deductible. If money is tight for the borrower, paying for repairs and continuing to make payments becomes very difficult.
4. A late payment can result in extra charges or repossession. There can be late charges, immediate repossession or termination of the contract.
5. BHPH dealers use a standard operating model to turn a car over five times a year. That's why it's hard to determine the size of this market, except that it is growing.
6. The BHPH auto industry is not regulated and doesn't commonly report its sales or payment history to outside sources.

Non-prime  
borrowers need  
access to afford-  
able credit to pur-  
chase cars in order  
to **improve**  
their health  
and wealth  
and well-being.

**Opportunities for Credit Unions**

With declining loans and ROAs, credit unions have an opportunity to reach out to a market that has been mis-served by predatory lenders or under-served by traditional lenders. Non-prime borrowers need access to affordable credit to purchase cars in order to improve their health and wealth and well-being.

Credit unions can prudently structure their loan portfolios so that non-prime auto loans are a good pool of business that can add income to the bottom line, yet meet the economic needs of more members.

When serving non-prime borrowers, it is strongly recommended that credit unions know their borrowers and understand and manage the risk associated with making such loans. Thus, this loan guide recommends a direct lending approach to non-prime borrowers rather than an indirect approach. In fact, this guide recommends credit unions develop a partnership with Enterprise Car Sales to ensure their members, and in particular, their non-prime borrowers obtain good quality cars at reasonable prices.



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## Section 2:

### Underwriting Guide for Nonprime Auto Borrowers



The loan underwriter's job is to assess risk and to determine if the loan will be repaid. If it is clear the applicant has the ability to repay the loan, the underwriter must decide whether the borrower's history suggests the person will pay it back.

The overall goal when making the loan is to structure it so that it succeeds; that is, the borrower is able and committed to making the payments and the credit union has gained a loyal member and added to its bottom line.

### **Affordability**

This is the first question for the underwriter. Can the person afford the loan? Once this is determined, then the underwriter must address whether the person will repay.

#### ***Debt to Income (DTI):***

As a general guideline, DTI shouldn't exceed 30 to 40% of gross income for C and D borrowers.

- DTI should be dependent on disposable income. Higher disposable income can mean lower DTI.
- Sometimes DTI can be overstated when there is unreported income such as a roommate sharing monthly rent. The credit union may want to consider such additional income if it feels reasonably assured the income will continue for the foreseeable future.
- If DTI exceeds 30 to 40%, a budget should be developed with the borrower to determine affordability. (Many credit unions develop a budget with low score borrowers as a part of the qualifying criteria.)

#### ***Payment to Income (PTI):***

As a general guideline, PTI shouldn't exceed 12 to 15% of gross income for nonprime borrowers. PTI should consider where members are in their financial lives.

- First-time buyers may have higher PTIs if they are not yet paying rent or a mortgage payment.
- Retired members may have higher PTIs if they own their homes free and clear.

#### ***Other considerations:***

- Affordability should include consideration of maintenance and repairs for the car. It is recommended cars not be older than 7 years and not have more than 100,000 miles. An inspection of the vehicle should be conducted by the credit union and perhaps even a trusted mechanic for reliability.
- A used car is recommended because it doesn't immediately depreciate when driven from the dealership. Credit unions should consider helping members with the following:
  - Offer a vehicle "certification" program that includes inspection and may contain a warranty;

- A CarFax report or something similar that shows the car history.
- For members purchasing new cars, help them select vehicles with shallow depreciation curves. For example, Honda Accord has a more favorable depreciation curve than a Ford Focus.
- Has the borrower handled similar payments in the past? Be very cautious if the payment is much larger than any previous loan payments.

## Credit Score

The credit score should be the starting point for the underwriting analyses, not the end-point. (See Appendix C for more information about credit scores and variations in credit scores.)

### ***FICO scores between 620 – 690:***

- Read the reason codes for why FICO score is not higher.
  - Several 30-day late payments describe a different behavior than a similar FICO score that results from several credit cards that have reached their maximum limits. Does one behavior describe greater risk than the other?
  - Are scores on the way up or down?
  - A perfect payment history today but with escalating debt could mean a score on the way down and higher risk.
  - Some negatives in past credit history but the borrower is managing credit today could mean a score on the way up and lower risk.
  - How many recent inquiries has the person had? The average consumer has one inquiry per year. However, several inquiries for the same product over a brief period, such as two weeks, may reflect either an astute shopper or a person that has shopped around and has been declined by several lenders.
- **Bankruptcy indicators:**
  - Excessive unsecured debt;
  - Maxed out revolving credit;
  - Escalating debt.

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### ***Negative Credit:***

- How old are the negative items? How far past due are these items? What has been happening in the past 12 months? If older than 12 to 18 months, but the borrower is paying other creditors today, is it time to forgive the past?
- Are there liens and judgments? These result in wage garnishments and indicate higher risk.
- How large are the medical collections? Don't sweat the small stuff, but large dollar amounts may indicate a potential bankruptcy.
- If the person has had a recent bankruptcy and the credit union did not lose money from it, the person may be a good risk today.
- How has the person paid on previous car loans? Many people will overlook other loans but keep their car loans current because they need a car to get to work each day.
- Has the person had previous credit with the credit union? How has he/she paid the

credit union? If the record is good, then he/she will likely continue to pay the credit union. If there were some collection issues in the past, check with your collector for an opinion about the borrower.

### ***FICO scores < 620:***

- The borrower's relationship with the credit union can play a key factor here. How long has he/she been a member? Does the person have direct deposit and checking with the CU? How does the person manage his/her checking account?
- Is the borrower's score improving? What has caused the low score?
- What is the borrower's employment history? Frequent job changes or a short time at present job should be a red flag, although today's job struggles could be a suitable explanation.
- How can the loan be strengthened? See "Techniques to Mitigate Risk" (Section 3) for ideas.
- Borrowers in this category should have extensive verification of employment, income, address, phone numbers, and references. Don't just accept pay stubs. These can be created. Call references and verify accuracy of phone numbers and relationship with the borrower.
- It is suggested that borrowers in this category be interviewed in person or by phone by an experienced underwriter to make a "gut call" as to whether this person intends to repay the loan.
- If a renter, can the borrower provide a record of on-time payments or a letter from the landlord stating his/her record of payment? Ask for utility payment records. (See Appendix C regarding credit scores and bureaus for Reg B considerations if a creditor asks a credit union to consider additional credit information.)
- At least one credit union limits the amount of the loan based on the person's income and credit score as follows:
  - C tier – 75% of annual gross income;
  - D tier – 60% of annual gross income;
  - E tier – 50% of annual gross income;
- Do a firm close – see "Techniques to Mitigate Risk" (Section 3) for ideas.

## **Employment**

Remember, a lot of people have lost jobs recently and are struggling to replace those jobs, and many have had to take pay cuts to do so. Many people are turning to self-employment to fill the void.

### ***Less than 6 months employment:***

- Definitely a cautionary flag – but what was the borrower's previous employment history?
- Is this job better than the previous one with more income or opportunity?
- Was the person laid off from a previous job? Does this appear to be a temporary job until something better comes along? If so, wouldn't that strengthen the borrower's ability to repay?
- What is the borrower's relationship with the credit union? Is there a history of direct deposit and other services used by the borrower?
- Can the loan be strengthened in some other way?

**Self-employment:**

- Definitely a cautionary flag – but how long has the person been self-employed?
- The standard approach of requiring two years of tax returns and a profit and loss statement may not be reasonable for many people new to self-employment.
- Does the person have a business account and can he/she provide a record of business deposits, expenses, or reference letters from clients? Is there a web-site, etc.?
- A self-employed borrower with a credit score under 620 is a very different risk than a self-employed borrower with A or B credit.
- Can the loan be strengthened in some other way?

**Don't Layer Risk**

If a borrower has a high debt ratio and he/she hasn't been on a job long or is self-employed, the underwriter must be disciplined and knowledgeable in identifying reasonable and unreasonable risk. Some credit unions use a team approach to review and decide upon non-prime loans.

There should  
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collections and  
lending.

There should be an interactive exchange between collections and lending. Monthly loan meetings are suggested. Underwriters should be made aware of any trends that the collectors are noting. Losses should be reviewed, particularly for the non-prime loan portfolio. Underwriting guidelines can be amended quickly to address new risks. Pricing can also be adjusted, if called for.

With subprime borrowers it is important to interview them to gain an understanding of their situations. The FICO score is a great tool, but that is all it is. Get the story behind the borrower's credit score. Is it on its way up or down? There will be 580 credit scores that an underwriter may want to lend to if the risks are understood and aren't layered. These loans can be very valuable. But if an underwriter makes a lot of loans to 580 borrowers without assessing the real risks, a credit union could be headed for trouble.

**Document Reasons for Approval/Denial**

Underwriters should document their reasons for approval/denial of non-prime loans. This offers the underwriter some protection when questions are raised about decisions by management, boards and/or examiners. It can also serve as a learning tool for underwriters if a loan goes bad. What were the circumstances at the time the loan was made that caused the underwriter to approve the loan? What changed to cause the loan to go bad? Or if the loan was originally denied and the member is re-applying, what has changed since the first application that might warrant a different response?

NCUA suggests credit unions capture within some data processing field any loans that are considered higher risk or are exceptions to normal loan policies. This provides a good management tool to monitor and assess these loans and to make changes to underwriting guidelines as necessary.

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## Section 3:

### Techniques to Mitigate Risk for Nonprime Auto Borrowers



Making loans to nonprime borrowers is risky business. But if properly implemented and controlled, these loan can be an acceptable complement to your lending portfolio and help your credit union meet your members' needs. An automobile is an important asset to most families as a means of getting to work, buying groceries, and taking kids to child care or doctor's appointments.

Should the credit union create hurdles for the nonprime borrower to overcome in order to get a loan? Absolutely! After all, the borrower has established a credit record that describes him/her as risky. If the credit union is going to take a chance on the borrower, the borrower should be willing to cross some hurdles to convince the credit union he/she is not as risky as the credit score indicates. How many hurdles the credit union puts in the way of the borrower depends on the credit union's tolerance or perhaps, intolerance for risk, and the degree of risk the borrower poses.

#### **When to Use a Co-signer?**

A co-signer is generally acceptable for a borrower with limited credit, but be very cautious about using a co-signer for a borrower with poor credit. There may be better ways to strengthen the loan. Typically credit unions will consider parents as acceptable cosigners, assuming the parents' credit is good. If using risk-based pricing, price the loan based on the borrower's credit score, not that of the co-signer.

Encourage the borrower to use automated payments from checking or savings or direct deposit. These loans perform better than payments made via a statement or coupon book. Set the loan payments to coincide with the member's payday.

#### **Financial Education/Counseling/Budgeting**

Financial Education/Counseling is an important addition to some credit unions' subprime lending programs. Some credit unions require financial education as part of its auto loan program to help educate borrowers about their credit scores, how to improve those scores and help them establish a workable budget that includes the car payment, as well as the other costs of car ownership. Completion of a financial education program measures a borrower's commitment to the auto loan and responsibilities of ownership.

Freedom First Credit Union in Roanoke, Virginia, provides a special auto loan program (Responsible Rides) for people with incomes within 300% of poverty level. Borrowers are pre-qualified for a loan, but then must complete a three hour financial education class and a two hour auto maintenance class on a Saturday before obtaining their loan and finding their car through Enterprise. The credit union will lend up to 100% of the purchase price plus GAP insurance, if also purchased. The interest rate charged is a low



9.9% for 60 months. After 18 months of offering the program, the credit union has made 66 Responsible Rides loans and only two autos had to be repossessed. (See Freedom First's Responsible Rides feature in Appendix A.)

Another method for encouraging members to complete some form of financial counseling or education is to reduce their loan rates following completion. There are a number of programs available for purchase by credit unions that in turn, they can make available for free to their members. Most provide some kind of feedback to the credit union to let them know when a member has completed a module. Some of these include:

- Balance – [www.balancepro.net](http://www.balancepro.net)
- Accel – offered by CUNA Strategic Services at [www.cunastrategicservices.com](http://www.cunastrategicservices.com)
- Foolproof – [www.foolproofnational.com](http://www.foolproofnational.com)
- Debt in Focus – a confidential financial guide for members offered through the Filene Research Institute at [www.filene.org](http://www.filene.org)

Still another method to help members with budgeting and financial matters is to have certified financial counselors on staff. Or simply have employees that are knowledgeable enough about budgeting matters so that they are able to sit down with potential borrowers and help them develop a budget that includes the new loan payment, as well as all the other costs of car ownership (insurance, gas, maintenance, repairs, etc.). These efforts can go a long way to strengthen the car loan. It also shows commitment on the borrower's part to the loan responsibilities.

CUNA provides a Financial Counseling Certification Program (FiCEP). More information about the program is available at [www.cuna.org/training/self\\_study/cuficep.html](http://www.cuna.org/training/self_study/cuficep.html).

Education can  
also **include**  
preparing the  
member for the car-  
buying process.

North Side Community Federal Credit Union encourages members that have credit scores below 600 to start the loan process by talking with a credit union trained counselor. The counselor reviews the member's credit history and provides suggestions for improving it. (You can read more about North Side's Access Auto Lending in Appendix A.)

Education can also include preparing the member for the car-buying process. University Federal Credit Union in Austin, Texas helps its members through the car-buying process through its Wheels 101 services. Wheels 101 is an on-line program designed to educate members about the car buying business and how to avoid being ripped off at the dealership. There are a series of six chapters that walk members through the maze of negotiating a fair purchase deal and avoiding mistakes. Visit the credit union's website at [www.ufcu.org](http://www.ufcu.org).

University Federal offers members financial education through Balance. Although financial education is not required, members with lower credit scores who go through Balance may be able to get car loans with less required in a down payment.

## Auto Starter-Interrupter Devices

A starter interrupter device disables the car from starting when borrowers miss monthly car loan payments. Some credit unions require installment of the device for high risk borrowers. It is a means of making auto loans to borrowers who would normally not qualify for such loans because of poor credit, and it serves as a reminder to borrowers when payments are due. The device often chirps or flashes a light when the car is started to warn drivers that a payment is coming up or that a payment is overdue.

Credit unions have control over the parameters of the device. For example, a credit union can decide how delinquent a borrower can be before the car shuts down. The device will not shut the car down while it is being driven, but prevents it from starting when the delinquent threshold has been reached. In the case of an emergency, the borrower receives a one-time by-pass code.

The credit union can also use the device to reward the member for timely payments. The device can be disabled if the borrower has a year or two of on-time payments. Credit unions may want to consider using the device for three different occasions:

1. At the point of redemption to give the borrower a second chance following a repossession;
2. When the borrower's credit score is below a level that the credit union would typically not approve for a loan and installation of the device is the only way the credit union will make the loan;
3. For borrowers with low credit scores but who can get a loan at a lower interest rate if the device is installed.

The device can also come with a GPS to help a credit union find a car for repossession. For some borrowers, the device has enabled them to make payments on time and rebuild their credit histories.

See Appendix B for more information about vendors selling the device and for examples of credit unions that are using the device.

## Incentives for Timely Payments

Reducing a person's interest rate or disengaging the auto starter device is a good incentive for borrowers with timely payment histories. Credit unions can choose to reward borrowers with such incentives after 12 to 24 months of timely payments. Such incentives create opportunities to educate members about the importance of on-time payments and to cross sell the benefits of direct deposit or auto pay. Further, the reward initiates a point of contact with the member during the loan term for good behavior, something that is often missed. It's a great method to build member loyalty. Credit unions can set up such a system manually or work with their data processors to automate the process.

### ***LIFT – Lower Payments for Timeliness***

There may soon be another option, as well. The Filene Research Institute is directing a pilot study with six to eight credit unions to test an I<sup>3</sup> idea called LIFT. Working directly with a credit union's core processor, LIFT lowers a borrower's interest rate for making timely payments. The frequency and amount of rate adjustments is dictated by the credit

union in an easy-to-use user interface. The program also automatically sends notification emails to borrowers to describe each change and congratulates them on their behavior.

The pilot, funded by a generous grant from Center for Financial Services Innovation and studied by the University of Wisconsin-Madison, is expected to be completed by the end of 2012. Watch for results on Filene's website at [www.filene.org](http://www.filene.org).

## Employ a "Firm Close" and Stay in Touch

A loan well closed is half collected, says a wise lender. Members are more apt to listen to a lender when they know they are about to receive their requested loan funds, particularly when the funds are for a new or newer car. Use the opportunity to connect with your nonprime borrowers and impress upon them the "leap of faith" the credit union is making in them.

- The firm close is more than a strong handshake.
  - Review all aspects of the loan – the payment amount, due date, and interest rate.
  - Let the borrower know what happens if he/she is late making the payment and the importance of staying in touch if there are unanticipated problems, etc.
  - Remind the person of the importance of rebuilding credit and how that credit score can mean a lower interest rate and payment on future loans.
  - Tell the borrower this may be his/her last opportunity for a loan for a quality vehicle at a reasonable rate.
  - Do a collateral inspection of the vehicle as part of the closing.
  - Summit Credit Union of Greensboro, NC has provided a sample of its "Loan Closing Summary" that is reviewed with the member and signed by the member (See Summit Credit Union in Appendix A.)
- The closing is another opportunity to cross-sell insurance products that would benefit the nonprime borrower in the event of disability, loss of job, damage to the car, etc. See a list of possible insurance products below and more detailed product information in Appendix D.
- Monitoring your nonprime loans and staying in touch with the borrowers can provide an early alert system for any problems.
  - Freedom First Credit Union in Roanoke, VA has a program director that makes periodic contacts with members in its Responsible Rides program. The purpose of the contacts is to check up on the person's financial/personal situation and to build a bond between the member and the credit union. (See Freedom First's Responsible Rides feature in Appendix A.)
  - Another suggestion is to contact the borrower 7 to 10 days after the loan closing to review aspects of the loan and application once again. Make sure the borrower realizes that any changes regarding contact information, employment or references must be communicated to the credit union.

A loan  
**well** closed is  
half collected,  
says a wise lender.

## Lower Loan to Value (LTV) for Nonprime Borrowers

Some credit unions have special programs for low-income and low-score borrowers and provide 100% or even 110% LTV loans. These programs come with their own special requirements that borrowers must complete – typically some form of financial educa-

tion. Credit unions that don't have the resources for this kind of intense hands-on program or the appetite for the risk a high LTV loan to a nonprime borrower creates, should consider a lower LTV arrangement.

- The higher the risk, the lower the LTV. The maximum LTVs recommended in SW Corp's Loan Guidelines (See Section 4) are as follows:
  - C credit (FICO scores between 620 and 659): 95% LTV
  - D credit (FICO scores between 580 and 619): 90% LTV
  - E credit (FICO scores between 540 and 579): 80% LTV
  - Below 540 FICO scores: 75% LTV
- These are recommended maximums, but a credit union's lack of appetite for risk may make its LTV decisions more conservative than these.
- Some credit unions will only lend up to the loan value of the vehicle for nonprime loans and feel the cushion gives them relative protection in the event of repossession.
- But remember, a bad loan is a bad loan, regardless of LTV! Repossessions incur a lot of additional expenses to a credit union and there is no guarantee the credit union is going to get even the loan value back in a sale of the vehicle.

## Share Secured Loan (Reversed)

The typical way to make a share secured loan is where the borrower has the funds in savings and borrows against them. Another way to make a share secured loan is to lend the money to the borrower and place the funds in a restricted savings account. The advantages of making the loan in this manner include:

The payment amount can be set up to be similar to the expected payment for the car loan, thus allowing the borrower to demonstrate his/her ability to manage the payment;

The loan provides the borrower with an opportunity to improve his/her credit score and is relatively risk-free to the credit union;

The loan amount can be the required down payment for the auto loan; thus at the end of the loan term, the borrower has the down payment amount.

## Insurance Products

Insurance products can help credit unions mitigate some of the loan risks, particularly auto loans to non-prime borrowers. See Appendix D, "Insurance Products" for more detailed information regarding the following products:

- Credit life and credit disability;
- Debt cancellation;
- Guaranteed asset protection (GAP);
- Mechanical breakdown protection;
- Equity protection.

## Collection Activity

Begin collection efforts early. Nonprime loans should have a special collateral code or some system of identification so that collection can begin early.

- Some credit unions use an auto dialer to remind nonprime borrowers that their payments are due in one or two days.
- Some call with a friendly reminder when the loan is one day late.
- Some use their normal 15 day notice procedure, but place higher priority on non-prime loans and are more apt to follow up with a phone call.

- Call immediately if this is a first payment default!
- One lender reports that C & D borrowers tend to live in the 30 to 60 day delinquency period; that is, they will get caught up, fall behind, etc. On-going monitoring of these loans for any breaks from normal payment behavior is necessary.
- Make sure you have sufficient collectors based on the volume of sub-prime loans your credit union is making. Remember, these will require more attention and time.

Repossess early. But when? Some credit unions say at 30 to 45 days. But if the borrower is paying routinely in the 30 to 60 day range, earlier repossession could result in a miffed borrower facing extra expenses and a lot of repos on hand for the credit union.

The borrower's situation is probably a bigger factor in the decision of when to repossess than having a set policy of when to repossess.

- Is it a first payment default?
- Is the borrower staying in touch with the credit union?
- What is the borrower's normal payment behavior?

An earlier repossession strategy for nonprime borrowers is important, but the collector should weigh all the factors before deciding when to repo.

## **Additional Techniques**

The following are some additional techniques to help credit unions identify and protect themselves when making non-prime loans:

- Use a subprime credit bureau to detect problems with payday loans (See Appendix C for a subprime credit bureau);
- Use a bankruptcy score to detect probability of future filing of bankruptcy;
- Limit the percent of your loan portfolio that will consist of nonprime loans (See Section 5 on Loan Portfolio Management for more information);
- Establish thresholds (delinquency and losses) that trigger review of underwriting guidelines and more conservative practices;
- Encourage automated payments and make due date coincide with payroll dates;
- Hold monthly loan/collection meetings to review trends and losses and to fine tune underwriting techniques. Review losses to determine if pricing for these loans needs to be revised.



## Section 4:

### Pricing Guide for Nonprime Auto Loans



Charging higher rates on C, D and E loans is not wrong. There will be additional collection activity and losses on those loans and the rates will pay for these added expenses. Remember, the member has earned the credit score he/she has. NCUA's Letter to Credit Unions (Letter NO.: 04-CU-13) states: "Typically, higher interest rates and fees are charged to sub-prime borrowers to compensate for the higher risk. Sub-prime portfolios generally require more intense and specialized collection efforts increasing credit union's expenses in this area."

In an interview with the *Credit Union Journal* (1/24/11), Mike Kohl, an industry analyst and CEO of Kohl Advisory Group stated that credit unions could find growth in lower quality credit, but had this advice to offer:

- Don't price risk based on competition. Before setting tier pricing, figure out all the components that impact each tier and take a hard look at expenses.
- For each risk tier, the credit union should determine how much time it will spend on an application, the percentage of applications that could be booked, and the cost to complete and fund the loan.
- The next step is to estimate how long the loan will be on the books. If the cost is \$500 to originate a loan and it is kept five years, the cost is \$100 a year. If the loan is kept one year, the cost is \$500 a year.
- Factor in collection-related and non-collection related servicing expenses, and of course, estimated loan losses.
- Finally, the credit union must measure results per loan tier. That will help with examiners. If a credit union is able to show an examiner that it is making the least amount of money on A-plus paper and the most on C and D – which can be the case if the tiers are priced correctly – then why not go after C and D credit?

Three pricing tools are offered here to help credit unions price their auto loans for associated risks and to help them track results and yields by risk:

- **Loan Guidelines from SW Corp** – which includes estimated default rates and losses for associated credit grades, along with servicing costs and yields on a similar Treasury investment;
- **Sample Yield Analysis by Tier from Mazuma Credit Union** – which shows results and net yields by credit grade from 2002 through 2010;
- **Spreadsheet Yield Analysis by Tier** – which provides credit unions with an example of how a spreadsheet could be developed to track monthly and annual results and yields. (See Appendix E for printout of spreadsheet; the Excel spreadsheet is found at <http://www.realsolutions.coop/solutions/lending/non-prime-auto-loans>)

## Loan Guidelines – Southwest Bridge Corporate Federal Credit Union

The following charts are re-printed with permission from Southwest Bridge Corporate Federal Credit Union (SW Corp) and Southwest Corporate Investment Services (SCIS). SW Corp and NCUF recommend that credit unions develop their own pricing tiers based on their specific loan losses, servicing costs, and desired ROAs. However, for those credit unions without a lot of experience with making non-prime auto loans or without the resources to track servicing and loss expenses by credit tier, the following charts can serve as useful guides and illustrate the importance of charging higher interest rates and lowering loan-to-values (LTVs) with declining FICO scores.

SW Corp updates its loan guide monthly and current guides can be found at <http://www.swcorp.org/pdf/loanguide.pdf>.

### Loan Guidelines

Asset/Liability Management Service  
May 2011  
Loan Pricing Guide for Direct Lending

#### General FICO Rating

Credit Ratings	Maximum LTVs	Lifetime Default Rates	Estimated Loss Factors	Estimated Loan Losses
A (FICO 700+)	110%	2.0%	12.5%	0.25%
B (FICO 660-699)	100%	6.0%	20.0%	1.20%
C (FICO 620-659)	95%	12.5%	25.0%	3.13%
D (FICO 580-619)	90%	19.5%	30.0%	5.85%
E (FICO 540-579)	80%	27.5%	35.0%	9.63%

Refer: NCUA Risk Alert # 05-RISK-01 and LTCU # 04-CU-13

#### General FICO Ranges

Pricing Spreads			Total Spreads	2.0 Year CMT on 5/1/11	60. Auto Loan Rates
Credit	Servicing	Net ROA			
0.25%	0.75%	2.30%	3.30%	0.61%	3.91%
1.25%	1.00%	2.30%	4.55%	0.61%	5.16%
3.25%	1.25%	2.30%	6.80%	0.61%	7.41%
6.00%	1.50%	2.30%	9.80%	0.61%	10.41%
9.75%	1.50%	2.30%	13.55%	0.61%	14.16%

Notes: Higher loan servicing costs on lower grades of paper

**Please Note:** SCIS believes these Loan Guidelines to accurately reflect the prevailing market conditions; however, loan pricing can fluctuate significantly from one membership base to another. Therefore, SCIS feels that these Guidelines could and should be used as a basis for determining loan pricing at each credit union, but should not be adopted directly without review and justification. SCIS is not accountable for the blind adoption of these Guidelines and any negative impact that might occur as a result.

**Explanation of terms:**

- **Lifetime Default Rates** – the estimated percentage of loans that will likely experience a default and result in a charge-off over the life of the loan. This percentage increases as the credit grades decline, which is the additional risk taken on by lending to lower credit grade members.
- **Estimated Loss Factor** – the expected loss on the loan after repossession and sale of the vehicle. The estimated loss factor increases as the credit grades fall because the final loss on the loan is expected to rise. This takes into consideration the higher Default Rates in terms of actual income earned on the asset until it is in default, the cost of repossession, and the ultimate loss received on the disposition (sale) of the asset.
- **Estimated Loan Losses** – the product of the Lifetime Default Rates and the Estimated Loss Factor. The two are multiplied together to arrive at the final Estimated Loan Losses, which states that if a given percent of loans go delinquent, and a given loss amount on those delinquencies occur, the Estimated Loan Losses is the amount of expected total losses on the entire portfolio.

**Example:** 27.5% Lifetime Default Rate x 35% Estimated Loss Factor on those defaults = 9.63% Estimated Loan Losses. When pricing this grade of paper, credit unions must ensure the rate charged for this category is sufficient to cover the likely losses.

**In summary:** If a credit union had a choice between making these loans and purchasing a US Treasury Security (viewed as having no default risk), it must earn at least 9.63% over the Treasury investment or else is better off purchasing the Treasury. The credit union must also incorporate the estimated cost of servicing these loans, which increases as the default rates increase due to collection efforts, as well as an ROA spread (that is, the minimum return for making the loan). If the credit union anticipates a servicing cost of 1.5% for this grade of paper and wants a 2.3% return for making the loan, its Total Spread must be 13.55%. This spread then is added to a comparable Treasury investment alternative, shown here as .61%, for a final rate of 14.16%. This final rate justifies making the loan in terms of risk/return that is comparable to the risk free investment alternative.

### Sample Yield Analysis by Tier

Mazuma Credit Union,  
Kansas City, MO

**Assets:** \$450 Million

**Members:** 52,600

[www.mazuma.org](http://www.mazuma.org)

**Contact:** Dan Engelhard, VP Lending  
[Dan.Engelhard@mazuma.org](mailto:Dan.Engelhard@mazuma.org)

#### PLP YIELD ANALYSIS BY TIER

July 2002 - December 2010

Grade	Current Balance	Average Balance	Average Yield	Projected Ann'l Int Inc	Total Losses	Average annual losses	Loss Ratio	Net Income	Net yield
A+	21,279,315	9,366	7.070%	1,504,448	376,521	44,2297	0.21%	1,460,151	6.86%
A	18,761,983	9,103	8.320%	1,560,997	1,260,893	148,340	0.79%	1,412,657	7.53%
B	19,790,342	8,815	9.320%	1,844,460	1,970,004	231,765	1.17%	1,612,695	8.15%
C	13,185,646	7,197	10.600%	1,397,678	3,090,178	363,539	2.76%	1,034,140	7.84%
D	9,338,484	5,888	15.410%	1,439,060	4,104,028	482,827	5.17%	956,234	10.24%
	82,355,771	8,239	9.404%	7,746,643	10,801,523	1,270,767	1.54%	6,475,876	7.86%

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## Section 5:

### Loan Portfolio Management



Before a credit union engages in an aggressive sub-prime lending effort, it should review NCUA's Risk Alert letter of June 2005 (Risk Alert No.: 05-RISK-01). The letter states: "Subprime lending is an activity that, if properly implemented and controlled, can be an acceptable segment of your lending portfolio in meeting your members' needs." But it goes on to say that "adequate due diligence and control measures are required."

Whereas this guide is aimed at helping credit unions make more auto loans to higher risk borrowers, how the credit union chooses to implement and manage the process can make the difference between a sound loan portfolio and a speculative and risky portfolio. NCUA states that "sound underwriting practices, effective control and monitoring systems, and sufficient capital levels are key components to a well-managed program."

### **Determine Risk Tolerance and Expertise**

The first thing a credit union should do is determine its tolerance for risk and level of underwriting expertise. As part of its lending strategies, the Board of Directors should establish parameters for credit and concentration risk. For example, if the credit union has limited expertise and exposure to non-prime lending, the board may want to restrict such loans to only C or D paper, and limit the dollar or percentage amount of such loans. The limits may be based on the credit union's net worth. However, if managing risk to net worth, make sure your credit union is monitoring aggregate exposure of your risks to net worth. This is covered in NCUA's March 2010 Letter to Credit Unions (Letter No.: 10-CU-03) on concentration risk. If the credit union has other at-risk loan products tied to net worth, these should be monitored both individually and aggregately.

Credit unions may also want to set delinquency and loan loss thresholds that would trigger a review of the product and underwriting criteria. However, remember these are lagging indicators. It can take 12 to 24 months for your loan portfolio to season before you will know the true risks engrained in the portfolio.

### **Manage Yield by Tier Risk**

The cost to make and service non-prime loans and associated loan losses will invariably be greater with riskier loans. It is strongly recommended that credit unions price for these extra expenses. Pricing is covered in Section 4. Included in that section is a loan guide with pricing suggestions based on risk and a sample yield analysis by tier. Another sample yield analysis is included in Appendix E that breaks down each loan type by FICO tier and tracks average yield, loss ratios, servicing costs, cost of funds, and net yield. This enables management to demonstrate to boards and examiners what each risk tier adds to the bottom line – or in the case of negative net yield, what it subtracts from the bottom line. Higher losses from riskier loans can cause boards and examiners to



become concerned, unless it can be shown these loans are producing positive ROI based on higher average yields.

New loans entering  
a portfolio  
can mask the  
performance  
of older loans

## Static Pool Analysis

In its Risk Alert Letter of June 2005, NCUA recommends credit unions use static pool analysis to monitor performance of loans over time. This is further discussed in the following white paper: <http://www.ncua.gov/Resources/RiskAlert/2005/StaticPoolAnalysis.pdf>. A static pool is made up of those loans originated with similar underwriting criteria during the same month or quarter. It is a longitudinal study of the loan pool over its life. For example, a credit union could use FICO tiers as its underwriting criteria and track all loans made monthly or quarterly by tier. It then tracks the performance of each pool over 18 to 24 months, until the pools become seasoned. New loans entering a portfolio can mask the performance of older loans, since new loans will generally perform better than seasoned loans. A static pool analysis eliminates any distortion from new loans because each pool is kept distinct based on its origination date.

## Capture Exceptions

In order to monitor loan performance by FICO tier or by any other underwriting criteria, credit unions must have the data processing means to segregate loans in this manner. NCUA also recommends that credit unions capture within some DP field any loan exceptions made to policy or other at-risk loans that management would want to monitor for performance. The ability to collect and monitor loans in this manner provides management with the tools to identify problems early and make any changes to policy or underwriting guidelines.

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## Section 6:

### A Credit Union Partnership with Enterprise (Optional)



As part of this non-prime auto loan package, NCUF is encouraging credit unions to develop a partnership with Enterprise Car Sales.

### Why Enterprise Car Sales?

Some credit unions have partnerships with trust-worthy auto dealerships and can confidently send their members to these car lots and know they will be purchasing a quality vehicle at a good price. Some credit unions offer their members a car-buying service through trusted partners. But many credit unions don't have the resources to develop these partnerships and monitor them on an on-going basis to ensure their commitment to reliability and fair pricing.

Enterprise Car Sales already has a relationship with over 1,000 credit unions in the country. Each partnership is customized to meet the credit union's specific needs and desires. Each purchase comes with a 7-day repurchase agreement and a 12 month/12,000 mile limited powertrain warranty.

### Who Is Enterprise Car Sales?

Enterprise Car Sales is a division of Enterprise Holdings which includes Enterprise, National and Alamo car rental companies. Its world headquarters is located in St. Louis, Missouri. Enterprise Car Sales has been selling cars for 50 years from its fleet of over 1,000,000 vehicles. The dealership has 140 physical locations, but its website search at [www.cuautodeals.com](http://www.cuautodeals.com) can quickly match a potential buyer with a desired model, price and location.

### What Can a Credit Union and Buyer Expect from Enterprise Car Sales?

Credit unions and their members can expect the following from Enterprise Car Sales:

- No-haggle pricing – Prices are posted on-line for each vehicle and are competitively priced.
- Vehicle certification – Each vehicle must pass a rigorous 109-point inspection performed by an ASE-Certified technician;
- 7-day repurchase agreement – buyers have seven days or 1,000 miles during which they can change their minds and return the vehicle for the same price paid, minus a \$200 documentation and cleaning fee;
- 12 months or 12,000 miles, whichever comes first, limited powertrain warranty;
- One-year unlimited mileage roadside assistance on each used car purchase;
- Extended service contracts for up to 60 months/84,000 miles – not to exceed 100,000 miles;
- Enterprise also offers GAP insurance;

- Enterprise carries vehicles in the \$10,000 to \$12,000 price range or sometimes even less for buyers looking for lower-cost vehicles.

Enterprise will not offer members its extended service contracts or GAP insurance if the credit union has its own or a separate vendor agreement for these products.

## **What is “Loan Packing?”**

Unlike many other auto dealers, Enterprise does not engage in “loan packing.” Loan packing is where the buyer is subjected to the “F&I office,” that is the Finance and Insurance office where the manager closes the deal and puts the pressure on the buyer to arrange the financing (even if the buyer already has financing) and/or to add miscellaneous insurance packages.

Dealers who arrange financing for their customers often receive kickbacks from auto finance companies. Dealers will often mark-up the financing and then split the added interest with the auto finance company. Similarly, dealers can make huge profits by selling insurance products to the buyer, many times without the buyer understanding how to use the product or whether it is even necessary.

## **How Can a Credit Union Partner with Enterprise?**

Enterprise Car Sales offers each credit union its own “Confidentiality Agreement.” This confidentiality agreement describes Enterprise’s privacy and non-disclosure policy that no member information will be shared with any third party. It meets regulatory compliance requirements. A sample copy of the agreement is included in Appendix F.

In addition, a Letter of Understanding (LOU) will be drawn up with each credit union that describes the roles and expectations of each party to the agreement. The LOU can be unique to each credit union, indicating how the partnership will be promoted and what marketing assistance may be provided by Enterprise. Enterprise is willing to assist with marketing efforts through creative design, materials, and/or incentives.

To contact Enterprise Car Sales to discuss partnership opportunities: Go to [www.enterprisecarsales.com/perfectpartnership](http://www.enterprisecarsales.com/perfectpartnership) and click on the contact us tab.

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## Section 7:

### Community Partnerships



A credit union that wants to make a positive impact within its community should start by building productive relationships and partnerships with other non-profit community organizations. Many credit unions practice charitable giving for philanthropic causes. While charitable giving is certainly worthwhile and enhances a credit union's image within a community, it is a basic expectation of all community institutions.

Fewer credit unions practice or even know how to reach out to community organizations that can provide mutual collaboration and benefits. Partnerships can further a credit union's mission through mutual action. This section of the toolkit provides credit unions with some suggestions about how to build successful partnerships. Credit unions that are participating in this project to offer more auto loans to struggling households and to nonprime borrowers should consider partnership opportunities within the non-profit sector.

## Why Should Credit Unions Seek Partners?

### *Membership Growth*

Non-profit organizations often provide services to people of low- and modest-means. These organizations are always looking for additional help for their clients and your credit union is positioned to do just that with any or all of the following:

- Low cost checking and savings accounts;
- Low cost access to credit;
- Micro loans to help with basic necessities;
- Financial education;
- Immigrant accounts.

The organization will typically know its clients through the services rendered. Generally a client-counselor trust exists that can be transferred to the credit union once a trusting relationship has been developed between the non-profit and the credit union. The risk of fraud and loan losses may also be diminished based on that relationship of trust between client and counselor and non-profit and credit union.

If some of the non-profit's clients are obtaining autos from BHPH lots because they don't think they have better options, the non-profit will be delighted to know it can steer clients to the credit union for more affordable and responsible solutions. Furthermore, people who work at the non-profit are likely to view the credit union as a better option to their current financial institution and will join and will encourage their family and friends to do likewise.

### *Lower Transaction and Marketing Costs*

The non-profit organization can market the credit union to its clients as a good and trustworthy place to do business. If it knows its clients will experience a courteous and

accepting reception, it will gladly make referrals. It may even be willing to explain how the credit union works and the advantages of having a checking and savings account, saving time and expense for the credit union.

***Partners Can Become Valuable Resources***

Freedom First Credit Union in Roanoke, VA, partners with Total Action Against Poverty (TAP) Community Action Agency and New River Community Action (NRCA) Agency for its Responsible Rides auto loan program. The CEO of Freedom First, Paul Phillips, understands the importance of community involvement and sits on the TAP board. He understood the necessity of having a car to get to work. Through the partnership, TAP and NRCA market Freedom First's Responsible Rides program and refer clients in need of a car to the credit union. Read more about Responsible Rides in Appendix A.

***Enhance the Credit Union's Image within the Community***

Non-profits don't work in a vacuum. They belong to organizations of like-minded non-profits and they talk to each other. Once a credit union is identified as socially responsive to the financial needs of lower income consumers, word will spread and more non-profits will want to be part of the alliance.



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## Appendix A:

### Credit Union Examples

Five different credit union auto loan programs for non-prime borrowers are featured here. Each offers a different approach of lending to higher risk borrowers.

1. Freedom First Credit Union's Responsible Rides program includes a mandatory financial education program and is targeted toward limited income families (<300% of poverty) with credit problems. It includes partnerships with Enterprise Car Sales and two community organizations to help market the program. Following completion of the financial education course, borrowers can borrow up to 100% of the auto purchase price, plus any GAP insurance at a low rate of 9.99% for 60 months.
2. North Side Community Federal Credit Union calls its auto loan program Access Auto Lending. It is a risk-based pricing program that enables the credit union to make more auto loans to credit challenged members. Financial education is not mandatory, but any member with a credit score under 600 is strongly encouraged to work with one of the credit union's financial counselors to establish a budget. Interest rates can range from 4.5% to 18%. Rates are discounted for lower LTVs. The credit union also has a partnership with Enterprise Car Sales. Members are often referred to Enterprise, but purchasing a car from Enterprise is not required.
3. Summit Credit Union's Credit Builder Car Loan is generally for borrowers with FICO scores under 600. Borrowers in this program must purchase their cars from Enterprise. Financial education is not required. Borrowers must have at least \$500 for a down payment, giving them some skin in the game. The interest rate is 16%. Summit purchases its own default insurance to protect itself against any losses, but has not experienced any as of yet. The credit union uses a firm close and has provided a sample of its "Loan Closing Summary."
4. Carolina Cooperative Federal Credit Union offers a Basic Transportation Auto Loan program for those with less than perfect credit. This program includes a partnership with Enterprise Car Sales. The interest rate is 15% with terms up to 60 months.
5. St. Louis Community Credit Union's Freedom AutoMoney Loan is for older vehicles (8 to 12 years old) and for people who may not qualify for an unsecured loan. It is marketed as a Title Loan Alternative; however, it can also be used to purchase an older model vehicle. The interest rate is 24% if the borrower has a credit union checking account and direct deposit; otherwise the rate is 26%.

## Freedom First Credit Union

5240 Valleypark Drive  
Roanoke, VA 24019  
[www.freedomfirstcu.com](http://www.freedomfirstcu.com)

**Assets:** \$270 million

**Members:** 38,000

**Contact:** Rodrigo Nunez, Assistant VP, Business Lending & Community Dev.  
(540) 527-3532  
[Rnunez@freedomfirst.com](mailto:Rnunez@freedomfirst.com)

## Responsible Rides

Responsible Rides was launched in January 2010 for limited income families (<300% of poverty level) with debt or credit challenges that need a loan to buy a reliable car. Partners to the program include: Freedom First Credit union, Freedom First Insurance, Total Action Against Poverty (TAP) Community Action Agency, New River Community Action (NRCA) Agency, and Enterprise Car Sales.

### Program Eligibility Requirements:

- Must be within the field of membership of Freedom First Credit Union
- Must be within 300% of poverty level as shown below:

EFFECTIVE 11-1-10

Family Size	300%	
	Annual	Monthly
1	\$32,490	\$2,709
2	\$43,710	\$3,642
3	\$54,930	\$4,578
4	\$66,150	\$5,514
Each Additional	\$11,220	\$ 936

300% of the Federal Poverty Limit has been set to represent the livable wage in the Responsible Rides Program area.

- Provide proof of income and/or Award Letter
- Have been on job at least 3 months
- Provide Driver's License
- Provide 2 months bank statements
- Provide 2 references
- Must be able to pass drug screening test
- Must have a phone
- Must be insurable
- Agree to attend free financial education (3 hours) and auto maintenance (2 hours) classes which are held once a month on a Saturday

## Product Pricing:

- The current rate is 9.99% for 60 months.
- 100% financing of purchase price

## Program Specifics:

- Program Director, Donna Stevens, is the primary contact for members who want to obtain financing through the Responsible Rides program. Applications are funneled through Stevens who determines eligibility for the program.
- Loans are underwritten through Rodrigo Nunez and a committee of two loan officers. Alternate forms of credit are considered such as rental payments, utility or cell phone bills, etc. ***Loans are pre-qualified, rather than approved.***
- A price range is approved for the borrower based on income and expenses. The maximum debt-to-income generally approved for borrowers is 45-50%.
- Pre-qualified borrowers must attend the financial education and car maintenance classes before they are approved.
- Upon completion of the classes, members shop for their desired autos within their approved price ranges with the Program Director through Enterprise's fleet of vehicles. Enterprise cars are selected for reliability, mileage, and affordability.
- Loans are closed at a credit union branch and Enterprise delivers the vehicle to that branch.

## Results after 18 Months:

- 173 applications received
- 71 approved; 66 in automobiles as of June 2011
- 27 withdrew their applications
- \$651,244 loans issued
- \$9,867 average purchase price
- Two defaults and repossessed
- Some are 14-15 days late, but bring account current

## Collection Procedures:

- These car loans are tagged in the credit union's DP system and when one day late, a friendly reminder call is made to them.
- Program Director calls many of them monthly to check up on their financial/personal situations. A strong bond is developed among the member, Stevens and the credit union.

## Profile of Responsible Ride Borrower:

- Average household income is \$17,945
- 73% are single parents
- 94% are female
- Average credit score is 578

Rodrigo Nunez, Outreach Coordinator, observed that many of the borrowers for this program were Certified Nursing Assistants whose jobs depend on being able to drive to work. Having a vehicle also enables some to take a second job or to get a better paying job.

### **Brief History of Program:**

Freedom First CEO, Paul Phillips, sits on the board of TAP and understands the necessity of owning a car in order to get to work. It took two years to put the full program and partnerships together. The credit union worked with the regional sales office of Enterprise. For 2010, the program was limited to households within 200% of the poverty level. For 2011, the income level was increased to 300%. Also, for 2011, the interest rate increased to 9.99% from 9.5%.

### **Partnerships with Enterprise Car Sales and Freedom First Insurance:**

The credit union worked with the regional sales office of Enterprise. Enterprise cars are selected for reliability, mileage, and affordability. Enterprise vehicles are one to two years old, selected from its rental fleet and come with a full one-year maintenance warranty, including Enterprise 12-month roadside assistance and are sold slightly below book value.

Borrowers receive a free estimate for insurance through Freedom First Insurance and the first year's insurance premiums can be wrapped into the loan. Most borrowers, however, purchase their own insurance.

### **Sustainability of the Program:**

- Freedom First has a CDFI designation and received an Innovation Grant from the National Credit Union Foundation (NCUF) to help get the program started.
- Enterprise assists with program expenses based on level of business.
- A portion of the interest received through the program is returned to the program to help fund expenses.
- While not self-sufficient at this time, the program is expected to be sustainable on its own merits by November 2012.

### **Additional Observations/Comments about the Program:**

- GAP insurance is strongly encouraged. GAP insurance is mentioned in class and the credit union has at least four anecdotal stories it offers to would-be borrowers. Four people have had auto accidents where their vehicles were totaled. After the member's insurance paid off the book value of the vehicle, GAP insurance paid the remaining deficiency balance. Nunez points out that GAP insurance usually adds less than \$10 to the borrower's monthly payments.
- A program director such as Stevens is recommended to manage the program and to build loyalty with borrowers.
- Collaboration with community action agencies is very important to a program such as this.
- A savings component to help cover insurance or mechanical problems was discussed but ruled out – at least at this time. The credit union did not want to stretch people with an added payment to their loan payment. However, as part of their financial education class, an emergency fund is strongly encouraged and they are reminded about that during tax season when they are anticipating refunds.

Attachments:

- Testimonials
- Program Overview

## Testimonials

### Responsible Rides' Clients Comments



#### Brenda Craft

I was a nurse non-stop for 46 years and the single parent of a son. I worked hard to support us without help from child support or government agencies. It was hard, but we made it. We were not burdens to anyone. I am a living example that sometimes – LIFE HAPPENS. When you see me today I want you to realize I could be your mother, your daughter, your sister, your wife, your grandmother, your sweetheart or your best friend.



In 2000 my health gave out and I became sick and I had to go on full disability. My life came to a complete STOP. Bills piled up and my credit became severely damaged. It is almost impossible to build up your life again without credit and a dependable car. I would like to give you an example of how bad it gets. I took a cab one way to town – a five minute stop was \$21.00. It was cold and rainy, but I was determined to pay bills and take care of everything on my own. It cost \$15.00 to bring me home and I got sick with pneumonia from the exposure. I had to pay too much for transportation and got sick in the process.

What goals has my new car allowed me to reach? The most important thing is I can be an active member in my little country church and serve the Lord. Also, it has opened doors for volunteering in the community. With this program I have made lifetime friends with employees from Responsible Rides, Freedom First Federal Credit Union and Enterprise Car Sales. Rod (*from Freedom First*) and Donna (*Auto Program Director*) have gone that extra mile with me to make sure I would be 100%. It's a good thing Donna is a blond, because I would have made her gray in the process. In all honesty, Donna has become a dependable friend in all aspects and I'm so grateful for all she has done to make this program a success. I now have my first savings account at Freedom First Credit Union, which I thank you so much. If I am able to prove myself in 1 year to Freedom First, I hope to move my mortgage from a finance company to Freedom First.

#### Angela Helms

I have a five year old son so getting him to daycare and getting myself to work on time has been hard. He has a medical condition [so] not having reliable, dependable



## Testimonials

transportation at a moments notice is stressful. The relief of stress, the comfort of knowing I will have a car that is not constantly breaking down, having constant mechanical problems will give us peace of mind, myself as well as my son. I thank God that this program is available. I know that when I'm getting ready to go to work that my car will start! I also thank [Responsible Rides] for giving me the chance to improve my credit that I would not have had otherwise.

### Andrew Scott

My situation without access to a dependable, affordable car has been miserable, inconvenient, almost ground to a halt. I take care of my 94 year old mom. This is hard to do without transportation. Coordinating rides to the store and appointments is almost impossible.

With my new car, I can get around and help others, which I do a lot. It will get me away from public transportation, which only covers 50% of the city or valley area or less.

I am not employed, but have some life goal projects I am now able to pursue. I am going back and forth between Virginia Tech and Roanoke College libraries, researching archives and doing writings.



### Donna Jackson

My situation was very difficult without reliable transportation. I am a single mom of eight, who works full time. I have an older model van that is unreliable and in constant need of repair. I never knew when or if it would start. I have been unable to take my children to any activities or go anywhere besides work because the car constantly leaks power steering fluid and fumes in the car.

Now, with my new 2009 Mazda van, I am able to have a feeling of safety for my children, and we can actually all fit in the vehicle and go places together as a family. With this transportation, I will be able to get my children to daycare so that I can work.





## Program Overview



### HOW CAN I HELP GROW THIS PROGRAM?

We hope you will want to be part of this community service with a donation to benefit all involved.

**We can accept the following donations:**

Monetary	Vehicle
\$250 donor _____	year _____
\$500 donor _____	make _____
\$750 donor _____	model _____
\$1,000 donor _____	miles _____
\$ offer _____	

Both New River Community Action and TAP are non-profit charitable corporations according to IRS code 501(c)(3). All contributions are tax-deductible.

**Responsible Rides**  
welcomes your support.

### CONTACT INFORMATION

**Donna Stevens**  
Responsible Rides Program Director  
(540) 580-6588 cell  
donna.stevens@tepinthope.org

**New River Valley / Responsible Rides**  
644 West Main Street  
Radford, VA 24141  
540-633-5133  
Fax 540-633-2585

**Roanoke / Responsible Rides**  
145 Campbell Avenue, Suite 602  
Roanoke, VA 24011  
Mailing address: PO Box 2868  
Roanoke, VA 24001-2868  
540-345-6781 ext. 4327  
Fax 540-345-4461

Visit us online to learn more about New River Community Action and TAP services and giving opportunities.  
[www.newrivercommunityaction.org](http://www.newrivercommunityaction.org)  
[www.tapintohope.org](http://www.tapintohope.org)

Final decision is subject to meeting all eligibility requirements.  
Partial funding for this program has been provided by an HCUF Innovation Grant.

## RESPONSIBLE RIDES

### AFFORDABLE CARS PROGRAM





A PARTNERSHIP BETWEEN




### PROGRAM OVERVIEW

Every year, low-income families try to buy vehicles to get to work or for use in conducting essential family business. Many are unable to do so because of debt or credit challenges resulting in high finance rates. If you add in the high cost of a reliable car, many families with limited income find car ownership to be out of reach.

**Responsible Rides has a solution!** Total Action Against Poverty, New River Community Action Agency, Freedom First Credit Union, Freedom First Insurance and Enterprise have partnered to develop a car purchase program for low-income families called Responsible Rides.

Congratulations! Ms. Quandra bonds, the first Responsible Rides vehicle owner.



Cars are selected for reliability, mileage, and affordability from the Enterprise Fleet list. Affordable financing is made available through Freedom First Credit Union.

These vehicles come with the following Enterprise benefits:

- No Haggle Pricing
- Vehicle pass a 109 point inspection
- 7-Day Repurchase Agreement<sup>1</sup>
- 12/12 Limited Powertrain Warranty<sup>2</sup>
- 12 Month Roadside Assistance<sup>3</sup>
- Many vehicles come with a portion of the manufacturer's warranty still in effect.

### WHO IS ELIGIBLE?

**Guidelines for Acceptance into the Responsible Rides Program**

1. To obtain financing with Freedom First, you must work, worship, live or be a student in Roanoke, Botetourt, Montgomery Counties, the Cities of Roanoke, Radford, Salem and the Town of Vinton for 6 months and not homeless or transient.
2. Must have a phone.
3. Be within 300%\* of the poverty level on the chart or less.

Family Size	Annual	300% Monthly
1	\$12,940	\$2,709
2	\$43,710	\$3,642
3	\$54,930	\$4,578
4	\$66,150	\$5,514
Each Additional	\$11,220	\$936

4. Proof of Income and/or Award Letter.
5. Time on job of at least three months.
6. Must provide 2 months bank statements.
7. Drivers License.
8. References (at least two).
9. Must be able to pass drug screening test.
10. Agree to attend free financial (approximately three hours) and maintenance (approximately two hours) classes.
11. Maintain payment of loan balance and must be insurable.
12. Keep vehicle insured for life of loan

\*300% of the Federal Poverty limit has been set to represent the livable wage in the Responsible Rides Program area.

## North Side Community Federal Credit Union

1011 W. Lawrence Ave.  
Chicago, IL 60640  
[www.northsidecommunityfcu.org](http://www.northsidecommunityfcu.org)

**Assets:** \$11 million

**Members:** 3,300

**Contact:** Kristen Cox, Marketing & Community Relations Manager  
773-769-5800 Ext. 226  
[k.cox@northsidecommunityfcu.org](mailto:k.cox@northsidecommunityfcu.org)

### Access Auto Lending

In October 2010, North Side Community FCU expanded its auto loan program to more members and potential members by moving to a risk-based lending system, which it calls Access Auto Lending. The revised underwriting and pricing structure enables the credit union to make auto loans to those without a credit history and to those with some past credit problems.

Members whose credit scores are below 600 are encouraged to start the loan process by talking with a credit union counselor first. "Financial education is a big part of our lending process," says Kristen Cox, Marketing & Community Relations Manager. The counselor reviews the member's credit history and provides suggestions about how to improve it. When the member is pre-approved for a loan amount and interest rate, it gives the member some bargaining power and budgetary wherewithal, when shopping for a car, states Cox.

The credit union has a partnership with Enterprise Car Sales and often refers members to the Enterprise site to search for a car. However, Cox points out, that some members can find a good car at a reasonable price from a third party. In those instances, the credit union must see the title in hand and ensure its condition and value are in accordance with Kelly Blue Book.

Used auto loan rates vary by credit score, loan term and age of vehicle and range from 4.5% to 18%. North Side discounts its loan rates for the following criteria:

- Payments made through direct deposit or payroll deduction (-.75%);
- Membership of 5 years or more (-.75%);
- Three credit union loans paid in full (-.50%);
- Hybrid vehicle or car with 30 MPG or more (-.25%);
- 90% LTV (-.25%);
- 80% LTV (-.50%).

Maximum discount is 1.0% and the lowest possible interest rate is 4.25%.

Since beginning its Access Auto Loan program in October 2010, the credit union has made 35 auto loans – two for new vehicles and the remainder for used vehicles. Of those loans, 43% were to members with no credit scores or credit scores under 620, with the lowest score at 496. The lowest interest rate charged among these members was 9% APR.

As of July 2011, only five of these loans are delinquent, reports Cox. Four of these are only 30 days delinquent. There have been no charge offs to date.

## Summit Credit Union

8210 W. Market St.  
Greensboro, NC 27409  
[www.summitcu.org](http://www.summitcu.org)

**Assets:** \$122.3 Million in assets

**Members:** 22,200 members

**Contact:** Carol-Shan Nault, EVP/COO, (336) 662-6252  
[cnault@summitcu.org](mailto:cnault@summitcu.org)

## Credit Builder Car Loan

The Credit Builder Car Loan program has been in existence at Summit CU since November 2010. Generally, it is for borrowers with FICO scores under 600, but others could be put into this program for other reasons, even if their scores are above 600. Carol-Shan Nault, EVP/COO, and three other employees work as centralized underwriters and make that decision.

Borrowers in this program must purchase their cars through Enterprise Car Sales, because the credit union knows they will receive a quality car at a good price.

### Loan Details:

- Maximum loan amount is \$12,000, plus tax and tags, extended warranty and GAP insurance (if added on);
- 60 month maximum term (extended up to 66 months with the purchase of credit insurance);
- \$500 down payment (borrower must have some skin in the game).

### Underwriting Criteria:

- Generally for those with scores <600, although some borrowers with scores above 600 may have to use this route to obtain a car loan;
- Must live in North Carolina;
- No repossessions in past 12 months;
- Debt ratio within CU guidelines;
- Direct deposit required;
- Must provide two months recent paystubs, valid driver's license, and proof of insurance;
- Employed in the same job or same industry (but better job) for 12 continuous months;
- Must provide three references.

Financial education is not required.

### Product Pricing:

- 16% APR;
- Cannot exceed 100% LTV as determined by NADA retail, excluding extended warranty and GAP add-ons.

**Auto Insurance Products:**

- The credit union has its own GAP insurance product which it cross-sells.
- The credit union has an extended warranty product, but allows Enterprise to sell its own extended warranty, which Nault says is a good product. Enterprise pays the credit union \$150 if it sells its warranty.
- Summit CU purchases its own default insurance to protect itself against losses. The cost of the insurance is \$475. Nault says the insurer places a value on the vehicle at 1, 2, 3, 4, and 5 years, so that if the car is repossessed, the credit union can recover the value of the vehicle. (It has looked at past auto repos and the insurance would have paid off the value of the vehicle. So far, however, the credit union has not experienced any repos through this program.) Enterprise pays the credit union \$300 for each vehicle sold through the program and this is used to cover part of the default insurance.

**Closing and Collection Procedures:**

The credit union uses a firm close for these loans. A sample of the credit union's "Loan Closing Summary" is attached.

Collection activity for this program starts at 10 days. Delinquency is .68%. A different collateral code is used to identify these loans.

**Brief History of Program:**

There is a huge dealership in the Greensboro area called Drive Time – similar to a buy here/pay here place. The vehicles are over-priced, require a huge down payment and charge a rate of 29%, states Nault. Summit CU wanted to combat this limited and in some cases only source of auto financing for many people with credit issues.

The credit union has a great relationship with Enterprise, says Nault. Summit made the decision to have borrowers under this program purchase their cars at Enterprise in order to assure they received quality cars with Enterprise's 12-month, 12,000 mile limited warranty. Enterprise agrees to have a certain percentage of cars available under \$12,000.

**Attachments:**

- Loan Closing Summary

## Loan Closing Summary



**Summit Credit Union**  
[www.summitcu.org](http://www.summitcu.org)  
 & Affiliate Credit Unions

8210 WEST MARKET STREET • GREENSBORO, NC 27409  
 LOCAL: 336-662-6200 • TOLL FREE: 800-632-0210 • FAX: 336-662-6100

### Loan Closing Summary

- I understand that I will be in **default** of my loan agreement if my full payment is not made on or before the due date. I understand that I may receive a call from the Summit Credit Union collections department and place my vehicle in jeopardy if I am even one day late on this loan.
- I understand that it is my responsibility to provide Summit Credit Union with any **updated contact information** (address, home phone, cell phone, and work phone). If the credit union is unable to reach me due to inaccurate contact information, I understand I am placing my vehicle in jeopardy.
- I understand that, in addition to liability insurance, I must maintain **comprehensive and collision insurance coverage** listing Summit Credit Union as the lien holder/loss payee for the duration of the loan. .
- The **payment due date** that has been selected works best with my pay cycle.
- I understand if there is ever any problem with my loan payment being made on time, I can contact the **Summit Credit Union collections department at 336-662-6204**.
- I have received a copy of my loan agreement and understand the information summarized above.
- I understand that if I pay this loan on time and maintain appropriate insurance coverage I am building a good credit history with Summit Credit Union. If I don't my vehicle may be repossessed and sold to the highest bidder, causing further damage to my credit history.

\_\_\_\_\_  
 Member's Signature

\_\_\_\_\_  
 Date



AMERICA'S  
**CREDIT UNIONS**  
where people are with their own money

## Carolina Cooperative Federal Credit Union

6502 McMahon Dr.  
Charlotte, NC 28226  
[www.carolinacoopcu.com](http://www.carolinacoopcu.com)

**Assets:** \$43 Million

**Members:** 8,300

**Contact:** Paris Aranguiz, CEO  
[paranguie@carolinacoopcu.org](mailto:paranguie@carolinacoopcu.org)  
(704) 544-2428

### Basic Transportation Auto Loan

Carolina Cooperative FCU began its Basic Transportation Auto Loan Program in January 2010 to help members who may not have perfect credit. The program is in partnership with Enterprise Car Sales. According to Paris Aranguiz, CEO, this program and partnership with Enterprise began when the credit union realized a lot of charged off losses resulted from new car loans which depreciated immediately after being driven off the car lot. Further, an indirect loan program encourages dealers to sell people more expensive cars than they may be able to afford because this results in higher dealer fees. In addition, these fees are amortized over the life of the loan, whereas the car is frequently turned over after two years.

### Underwriting criteria:

- Must be on same job for 12 months or if a new job, must be an upward move;
- Direct deposit or ACH required;
- Maximum debt-to-income ratio is 45% of gross income;
- Unsecured debt should not exceed 25% of gross income.

Aranguiz stresses that for D & E loans, it is critical to ensure the borrower has the ability to repay the loan. Don't just look at a credit score. Look at the relationship the person has with the credit union. Has the person paid the credit union in a timely manner? Look at the detail of the credit report. If there are delinquencies, where do they occur or what might be causing them?

### Program specifics:

- The maximum purchase limit is \$12,000 although the loan may be as high as \$15,000 if the member purchases Enterprise's extended warranty and GAP insurance;
- The actual purchase limit is based on what the borrower can afford, not on the person's credit score;
- Maximum term is 60 months;
- Interest rate is 15%.

### Program results:

- In 2010, through 12 months, 103 Basic Transportation loans were made.



- Total aggregate loans were \$1,313,804.
- As of yearend, the balance remaining was \$1,171,221.
- There has been one loss of \$3,000.

Through the partnership with Enterprise, Enterprise pays the credit union a marketing fee for each car sale it makes. Aranguiz believes the interest rate plus the marketing fee from Enterprise should be sufficient to absorb any losses from the program and provide at least a break-even ROI.

### **Marketing:**

As a new program, the credit union hasn't widely marketed the Basic Transportation Loan. It is marketed on its website and in its newsletters. Mostly it is marketed by staff to members who apply for an auto loan and may not qualify for the more traditional loan and its lower rate.

## St. Louis Community Credit Union

3651 Forest Park Ave.  
St. Louis, MO 63108  
[www.stlouiscommunity.com](http://www.stlouiscommunity.com)

**Assets:** \$206.4 Million

**Members:** 42,600

**Contact:** Leonard Riley, VP Lending, 314-534-7610, Ext 108  
[Leonard.riley@stlouiscommunity.com](mailto:Leonard.riley@stlouiscommunity.com)

## Freedom AutoMoney Loan

St. Louis Community Credit Union launched its Freedom AutoMoney Loan in the fall of 2009 as an alternative to predatory title loan companies. Credit union personnel shopped some title loan shops and found interest rates of 300% and over. The loan is designed for those members that don't qualify for an unsecured loan because of credit history and hold the title to their vehicle. The loan can also be used to purchase an older vehicle (8 to 12 years old) which would not normally qualify for a traditional car loan.

### Loan Eligibility Requirements:

- Minimum of two years employment;
- Good pay history with the credit union;
- Good pay history on prior auto loan(s);
- Two references.

### Loan Terms:

- **Cash loans**
  - \$1,000 minimum; \$2,000 maximum;
  - 80% of NADA loan value for credit scores < 640;
  - 90% of NADA loan value for credit scores > 640;
  - Maximum term – 12 months;
- **Purchase loans**
  - \$1,000 minimum;
  - \$7,000 maximum for autos 8 to 9 years old; \$5,000 maximum for autos 10 to 11 years old; \$3,000 maximum for autos 12 years old;
  - 80% of NADA loan value for credit scores < 640;
  - 90% of NADA loan value for credit scores > 640;
  - All purchases must have at least 10% down payment;
  - Maximum term – 24 months;
- **Both purchase and cash loans**
  - 26% APR; 24% APR with checking account opened for a minimum of 6 months and direct deposit;
  - \$50 prepaid origination fee;
  - No mileage limitations – mileage only factors into value of vehicle;
  - Full insurance is not required;
  - A condition report is completed for the vehicle.

**Loan Results:**

- \$134,000 outstanding balances as of July 2011;
- 65 loans on the books;
- Delinquency averages about 5% at any given time;
- No losses.
- 

According to Leonard Riley, VP Lending, activity for these loans is increasing now that staff is more comfortable with the product. The loan is marketed on the credit union's website as a better alternative to Title Loan Companies. Employees cross sell the loan to those members who don't qualify for an unsecured loan because of credit history. Higher debt to income ratios are more readily tolerated for this loan.

Members who are purchasing older vehicles but have good credit (680+) are treated as exceptions and the credit union tries to make the loan under its favorable traditional loan rates.

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## Appendix B:

### Starter Interrupter Devices

A starter interrupter device disables the car from starting when borrowers miss monthly car loan payments. Some credit unions require installment of the device for high risk borrowers. It is a means of making auto loans to borrowers who would normally not qualify for such loans because of poor credit, and it serves as a reminder to borrowers when payments are due. The device often chirps or flashes a light when the car is started to warn drivers that a payment is coming up or that a payment is overdue.

Credit unions have control over the parameters of the device. For example, a credit union can decide how delinquent a borrower can be before the car shuts down. The device will not shut the car down while it is being driven, but prevents it from starting when the delinquent threshold has been reached. In the case of an emergency, the borrower receives a one-time by-pass code.

The credit union can also use the device to reward the member for timely payments. The device can be disabled if the borrower has a year or two of on-time payments.

Credit unions may want to consider using the device for three different occasions:

- At the point of redemption to give the borrower a second chance following a repossession;
- When the borrower's credit score is below a level that the credit union would typically not approve for a loan and installation of the device is the only way the credit union will make the loan;
- For borrowers with low credit scores but who can get a loan at a lower interest rate if the device is installed.

The device can also come with a GPS to help a credit union find a car for repossession. For some borrowers, the device has enabled them to make payments on time and rebuild their credit histories.

Interruption devices are sold by a number of vendors, including PassTime, Sekurus, and Sure-Trac. PassTime USA is based in Littleton, CO and has been offering starter-interrupters since 1997. It offers a suite of products to provide lenders with flexibility in terms of cost and functionality. The device is installed under the dashboard of the car so that it is not readily apparent to passengers. Prices vary depending on the functions provided. Credit unions generally add the cost of the device into the loan amount; however, some credit unions pay the cost of the device. The device must be installed by a certified technician.

## Some Examples of Credit Unions Using the PassTime Device

### Denver Community Credit Union

1075 Acoma St.  
Denver, CO 80204  
[www.denvercommunity.coop](http://www.denvercommunity.coop)

**Assets:** \$223 million

**Members:** 29,600

**Contact:** Tessa Bonfante, Chief Operations Officer  
303-626-0708  
877-293-6328 (x1708)  
[tbonfante@denvercommunity.coop](mailto:tbonfante@denvercommunity.coop)

Denver Community Credit Union (DCCU) has been using the PassTime device for about three years. It has made approximately 200 PassTime loans to date. It uses the Elite Pro unit now. The credit union has experienced minimal losses in the program.

The unit begins to warn the member the day their payment is due. Warnings continue following the due date until expiration of the predefined warning days. If payment is not received within the warning period, the unit disables the starter, which shuts the car down.

By using the PassTime device, the credit union is able to make auto loans to members with very thin credit files, no established credit and those who are credit challenged. The interest rate averages between 13.0% and 16.0% depending on risk. DCCU makes loans up to 100% of the vehicle value or 110% if the member has elected to take GAP insurance or an extended warranty. There is no maximum loan amount. The credit union uses its normal DTI underwriting guidelines for these loans. It does look for stable employment and requests consecutive pay stubs from borrowers.

The cost of the unit is \$295 including installation and is added into the loan. There is an annual maintenance fee of \$20/year which the credit union absorbs.

When members make a payment, a credit union employee updates the information through the PassTime website. There is also an automated batch processing method where information can be uploaded daily through PassTime, but there is a different pricing structure for this process.

Tessa Bonfante says the PassTime device works very well for her credit union and the demographic market it serves. It allows credit challenged members the ability to get an auto loan they otherwise may not receive and enables the youth market with limited to no credit the ability to get financing at a reasonable rate. The device is successful in modifying behavior. Members with the device generally make their payments by the due date or within the warning day (grace period).

## DOCO Regional Federal Credit Union

107 N. Westover Blvd.  
Albany, GA 31707  
[www.docofcu.com](http://www.docofcu.com)

**Assets:** \$162 Million

**Members:** 35,650

**Contact:** Daryl Salter, VP Lending  
229-420-8214  
800-227-9180  
[dsalter@docofcu.com](mailto:dsalter@docofcu.com)

DOCO has used the Passtime starter interrupter device for at least 4 years. Many of the credit union's members are credit challenged and DOCO wanted to find a way to make loans to them, yet mitigate the risk of these loans. The device used by DOCO is a timer that is installed under the dashboard of the car.

The credit union pays for the cost of the device (about \$150/unit for the entry level unit), for its installation (\$35) and removal (\$17.50). If not, says Daryl Salter, VP of lending, the member could make the decision to opt-out of having it installed. The credit union did not want to provide this option. Devices can be reused.

Loan payments are due every 30 days. Two days prior to the due date, the device will beep when the car is started. On the loan due date, the beep gets louder. DOCO gives members a 7-day grace period in which to make their payments and the device continues to warn members of pending payments. On day 38, the device times out and the car won't start.

With each payment, members get a code from the credit union that they then enter into the device through a hand-held remote control, similar to a TV remote. Members generally call the credit union when they have made a payment, an employee verifies the payment was made, then goes to a specific Passtime website, enters member's name and receives the code.

There is a two-page disclosure that outlines how the device operates. This is reviewed with the borrower and the borrower signs off on the disclosure during the loan closing.

Generally, the certified technician comes to the branch while the member is completing the loan paperwork and installs the device on-site. Installation generally takes 10 to 15 minutes. The technician is told what kind of vehicle the person is purchasing. There are different schematics for different kinds of vehicles. If the car is being purchased at a dealership, the dealer will often take the car to the technician or the technician will go to the dealership.

### Loan Specifics for the PassTime Device Loan:

- Borrowers with FICO scores <600 require the device;
- Maximum rate is 18% APR; the average rate for these loans are between 14-15%;
- DOCO will only lend up to NADA loan value;
- The borrower must make up the difference with a down payment;
- Loan terms are generally around 36 months, but the credit union can go up to 60 months.



There are repeat customers, says Salter. Some members just can't get their scores high enough to qualify for a car loan that doesn't require the device. The credit union emphasizes to members that the device enables them to obtain a car loan at a fair rate and will remind them of pending loan payments to help them improve their credit score. DOCO is also willing to take the device off if the member demonstrates timely payments. Payroll deduction is not required, but encouraged.

**Results:**

- DOCO has \$60 Million in outstanding auto loans; \$1.3 Million of this portfolio is Passtime unit loans;
- Delinquency for Passtime loans is .6% compared to 1.2% overall;
- Losses have been minimal, but the credit union only lends up to the loan value of the vehicle, so loans are well-collateralized.

## Horizons North Credit Union

11455 Pearl St.  
Northglenn, CO 80233  
[www.hncu.org](http://www.hncu.org)

**Assets:** \$65.5 Million

**Members:** 8,200

**Contact:** Carol White, Sr. VP & Chief Lending Officer  
877-727-4628 X601  
[carolw@hncu.org](mailto:carolw@hncu.org)

Horizons North uses PassTime's Elite Pro device that includes a GPS locator. It has been using the PassTime device for a little over a year, according to Carol White, Sr. VP & Chief Lending Officer. The decision to use the device was to help first-time auto buyers and those with less than stellar credit obtain a car loan, yet offer the credit union some risk protection.

The credit union has two PassTime Chip programs:

1. First time buyers (those with little or no credit) –
  - DTI – 40% gross income;
  - Up to \$15,000 max;
  - 13% APR;
  - Up to 60 months max;
  - Will lend up to average trade-in value (the borrower must have money in the deal).
2. Borrowers with credit issues –
  - DTI – 40% gross income;
  - Must have minimum FICO score of 600;
  - No collection items – if there are collection items on the credit report, these must be paid in full before a loan will be granted;
  - Must have 6 months on job unless moved to a better or same type of job;
  - Up to \$13,000 max;
  - Rates based on length of loan term –
    - 15% with 60 month term;
    - 14% with 48 month term;
    - 13% with 36 month term;
  - Will lend up to average trade-in value.

The PassTime device is installed by a PassTime certified mechanic either at the credit union or at the mechanic's shop. The dealers in the area are also experienced in installing the device and can do it at the dealerships.

Horizons North has 125 PassTime Chip Loans. Reaction by members is amazing, says White. They realize it may be their only opportunity to obtain a car loan at a good price and rate. A full disclosure is used at closing to make members aware of the device and how it operates. It informs the member that if the device is tampered with, the credit union can repossess the vehicle.

The unit itself costs the credit union \$255. In addition, there is an installation charge and an annual maintenance fee. Horizon North charges the member \$485 for the unit

(the average cost for the device over the life of the loan), which is added into the loan amount. The unit belongs to the member. When the loan is paid in full, the credit union turns off the device, but the unit stays with the car.

When the loan payment is made, the tellers notify a loan officer who goes to the credit union's own PassTime website and updates the member's due date. No code has to be given to the member to update his/her own device. The credit union is working on an automatic update process for the future.

The device sounds a warning beep on the payment due date. The warning beep continues for 10 days after due date when the car is started. The car won't start 12 days after the due date. Members know the consequences of late payments and call the credit union to let it know when the payment will be made.

Delinquency is minimal, according to White. A couple of vehicles have been repossessed. The GPS unit makes it easier to locate the car.

# Appendix C:

## Credit Scores and Credit Bureaus

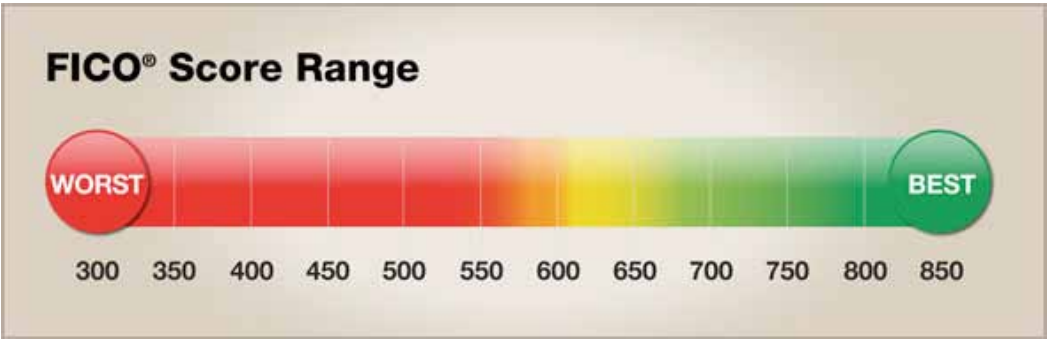
### Credit Scores

A credit score is a number that reflects information in a consumer’s credit report. It summarizes the person’s credit history and helps a lender predict how likely it is that the person will repay a loan and make payments on time. Lenders may use credit scores to decide whether to grant a loan, under what terms, and the rate charged on the loan.

- Information used to calculate a person’s score can include:
- The number and types of accounts (revolving and installment)
  - Whether the person pays on time
  - Amount of outstanding debt
  - How much of available credit is a person using
  - Any collection actions
  - Age of the accounts

### FICO Scores aka Fair Isaac Score

FICO scores are generated from software developed by Fair Isaac and Company. There are other credit bureau scores, but FICO is the most commonly used. FICO scores can range from 300 to 850.



Fico Score	Evaluation	What it means
760 or higher	Great	Score is well above the average score of U.S. consumers – exceptional borrower
725 to 759	Very good	Score is above the average score of U.S. consumers – very dependable borrower
660 to 724	Good	Score is near the average score of U.S. consumers and most lenders consider this a good score
560 to 659	Not good	Score is below the average score of U.S. consumers, but some lenders will make loans to borrowers with this score
Lower than 560	Bad	Score is well below the average score of U.S. consumers and demonstrates to lenders that this is a very risky borrower

### Other Credit Bureau Scores

The Beacon Score is a credit score used by Equifax credit bureau. Equifax subscribes

to the Fair Isaac's FICO model of scoring and then integrates its own version of scoring. The Beacon has a scale of 340 to 820.

Trans Union refers to its credit score as Empirica. It also subscribes to the FICO model, then integrates its own scoring version. Empirica uses a scale of 150 to 934.

Other variations in scores can occur because different financial institutions may be reporting data to different credit bureaus.

### **VantageScore**

VantageScores range from 300 to 850 and are given letter grades, as follows:

901 to 990	"A" credit
801 to 900	"B" credit
701 to 800	"C" credit
601 to 700	"D" credit
501 to 600	"F" credit

With VantageScore the three credit agencies use a collectively developed scoring model – but still apply it to their own data. So there could still be some variation in scores, but not as much as with FICO scores. Consumers' files at each credit agency can vary because lenders can choose which agency they provide consumer payment data.

VantageScore is marketed as a product to better accommodate certain groups of consumers that a FICO algorithm most likely will score very low, such as consumers with thin credit history files.

## **Credit Bureaus**

The three main credit bureaus are Experian, Equifax and TransUnion.

### **Subprime Credit Bureaus**

Subprime credit bureaus are generally used by alternative credit sources, such as payday lenders and title lenders. Since the loans are short-term, many subprime lenders want real time reporting of loans generated, paid, or not paid. Some credit unions offering payday-alternative loans use subprime credit bureaus, as well. Some examples are:

Clarity Services, Inc.  
311 Park Place Blvd., suite 330  
Clearwater, FL 33759  
(727) 489-7266  
[www.clarityservices.com](http://www.clarityservices.com)

Clarity focuses on data reporting for under-banked and near prime consumers. Clarity provides real-time credit bureau information with national coverage of non-traditional data sources and combines these with traditional information from the three main credit bureaus.

Teletrack  
5550-A Peachtree Parkway, Suite 600  
Norcross, GA 30092  
(800) 729-6981  
[www.teletrack.com](http://www.teletrack.com)

Teletrack gathers records from businesses across the country that cater to non-traditional credit consumers. It delivers data and decisioning solutions to a variety of businesses including payday loan companies, rental purchase stores, non-prime auto lenders, and non-traditional credit consumer finance businesses.

## Reg B Considerations

Reg B implements provisions of the Equal Credit Opportunity Act and prohibits lenders from discriminating against applicants, provides guidelines for gathering and evaluating credit information, and requires notification when credit is denied. Creditors can determine which credit references and credit information they will use to determine creditworthiness, as long as these are applied without any discriminatory basis such as race, sex, or marital status.

In a letter to Trycera Credit Services, NCUA wrote: "Upon an applicant's request, however, Reg B requires creditors, in evaluating the creditworthiness of an applicant, to consider any information an applicant may present tending to indicate the credit history being considered does not accurately reflect the applicant's creditworthiness." It further states: "As further explained in the Official Staff Commentary to Reg B, creditors, at an applicant's request, must consider credit information not reported through a credit bureau when the information relates to the same types of credit references and history the creditor would consider if reported through a credit bureau."

A copy of this letter can be retrieved at:  
<http://www.ncua.gov/Resources/RegulationsOpinionsLaws/OpinionLetters/2010/10-0974.pdf>.



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## Appendix D: Insurance Products

Insurance products can help credit unions mitigate some of the risk they take with their auto loans, and in particular auto loans to non-prime borrowers. The following provides some basic descriptions of various insurance products and some pricing guidelines provided by CUNA Mutual Group and Allied Solutions.

### Credit Life and Credit Disability

The majority of credit unions offer Credit Life and Credit Disability insurance products to their members, particularly for larger and longer term loans.

Credit Life Insurance pays off or reduces the insured loan balance in the event of the borrower's death. Joint credit life is also available to cover both the borrower and the co-borrower. Although rates vary by state and the loan amount, CUNA Mutual states an average rate is between \$.75 to \$.80 per month per \$1,000 insured.

Credit Disability Insurance makes the monthly loan payments (up to the contract limit) on a loan if the borrower becomes disabled or ill and is unable to work. Joint credit disability is also available to cover both the borrower and the co-borrower. Again, rates vary by state and loan amount, but average \$1.95 per month per \$1,000 insured, according to CUNA Mutual.

In both cases, the monthly premium is included with the monthly loan payment.

### Debt Cancellation

Debt Cancellation offers borrowers protection for unforeseen events, such as death, disability, or involuntary job loss. When the specified event occurs, the member's loan balance is either canceled or repayments are reduced. Allied Solutions/Securian provides three different product plans. Prices vary by state, and the prices provided below are wholesale averages.

- Plan 1 –
  - Death – cancels loan balance upon death of the borrower;
  - Disability – cancels up to six payments per occurrence;
  - Involuntary Unemployment – cancels up to three payments per occurrence;
  - Cost for single borrower - \$1.88 per month per \$1,000 insured; joint borrowers - \$3.40 per month per \$1,000 insured.
- Plan 2 –
  - Death – cancels loan balance upon death of the borrower;
  - Disability – cancels up to six payments per occurrence;
  - Cost for single borrower - \$1.10 per month per \$1,000 insured; joint borrowers - \$1.93 per month per \$1,000 insured.
- Plan 3 –
  - Death – cancels loan balance upon death of the borrower;
  - Cost for single borrower - \$.50 per month per \$1,000 insured; joint borrowers - \$.79 per month per \$1,000 insured.

Premiums are added to each monthly payment.

Allied Solutions also provides a standalone, involuntary unemployment insurance prod-

uct that pays the monthly loan payments if the borrower becomes unemployed involuntarily. Pricing varies by state but on average is \$5 per \$100 of the sum of the scheduled payment.

## **Guaranteed Asset Protection (GAP)**

Guaranteed Asset Protection or GAP pays the difference between a vehicle's actual cash value and the member's loan balance in the event the vehicle is declared a total loss as a result of an accident or theft. GAP Protection is valuable for high loan-to-value (LTV) loans and can be purchased up to 125% of the MSRP for new vehicles or NADA retail for used vehicles.

Allied Solutions quotes a wholesale rate of \$105 for its standard GAP product for loans with terms up to 84 months. Credit unions will typically add their own margins to the rate that is sold to members. The cost of the protection is often added into the loan amount.

## **Mechanical Breakdown Protection**

Mechanical Breakdown Protection or Mechanical Repair Coverage pays for the costs of mechanical and electrical failures and associated labor costs. The protection is valuable as people hold onto their cars for longer periods and as the cost of repairs goes up. Unexpected repair bills can have a significant impact on households living paycheck to paycheck and are often a cause for delinquencies or for people simply walking away from their auto loan obligations.

The cost of coverage varies by age, model and mileage on the vehicle. It does not cover routine maintenance and can be purchased for a defined period of time. It is typically purchased up front and can be added into the loan amount. Although, as stated, costs can vary, a typical cost for mechanical repair coverage is between \$1,300 and \$1,500.

## **Equity Protection Program**

This product is designed to protect the lender when making high LTV auto loans. The portion of the loan exceeding 100% of the value is insured. In the event of repossession, the insured portion of the loan is paid should the sale of the collateral not cover the loan balance. Again, the price varies by state, but on average is \$1.25 per \$1,000. The premium for this coverage is paid by the credit union, which then typically charges the member a higher interest rate to compensate for the additional expense.

# Appendix E

## Yield Analysis By Tier

FICO Tier		January	February	March	April	May	June	July	August
A	Loan Balance	12,280,500	12,820,500	12,560,254	12,725,400	12,658,603	12,825,156	13,125,025	12,958,602
	# Loans	1,272	1,280	1,275	1,279	1,277	1,280	1,285	1,280
	Avg Balance	9,654	10,016	9,851	9,949	9,913	10,020	10,214	10,124
	Loan Income	33,850	36,325	35,625	36,525	35,890	36,852	37,126	36,125
	Losses	2,558	2,457	2,354	2,145	2,056	1,236	1,853	2,412
B	Loan Balance	9,790,400	9,785,350	9,925,105	9,980,125	9,782,560	9,856,485	9,925,100	9,856,458
	# Loans	1,120	1,110	1,113	1,115	1,111	1,212	1,215	1,211
	Avg Balance	8,741	8,816	8,917	8,951	8,805	8,132	8,169	8,139
	Loan Income	44,202	41,265	44,856	45,214	44,925	45,325	45,980	45,652
	Losses	9,382	8,250	7,256	8,560	8,526	7,360	9,260	9,560
C	Loan Balance	3,185,650	3,250,650	3,560,850	3,680,514	3,525,123	3,692,540	3,726,580	3,826,560
	# Loans	560	565	570	580	578	582	585	591
	Avg Balance	5,689	5,753	6,247	6,346	6,099	6,345	6,370	6,475
	Loan Income	21,253	22,153	24,160	25,560	23,256	24,825	25,160	25,100
	Losses	8,495	8,212	8,560	8,320	7,256	7,958	9,256	9,875
D	Loan Balance	2,580,005	2,758,025	2,925,105	3,254,602	3,245,105	3,352,400	3,462,012	3,480,600
	# Loans	550	556	560	575	574	580	583	585
	Avg Balance	4,691	4,960	5,223	5,660	5,653	5,780	5,938	5,950
	Loan Income	22,253	23,580	24,825	26,580	26,125	28,230	29,256	29,356
	Losses	11,825	10,528	12,625	13,562	11,563	13,250	14,230	15,215
E	Loan Balance	1,158,650	1,260,503	1,257,403	1,298,253	1,305,260	1,325,620	1,320,560	1,350,125
	# Loans	228	233	230	236	245	247	245	252
	Avg Balance	5,082	5,410	5,467	5,501	5,328	5,367	5,390	5,358
	Loan Income	14,300	14,560	14,360	14,589	14,625	15,630	15,560	16,230
	Losses	9,366	9,600	9,356	10,562	11,256	10,250	11,215	12,125
Totals	Loan Balance	28,995,205	29,875,028	30,228,717	30,938,894	30,516,651	31,052,201	31,559,277	31,472,345
	# Loans	3,730	3,744	3,748	3,785	3,785	3,901	3,913	3,919
	Avg Balance	7,774	7,979	8,065	8,174	8,063	7,960	8,065	8,031
	Loan Income	135,858	137,883	143,826	148,468	144,821	150,862	153,082	152,463
	Losses	41,626	39,047	40,151	43,149	40,657	40,054	45,814	49,187

## Yield Analysis By Tier

FICO Tier		September	October	November	December	Annual Totals
A	Loan Balance	12,586,201	12,856,203	12,558,200	12,625,200	12,714,987
	# Loans	1,274	1,282	1,250	1,262	1,275
	Avg Balance	9,879	10,028	10,047	10,004	9,975
	Loan Income	35,256	36,825	34,200	34,820	429,419
	Losses	2,102	2,305	2,560	1,580	25,618
B	Loan Balance	9,656,203	9,790,506	9,820,400	9,952,100	9,843,399
	# Loans	1,128	1,202	1,212	1,223	1,164
	Avg Balance	8,560	8,145	8,103	8,137	8,454
	Loan Income	44,620	45,025	44,820	45,112	536,996
	Losses	8,705	9,023	9,213	9,015	104,110
C	Loan Balance	3,905,200	3,985,125	3,850,321	3,885,260	3,672,864
	# Loans	596	598	592	596	583
	Avg Balance	6,552	6,664	6,504	6,519	6,303
	Loan Income	25,124	25,825	24,815	24,898	292,129
	Losses	10,506	10,650	11,120	9,512	109,720
D	Loan Balance	3,525,620	3,560,820	3,525,100	3,562,501	3,269,325
	# Loans	592	597	595	596	579
	Avg Balance	5,955	5,965	5,925	5,977	5,651
	Loan Income	29,856	30,150	29,852	30,215	330,278
	Losses	14,825	14,720	15,280	14,825	162,448
E	Loan Balance	1,360,250	1,356,120	1,325,410	1,336,201	1,304,530
	# Loans	254	253	254	255	244
	Avg Balance	5,355	5,360	5,218	5,240	5,339
	Loan Income	16,560	16,575	15,870	15,602	184,461
	Losses	11,985	12,150	9,802	12,102	129,769
Totals	Loan Balance	31,033,474	31,548,774	31,079,431	31,361,262	30,805,105
	# Loans	3,844	3,932	3,903	3,932	3,845
	Avg Balance	8,073	8,024	7,963	7,976	8,012
	Loan Income	151,416	154,400	149,557	150,647	1,773,283
	Losses	48,123	48,848	47,975	47,034	531,665

## Yield Analysis By Tier

FICO Tier		January	February	March	April	May	June	July	August
<b>A</b>	Ann. Avg. Yield	3.31%	3.40%	3.40%	3.44%	3.40%	3.45%	3.39%	3.35%
	Ann. Loss Ratio	0.25%	0.23%	0.22%	0.20%	0.19%	0.12%	0.17%	0.22%
	Ann. Servicing	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%
	Ann. COF	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
	Ann. Net Yield	1.31%	1.42%	1.43%	1.49%	1.46%	1.58%	1.47%	1.37%
<b>B</b>	Ann. Avg. Yield	5.42%	5.06%	5.42%	5.44%	5.51%	5.52%	5.56%	5.56%
	Ann. Loss Ratio	1.15%	1.01%	0.88%	1.03%	1.05%	0.90%	1.12%	1.16%
	Ann. Servicing	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
	Ann. COF	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
	Ann. Net Yield	2.27%	2.05%	2.55%	2.41%	2.46%	2.62%	2.44%	2.39%
<b>C</b>	Ann. Avg. Yield	8.01%	8.18%	8.14%	8.33%	7.92%	8.07%	8.10%	7.87%
	Ann. Loss Ratio	3.20%	3.03%	2.88%	2.71%	2.47%	2.59%	2.98%	3.10%
	Ann. Servicing	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%
	Ann. COF	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
	Ann. Net Yield	2.56%	2.90%	3.01%	3.37%	3.20%	3.23%	2.87%	2.52%
<b>D</b>	Ann. Avg. Yield	10.35%	10.26%	10.18%	9.80%	9.66%	10.10%	10.14%	10.12%
	Ann. Loss Ratio	5.50%	4.58%	5.18%	5.00%	4.28%	4.74%	4.93%	5.25%
	Ann. Servicing	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
	Ann. COF	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
	Ann. Net Yield	2.35%	3.18%	2.50%	2.30%	2.88%	2.86%	2.71%	2.38%
<b>E</b>	Ann. Avg. Yield	14.81%	13.86%	13.70%	13.48%	13.45%	14.15%	14.14%	14.43%
	Ann. Loss Ratio	9.70%	9.14%	8.93%	9.76%	10.35%	9.28%	10.19%	10.78%
	Ann. Servicing	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
	Ann. COF	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
	Ann. Net Yield	2.61%	2.22%	2.28%	1.22%	0.60%	2.37%	1.45%	1.15%
<b>Totals</b>	Ann. Avg. Yield	5.62%	5.54%	5.71%	5.76%	5.69%	5.83%	5.82%	5.81%
	Ann. Loss Ratio	1.72%	1.57%	1.59%	1.67%	1.60%	1.55%	1.74%	1.88%
	Ann. Servicing	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
	Ann. COF	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
	Ann. Net Yield	1.70%	1.77%	1.92%	1.88%	1.90%	2.08%	1.88%	1.74%

## Yield Analysis By Tier

FICO Tier		September	October	November	December	Annual Totals
A	Ann. Avg. Yield	3.36%	3.44%	3.27%	3.31%	3.38%
	Ann. Loss Ratio	0.20%	0.22%	0.24%	0.15%	0.20%
	Ann. Servicing	0.75%	0.75%	0.75%	0.75%	0.75%
	Ann. COF	1.00%	1.00%	1.00%	1.00%	1.00%
	Ann. Net Yield	1.41%	1.47%	1.27%	1.41%	1.43%
B	Ann. Avg. Yield	5.55%	5.52%	5.48%	5.44%	5.46%
	Ann. Loss Ratio	1.08%	1.11%	1.13%	1.09%	1.06%
	Ann. Servicing	1.00%	1.00%	1.00%	1.00%	1.00%
	Ann. COF	1.00%	1.00%	1.00%	1.00%	1.00%
	Ann. Net Yield	2.46%	2.41%	2.35%	2.35%	2.40%
C	Ann. Avg. Yield	7.72%	7.78%	7.73%	7.69%	7.96%
	Ann. Loss Ratio	3.23%	3.21%	3.47%	2.94%	2.98%
	Ann. Servicing	1.25%	1.25%	1.25%	1.25%	1.25%
	Ann. COF	1.00%	1.00%	1.00%	1.00%	1.00%
	Ann. Net Yield	2.24%	2.32%	2.02%	2.50%	2.73%
D	Ann. Avg. Yield	10.16%	10.16%	10.16%	10.18%	10.11%
	Ann. Loss Ratio	5.05%	4.96%	5.20%	4.99%	4.97%
	Ann. Servicing	1.50%	1.50%	1.50%	1.50%	1.50%
	Ann. COF	1.00%	1.00%	1.00%	1.00%	1.00%
	Ann. Net Yield	2.62%	2.70%	2.46%	2.68%	2.64%
E	Ann. Avg. Yield	14.61%	14.67%	14.37%	14.01%	14.14%
	Ann. Loss Ratio	10.57%	10.75%	8.87%	10.87%	9.93%
	Ann. Servicing	1.50%	1.50%	1.50%	1.50%	1.50%
	Ann. COF	1.00%	1.00%	1.00%	1.00%	1.00%
	Ann. Net Yield	1.54%	1.42%	2.99%	0.64%	1.71%
Totals	Ann. Avg. Yield	5.85%	5.87%	5.77%	5.76%	5.75%
	Ann. Loss Ratio	1.86%	1.86%	1.85%	1.80%	1.72%
	Ann. Servicing	1.20%	1.20%	1.20%	1.20%	1.20%
	Ann. COF	1.00%	1.00%	1.00%	1.00%	1.00%
	Ann. Net Yield	1.79%	1.81%	1.72%	1.76%	1.83%

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## Appendix F:

### Confidentiality and Non-Disclosure Agreement

This Confidentiality and Non-Disclosure Agreement (the "Agreement"), dated as of this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, is entered into between Enterprise Holdings, Inc. ("Enterprise") and \_\_\_\_\_ ("Second Party").

WHEREAS, Second Party and Enterprise desire to exchange information, both verbal and written, concerning their respective business, operational and marketing plans and other initiatives all of which each respective party considers as proprietary and confidential and is only being disclosed to the other party in pursuit of potential business arrangements between the parties hereto (the "Purpose"); and each party intends that the exchanged information and the existence of this Agreement shall be kept confidential by the other party and not used by the other party except in furtherance of the Purpose.

NOW THEREFORE, Second Party and Enterprise agree as follows:

1. **Confidential Information.** For purposes of this Agreement, the term "Confidential Information" shall mean any proprietary, trade secret and other business information, whether verbal or written, of a party ("disclosing party") disclosed to the other party ("receiving party"), including but not limited to information about the disclosing party's customers or members, its financial information, business plans, promotional and marketing initiatives, and other information regarding the operations of the disclosing party; provided, however, Confidential Information of the disclosing party shall not be deemed to include (a) any portion of the Confidential Information of the disclosing party which the receiving party had lawfully in its possession prior to the disclosure, (b) any portion of the Confidential Information of the disclosing party which is independently developed by the receiving party, (c) any portion of the Confidential Information of the disclosing party which was or becomes lawfully publicly available, (d) any portion of the Confidential Information which the receiving party can demonstrate by written evidence has been lawfully disclosed to it by a third, and (e) any portion of the Confidential Information of the disclosing party which is approved for release to the general public by the receiving party by written authorization of the disclosing party.

2. **Limitation on Disclosure and Use.** The receiving party hereby agrees and undertakes with the disclosing party to retain all Confidential Information of the disclosing party strictly in confidence, and limit its disclosure to such of the receiving party's employees as it, in good faith, believes necessary to have access to such information in order to further the Purpose, and to require its employees, professional advisors, directors and officers to retain in confidence, all such Confidential Information disclosed to them as if each such individual was a party hereto. The receiving party further agrees not to use any such Confidential Information except for the Purpose, and shall not disclose to any third party the existence of this Agreement except as required in this Agreement or by applicable law. Under no circumstances shall any party hereto use any Confidential Information to compete with the disclosing party or any of its affiliates and any party hereto shall not share any Confidential Information with a competitor of the disclosing party or its affiliates. Nothing provided in this Agreement requires a party to disclose Confidential Information to the other party nor does this Agreement guaranty any potential business arrangement will be reached between or among the parties hereto, even if disclosure of Confidential Information is made hereunder.

3. **Compelled Disclosure.** If the receiving party becomes legally compelled to disclose any of the Confidential Information of the disclosing party, the receiving party will



provide the disclosing party with prompt notice so that the disclosing party may seek a protective order or other appropriate remedy, and will cooperate with the disclosing party in obtaining such protective orders or other remedies and arrangements for the Confidential Information. If the disclosing party does not obtain such a protective order or other remedy, or if it does not waive compliance with the provisions of this Agreement, the receiving party will furnish only that portion of such Confidential Information which is legally required to be furnished.

4. **Remedies.** In the event of a breach or threatened breach by either party of this Agreement, the other party may avail itself of all appropriate legal and equitable remedies, including but not limited to injunctive relief. The parties acknowledge that the disclosing party may suffer irreparable harm if this Agreement is breached by the receiving party, that the disclosing party's legal remedies may be inadequate to protect its interests in the event of such breach by the receiving party, and that equitable relief may be an appropriate remedy for any such breach in addition to any other available remedies.

5. **Entire Agreement.** This Agreement contains the entire understanding of the parties with respect to the matters provided for herein and supersedes any and all other prior agreements, covenants, arrangements, communications, representations or warranties, whether oral or in writing, by any of the parties or by any officer, employee or representative of any party with respect to such matters. This Agreement shall not be amended or modified or waived without the written agreement of the parties hereto.

Enterprise Holdings, Inc.      Second Party

By: \_\_\_\_\_ By: \_\_\_\_\_

Title: \_\_\_\_\_ Title: \_\_\_\_\_

# Appendix G

## Used Car Comparison Worksheet



## Used Car Comparison Worksheet


When you want to buy a used car, there are many choices; keeping track of each can be difficult. We've designed the Used Car Comparison Worksheet to help you manage all the vehicles you are researching. Our Used Car Comparison Worksheet will ensure that you ask the right questions about each used car you are comparing. Print it out and keep it handy. It will be one of the most useful tools to help you choose your next used car.

	Used Car #1	Used Car #2	Used Car #3	Used Car #4	Used Car #5
<b>Vehicle Description</b> (example: Toyota Camry, Bob's car from work)					
<b>Price</b>	\$	\$	\$	\$	\$
<b>Used Car Retail Value</b>	Kelley Blue Book:	Kelley Blue Book:	Kelley Blue Book:	Kelley Blue Book:	Kelley Blue Book:
<b>Mileage</b> Tip: Most owners drive approximately 12,000 miles per year.					
<b>Vehicle Color</b>	Exterior: _____ Interior: _____	Exterior: _____ Interior: _____	Exterior: _____ Interior: _____	Exterior: _____ Interior: _____	Exterior: _____ Interior: _____
<b>Used Car Dealer / Owner Contact information</b> Did you know? Enterprise Car Sales has more than 130 locations nationwide, with thousands of vehicles and an inventory updated daily.					
<b>Total previous owners:</b>					
<b>Reason for Selling:</b>					

Preview our great selection of quality used vehicles at [enterprisecarsales.com](http://enterprisecarsales.com).


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## Used Car Comparison Worksheet

 <b>car sales</b>	Used Car #1	Used Car #2	Used Car #3	Used Car #4	Used Car #5
<b>Is the vehicle certified?</b> Did you know? Enterprise Car Sales only sells certified used cars. Each and every used car is inspected by an independent ASE certified technician.	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>Warranty</b> Tip: Each used car from Enterprise includes a 12/12 Limited Powertrain warranty. <sup>1</sup> (more details at end of document)	<input type="checkbox"/> Included <input type="checkbox"/> Available Price: _____ <input type="checkbox"/> Not Available	<input type="checkbox"/> Included <input type="checkbox"/> Available Price: _____ <input type="checkbox"/> Not Available	<input type="checkbox"/> Included <input type="checkbox"/> Available Price: _____ <input type="checkbox"/> Not Available	<input type="checkbox"/> Included <input type="checkbox"/> Available Price: _____ <input type="checkbox"/> Not Available	<input type="checkbox"/> Included <input type="checkbox"/> Available Price: _____ <input type="checkbox"/> Not Available
<b>Buy-Back Agreement</b> Did you know? Enterprise Car Sales offers a 7-day Repurchase Agreement <sup>2</sup> on all vehicles. (more details at end of document)	<input type="checkbox"/> Included <input type="checkbox"/> Available Comments: _____	<input type="checkbox"/> Included <input type="checkbox"/> Available Comments: _____	<input type="checkbox"/> Included <input type="checkbox"/> Available Comments: _____	<input type="checkbox"/> Included <input type="checkbox"/> Available Comments: _____	<input type="checkbox"/> Included <input type="checkbox"/> Available Comments: _____
<b>Miles per Gallon</b>	_____ City _____ Highway	_____ City _____ Highway	_____ City _____ Highway	_____ City _____ Highway	_____ City _____ Highway
<b>Engine</b>	<input type="checkbox"/> 4 Cylinder <input type="checkbox"/> V6 <input type="checkbox"/> V8 <input type="checkbox"/> Other: _____	<input type="checkbox"/> 4 Cylinder <input type="checkbox"/> V6 <input type="checkbox"/> V8 <input type="checkbox"/> Other: _____	<input type="checkbox"/> 4 Cylinder <input type="checkbox"/> V6 <input type="checkbox"/> V8 <input type="checkbox"/> Other: _____	<input type="checkbox"/> 4 Cylinder <input type="checkbox"/> V6 <input type="checkbox"/> V8 <input type="checkbox"/> Other: _____	<input type="checkbox"/> 4 Cylinder <input type="checkbox"/> V6 <input type="checkbox"/> V8 <input type="checkbox"/> Other: _____
<b>Transmission</b>	<input type="checkbox"/> Automatic <input type="checkbox"/> Manual	<input type="checkbox"/> Automatic <input type="checkbox"/> Manual	<input type="checkbox"/> Automatic <input type="checkbox"/> Manual	<input type="checkbox"/> Automatic <input type="checkbox"/> Manual	<input type="checkbox"/> Automatic <input type="checkbox"/> Manual
<b>Drive Type</b>	<input type="checkbox"/> Front Wheel <input type="checkbox"/> Rear Wheel <input type="checkbox"/> 4-Wheel	<input type="checkbox"/> Front Wheel <input type="checkbox"/> Rear Wheel <input type="checkbox"/> 4-Wheel	<input type="checkbox"/> Front Wheel <input type="checkbox"/> Rear Wheel <input type="checkbox"/> 4-Wheel	<input type="checkbox"/> Front Wheel <input type="checkbox"/> Rear Wheel <input type="checkbox"/> 4-Wheel	<input type="checkbox"/> Front Wheel <input type="checkbox"/> Rear Wheel <input type="checkbox"/> 4-Wheel
<b>CARFAX® Report Results</b> Did you know? Enterprise Car Sales will print a CARFAX® report on the vehicle you are interested in for free.	VIN # (Need to run CARFAX) _____ <input type="checkbox"/> Excellent <input type="checkbox"/> Fair <input type="checkbox"/> Poor	VIN # (Need to run CARFAX) _____ <input type="checkbox"/> Excellent <input type="checkbox"/> Fair <input type="checkbox"/> Poor	VIN # (Need to run CARFAX) _____ <input type="checkbox"/> Excellent <input type="checkbox"/> Fair <input type="checkbox"/> Poor	VIN # (Need to run CARFAX) _____ <input type="checkbox"/> Excellent <input type="checkbox"/> Fair <input type="checkbox"/> Poor	VIN # (Need to run CARFAX) _____ <input type="checkbox"/> Excellent <input type="checkbox"/> Fair <input type="checkbox"/> Poor

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## Used Car Comparison Worksheet

 <b>car sales</b>	Used Car #1	Used Car #2	Used Car #3	Used Car #4	Used Car #5
<b>Interior Condition</b> Tip: Take a moment to notice if there are unpleasant odors. Many odors do not go away.	<input type="checkbox"/> Excellent <input type="checkbox"/> Fair <input type="checkbox"/> Poor Additional Comments:	<input type="checkbox"/> Excellent <input type="checkbox"/> Fair <input type="checkbox"/> Poor Additional Comments:	<input type="checkbox"/> Excellent <input type="checkbox"/> Fair <input type="checkbox"/> Poor Additional Comments:	<input type="checkbox"/> Excellent <input type="checkbox"/> Fair <input type="checkbox"/> Poor Additional Comments:	<input type="checkbox"/> Excellent <input type="checkbox"/> Fair <input type="checkbox"/> Poor Additional Comments:
<b>Body Condition</b> Tip: Stand at the end of the vehicle and look down the length of the car to see if it has been in an accident.	<input type="checkbox"/> Excellent <input type="checkbox"/> Fair <input type="checkbox"/> Poor <input type="checkbox"/> Dents / Hail Damage <input type="checkbox"/> Rust <input type="checkbox"/> Chipped Paint <input type="checkbox"/> Faded Paint <input type="checkbox"/> Scratches Additional Comments:	<input type="checkbox"/> Excellent <input type="checkbox"/> Fair <input type="checkbox"/> Poor <input type="checkbox"/> Dents / Hail Damage <input type="checkbox"/> Rust <input type="checkbox"/> Chipped Paint <input type="checkbox"/> Faded Paint <input type="checkbox"/> Scratches Additional Comments:	<input type="checkbox"/> Excellent <input type="checkbox"/> Fair <input type="checkbox"/> Poor <input type="checkbox"/> Dents / Hail Damage <input type="checkbox"/> Rust <input type="checkbox"/> Chipped Paint <input type="checkbox"/> Faded Paint <input type="checkbox"/> Scratches Additional Comments:	<input type="checkbox"/> Excellent <input type="checkbox"/> Fair <input type="checkbox"/> Poor <input type="checkbox"/> Dents / Hail Damage <input type="checkbox"/> Rust <input type="checkbox"/> Chipped Paint <input type="checkbox"/> Faded Paint <input type="checkbox"/> Scratches Additional Comments:	<input type="checkbox"/> Excellent <input type="checkbox"/> Fair <input type="checkbox"/> Poor <input type="checkbox"/> Dents / Hail Damage <input type="checkbox"/> Rust <input type="checkbox"/> Chipped Paint <input type="checkbox"/> Faded Paint <input type="checkbox"/> Scratches Additional Comments:
<b>Options</b>	<input type="checkbox"/> Sunroof <input type="checkbox"/> CD Player <input type="checkbox"/> Air Conditioning <input type="checkbox"/> Upscale speakers <input type="checkbox"/> Cruise control <input type="checkbox"/> Leather Seats <input type="checkbox"/> _____ <input type="checkbox"/> _____ <input type="checkbox"/> _____	<input type="checkbox"/> Sunroof <input type="checkbox"/> CD Player <input type="checkbox"/> Air Conditioning <input type="checkbox"/> Upscale speakers <input type="checkbox"/> Cruise control <input type="checkbox"/> Leather Seats <input type="checkbox"/> _____ <input type="checkbox"/> _____ <input type="checkbox"/> _____	<input type="checkbox"/> Sunroof <input type="checkbox"/> CD Player <input type="checkbox"/> Air Conditioning <input type="checkbox"/> Upscale speakers <input type="checkbox"/> Cruise control <input type="checkbox"/> Leather Seats <input type="checkbox"/> _____ <input type="checkbox"/> _____ <input type="checkbox"/> _____	<input type="checkbox"/> Sunroof <input type="checkbox"/> CD Player <input type="checkbox"/> Air Conditioning <input type="checkbox"/> Upscale speakers <input type="checkbox"/> Cruise control <input type="checkbox"/> Leather Seats <input type="checkbox"/> _____ <input type="checkbox"/> _____ <input type="checkbox"/> _____	<input type="checkbox"/> Sunroof <input type="checkbox"/> CD Player <input type="checkbox"/> Air Conditioning <input type="checkbox"/> Upscale speakers <input type="checkbox"/> Cruise control <input type="checkbox"/> Leather Seats <input type="checkbox"/> _____ <input type="checkbox"/> _____ <input type="checkbox"/> _____
<b>Test Drive Comments:</b> There is a lot to consider when taking a test drive. Check out our used car Test Drive Tip Sheet.					

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## Used Car Test Drive Tip Sheet

### Used Car Test Drive Tip Sheet

#### Before you get into the used car:

- ☐ Check the trunk. Will it haul what you carry (golf clubs, baby stroller, etc.)?
- ☐ Make sure there is a spare tire, jack and tire tool.
- ☐ Check to see if there is an owner's manual.
- ☐ Check the windshield for chips or cracks and the wiper blades.

#### When you get into the vehicle:

- ☐ Is the car easy or difficult to get in and out of?
- ☐ Is there enough head room and leg room?
- ☐ Take a deep breath. Does it smell like a used car? Does it smell like smoke or dirt? Often these smells will not go away without constant air freshener to mask them.
- ☐ Check the interior. Does it look like a used car? Is it clean or spoiled? Consider that some spots will be difficult to remove.
- ☐ Look around and adjust the mirrors. Take notice of blind spots – your personal height, and positioning of the driver's seat determines the size of your personal blind spots.
- ☐ Can you easily reach and read the radio controls?
- ☐ Turn on the radio, turn up the volume and the bass and listen for distortion or buzz. This gives signs of blown speakers caused by abuse. Remember, you are only testing the sound system, don't leave on during the entire test drive – you may miss out on revealing noises or rattles.
- ☐ Lower and raise every window, and check the sunroof if the car has one.

#### During the used car test drive:

- ☐ Choose a route with stop-and-go driving and both smooth and bumpy roads. If you do a lot of highway driving, be sure to go on the highway.
- ☐ Before you take off, take a moment to notice how smoothly the vehicle changes gears (from Park, to Reverse and to Drive).
- ☐ When driving, concentrate on the driving experience.
- ☐ As you drive, notice how smoothly the car shifts gears. An automatic used car should shift smoothly.
- ☐ Feel the brakes, notice how fast or slow the brakes respond.
- ☐ Does the car vibrate under your seat?
- ☐ If it is a 4 Wheel Drive, engage it and feel how easily the system operates.
- ☐ How does the car feel when getting into and out of a parking place?
- ☐ Test the windshield wiper and washer operation. Don't forget to check rear wipers on used SUVs, station wagons and hatchbacks.
- ☐ Check the air conditioning and heater. Do they run efficiently?
- ☐ If the passenger(s) are talking, ask everyone in the vehicle to be quiet so that you can listen to the motor. Is it loud or quiet? Does it make unusual noises?
- ☐ When driving on a bumpy road, ask everyone in the vehicle to be quiet and listen for any unusual rattles or squeaks.
- ☐ Notice how straight the vehicle drives. If it pulls to the right or left, it may be in need of a front-end alignment, an expense you may incur. (Note: The grade of the road can affect how straight the vehicle will drive.)

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## Used Car Test Drive Tip Sheet

### After the used car test drive:

- ☐ Do the tires match? Tires should match on the same axle, and all should be equally sized and rated as per the manufacturer specifications.
- ☐ Use a rag to remove the oil filler cap. Does white smoke come out of the hole? If yes, you may want to move on to the next used car of interest.
- ☐ Look at the underside of the oil filler cap. Is there water, rust or sludge? If yes, you may want to move on to the next used car of interest.
- ☐ Pull out your used car comparison worksheet and jot down your thoughts of the car you just drove.

### Adverse Weather Conditions:

- ☐ Just because it's raining or snowing does not mean you should avoid looking at a used car. Test driving the car during these conditions will give you a good opportunity to try out how the vehicle drives in these conditions. Just make sure you also check the vehicle in daylight to check out the body condition, alignment, an expense you may incur. (Note: The grade of the road can affect how straight the vehicle will drive.)

**Call 1-888-227-7253 for the location nearest you.**

### About Enterprise Car Sales

Enterprise Car Sales is a division of Enterprise Rent-A-Car, the largest rental car company in North America. Headquartered in St. Louis, Enterprise Car Sales was founded in 1962 with the goal of bringing a new level of professionalism and unparalleled level of customer service to used car sales.

Enterprise Car Sales offers more than 120 makes and models of late-model, and low-mileage certified used vehicles. With more than 130 locations nationwide and thousands of used cars online, you're sure to find the one that's just right for you.

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## Appendix H:

### References & Resources

#### **NCUA's Letters to Credit Unions:**

Specialized Lending Activities, September 2004 – Letter NO.: 04-CU-13:  
<http://www.ncua.gov/letters/2004/04-CU-13.pdf>.

Federal Credit Union Compliance with FRB's Regulation B, October 15, 2010 to Trycera Credit Services: <http://www.ncua.gov/Resources/RegulationsOpinionsLaws/Opinion-Letters/2010/10-0974.pdf>.

Specialized Lending Activities, June 2005 – Risk Alert NO.: 05-RISK-01:  
<http://www.ncua.gov/Resources/RiskAlert/2005/05-RISK-01.pdf>.

Concentration Risk, March 2010 – Letter NO.: 10-CU-03:  
<http://www.ncua.gov/letters/2010/CU/10-CU-03.pdf>.

Static Pool Analysis: Evaluation of Loan Data and Projections of Performance, March 2006: <http://www.ncua.gov/Resources/RiskAlert/2005/StaticPoolAnalysis.pdf>.

Risk Based Lending, June 1999, - Letter NO.: 99-CU-05:  
<http://www.ncua.gov/letters/1999/99-CU-05.pdf>.

Risk Based Pricing Rule Changes Effective January 1, 2011, December 2010, - Regulatory Alert NO.: 10-RA-15: <http://www.ncua.gov/Resources/RegulatoryAlerts/Files/2010/10-RA-15.pdf>.

#### **Annie E. Casey Resources:**

"Affordable Car Ownership Programs: Transporting Families toward Financial Stability and Success," The Annie E. Casey Foundation: <http://www.aecf.org/KnowledgeCenter/Publications.aspx?pubguid={1C5930A7-CF55-48BD-83E0-8BAD700C1838}>.

"Pursuit of the Dream: Cars & Jobs in America," DVD, The Annie E Casey Foundation: <http://www.aecf.org/KnowledgeCenter/Publications.aspx?pubguid={01784F52-69A9-449A-8F9C-51FBE0C64E21}>.

"Pursuit of the Dream: Building Credit for Life," DVD, The Annie E Casey Foundation: <http://www.aecf.org/KnowledgeCenter/Publications.aspx?pubguid={88A05C44-A947-45DE-86D3-F23C860D6206}>.