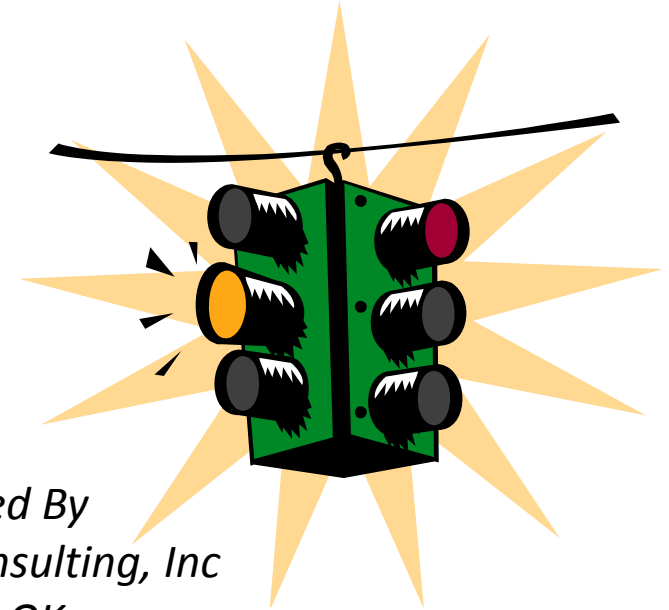


Used Car Loans and Low Wealth Borrowers

- The marketplace
- Valuations
- Predatory Dealers
- Xs Ys
- Who are low wealth borrowers



*Presented By
Menton Consulting, Inc
Tulsa, OK
918-495-1492
mandmmmm@aol.com*

Sponsored by:



Who are low wealth borrowers?

- Young borrowers just beginning a job
- Borrowers earning at or just above minimum wage
- Borrowers earning below median income levels
- Borrowers with heavier debt burdens/Credit Impaired
- Elderly
- Blue Collar workers
- African Americans
- Latinos

Gen X

- Primary market for auto loans
- First truly computer literate generation
- Would rather work for themselves than someone else
- Entrepreneurial
- Business lending, new/used autos, homes
- 29 to 49 year old
- 30 million

Gen Y

- More computer literate than Xers
- More entrepreneurial than Xers
- 10 to 28 year olds
- Large disposable income base - \$200 billion
- Credit/debit cards
- Shop Internet, Finance Internet
- 77 million

Subgroups of Gen Ys

- Net Generation
- Reagan babies
- Millennials
- Echo Boomers
- iGeneration
- Google Generation
- Nintendo Generation



Moments Defining Gen Y

- Challenger Explosion
- Fall of the Soviet Union
- First Gulf War
- Widespread use of computers and the Internet
- 9/11
- War on Terror
- Columbine High School Massacre
- 2004 presidential election was the first that Gen Y was able to vote in large numbers.

Other Cultural events tied to Gen Y

- Cabbage Patch Kids
- New Kids on the Block, Guns n Roses, MC Hammers
- Teenage Mutant Turtles
- The Simpsons
- The Return of Star Wars
- Tickle Me Elmo craze
- Beanie Baby craze
- Rise in electronic music – drum machines, computers
- Rise in on line journals or blogs
- Rise in Hip Hop

Technology Firsts for Ys

- The rise of the Internet
- PCs with modern operating systems
- Sophisticated computer graphics
- Cell phones
- Instant messaging
- DVDs
- MP3 players
- Tivo
- HDTV
- Broadband Internet

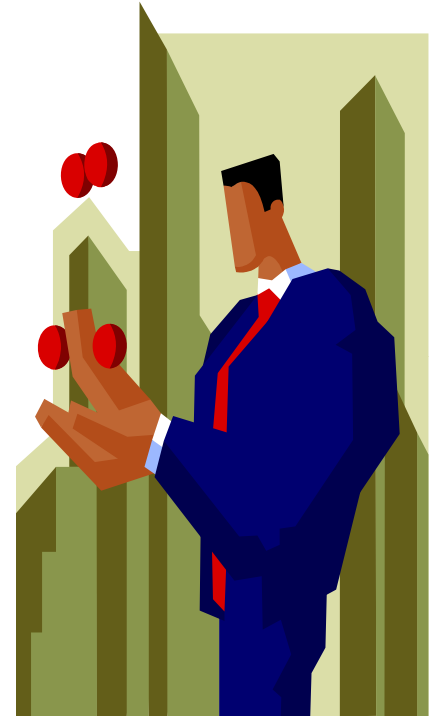
..More Technology Firsts

- Digital cameras
- Robotic and digital pets
- Camera phones



Baby Boomers

- 120 million
- Used a lot of retirement early
- Faced with depleted retirements
- May work into their 70s
- Live longer



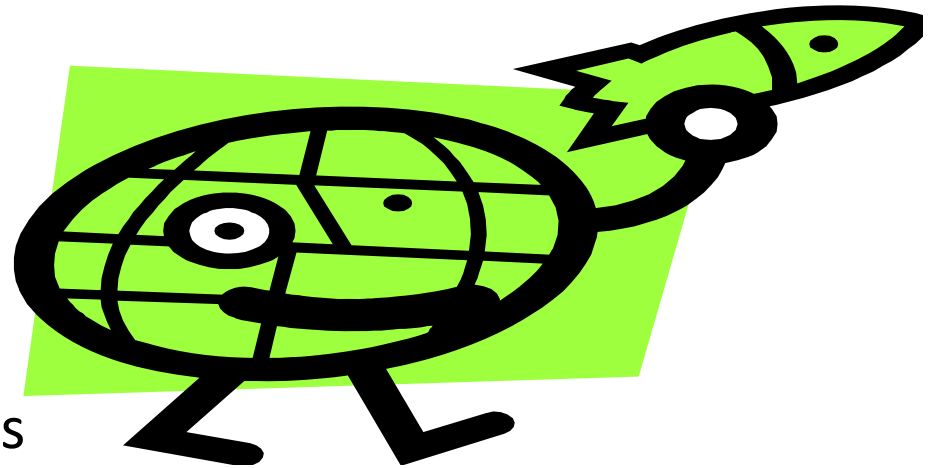
PFIs

Most People Choose Their
PFI by Age 25 - Stay
For 15 Years



Lending in Credit Unions

- Increased competition
- Fewer borrowers
- Regulatory scrutiny
- Technology explosion
- Will have to do more with less



How Do Credit Unions Compare?

2009 Interest Rates

Used Cars

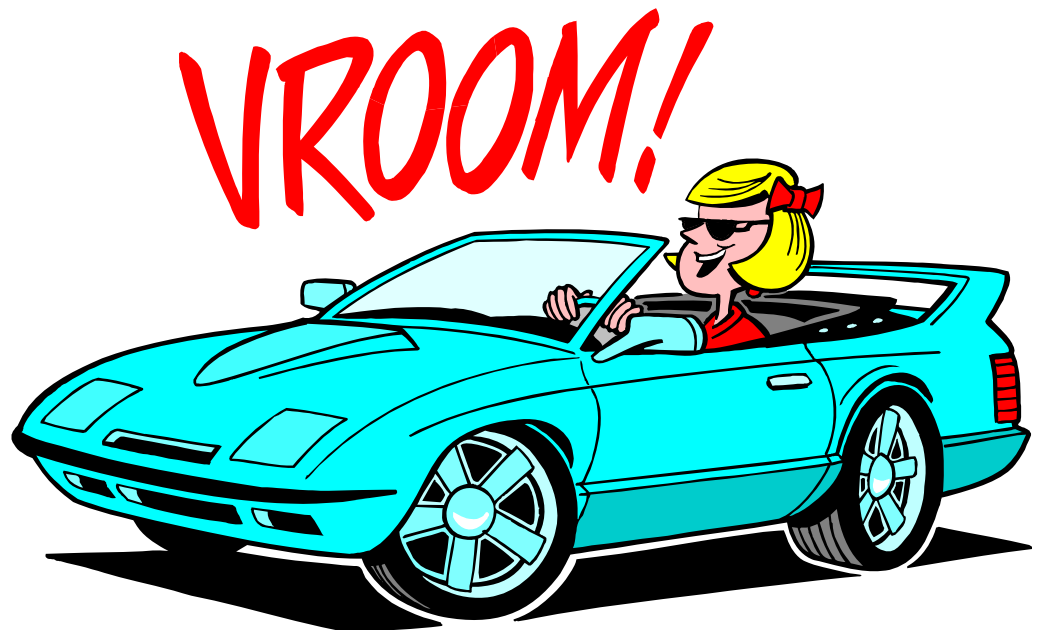
Banks – 6.8%

Cus – 5.4%

Personal Loans

Banks – 13.2%

Cus – 12.0%



Auto Loans

- Bread and Butter Loans for CUs
- 60 month maturity most popular since '86
- 86-87-885 Years
91-92-93.....
96-97-98....
- Direct – Indirect Lending - Strategy

Auto Loan Portfolios

New Car Loans

Used Car Loans

Auto Leasing

Balloon Auto Financing - Strategy

Valuating Used Cars

- NADA Book
- Loan, Trade in (Wholesale), Retail Values
- Don't overvalue
- Retail is for dealers – Negotiating start point
- What is car really worth to the CU if you have to repo?
- Add - ons
- Low mileage
- Used Vehicle Evaluation
- What is age of the car now and what will it look like at the loan's maturity
- Mileage
- Classic Autos

Terms

- 24, 36, 48, 60, 72, 84
- Dollar Limits
- Yugo to Suburban
- 100% Financing - Strategy
 - license
 - tax
 - any other incidentals

Used Car Loans

- Majority of Americans prefer to trade every 38 months
- Every time member returns to or calls the dealer the odds are increased of losing the financing
- Average initial finance duration at another FI – 51.6 months

Sub Prime Lenders

- Interest Rates 19-29% APR
\$15,000@24% APR (\$3,000 DP) =
\$391.22/mo Term 24 months
- \$15,000@8%(\$3,000 DP) = \$292.96/mo
Term 24 months

Underwriting

- 5 C's – Collateral, Character, Capacity, Conditions, Capital
- Age of vehicle
- 100% Financing for qualified
- Loss payable
- Restrictive endorsement stamp

Warning Signs of Carrying Too Much Debt

- Stressed every month about paying down your debt
- Member has more than one credit card and you can only afford minimum payments on each
- Member pays off other bills by taking cash advances against credit cards
- Member is unsure of how much combined debt they actually have
- Members live from paycheck to paycheck and can't afford to save
- Member has no savings account to fall back on in an emergency

...More Warning Signs

- Member is overwhelmed with student loans
- Member wants to buy a home but has no idea where to come up with a down payment
- Member has numerous check overdrafts
- Member's FICO is in the D or lower range
- Your member is counting every coin in their change jar as well as looking under the sofa cushions to find enough money to buy bread and milk

...More Warning Signs

- The member leases a car that they could not have afforded to buy using conventional credit union auto financing
- Compulsive shopping
- Member and spouse fight about spending or the amount of the charges on a credit card statement
- Member lies to spouse about how they spend money, or the member throws away the credit card statement that details the expenses
- Member has been denied credit

Other Concerns

- Involuntary allotments
- Threats of or ongoing legal action
- Utility disconnection
- Emergency leave
- Bounced checks
- Pay problems
- Debts in collection

Roles of the Loan Officer

Financier

- Determine how loans can be structured to meet your member's needs.

Counselor

- Understand the debts of your members and the problems they bring – suggest ways to handle debt.

Service Provider

- Besides handling loan needs, you may point out other credit union services that may help them as well.

Secrets to Saving Money

Without a savings plan, the chances of saving enough money to meet long-term financial goals are slim. Saving money requires smart buying, cutting costs, planning and understanding basic financial concepts like compounding interest, the Rule of 72 and the danger of inflation.

Frequency of Compounding

- Interest is compounded annually, monthly or daily.
- The more frequently compounding takes place, the faster your money will grow.

Example: \$5,000 in account at 10% interest.

- Compounded annually: \$12,968 in 10 years
- Compounded monthly: \$13,535 in 10 years
- Compounded daily: \$13,589 in 10 years

Rule of 72

The Rule of 72 is a computation used to estimate how long it will take a certain sum of money to double at a certain interest rate (assuming the interest is compounded annually). This rule can determine how long it will take your savings or an investment to double, or how long it will take a debt to double.

...More Rule of 72

- Divide 72 by the interest rate or expected rate of return. The result is the number of years it will take your money to double at that interest rate, assuming you reinvest your earnings.
- Ex: If money is invested at 8% interest. Calculate $72 \text{ divided by } 8 = 9$. It will take approximately 9 years to double.

Advice for Lowering Debt

1. Always determine how much you owe.
2. Pay attention to what you spend and how you justify it.
 - Don't say – “Oh well, what's another \$50?”
3. Always pay more than the minimum due on credit cards each month.

...More debt lowering

4. Put the credit cards away and rely on cash. Even little expenditures can add up.
We still need credit cards to buy on-line, reserve hotels, airline tickets or rent cars.
5. Pay off the smallest balance first. The member may be able to negotiate the rate down on high rate cards.

...More Debt Lowering

6. Cancel cards or close accounts when you pay off the balance.

** Do not close a credit card account that you have owned for years. Credit scores are based in part on how long you have owned the card in your name.

Financial Rules of Thumb

- Debt Rule – Member's total debt (not including mortgage) should be no more than 20% of annual take home pay.
 - Those with student loans probably do not meet this standard.

...More Financial Rules of Thumb

- Housing Rule – Spend no more than 30% of take home pay on housing or rent. This may differ depending on where member lives – i.e. large city or rural or escalating real estate markets.

More Financial Rules of Thumb

- The Savings Rule – Save at least 10% of your take-home pay each month. It is important to get the member to think of savings as a fixed monthly expense. Pay yourself first before paying bills.

There is nothing magical about 10%. It is a goal or target amount to aim for. Included in this money should be the money for short term goals as well as any funds put into a company retirement plan.

..Other Considerations

- Home buying
- 401ks
- Money market accounts
- Insurance
- Credit Card balance transfers
- Student loans
- Bankruptcy

Buying or Leasing?

- Most of the time, buying is the better option.
- If you are planning to buy there are two options:
 - Pay cash(most effective but least available to most people)
 - Finance all or part of the car

Leasing

- Can be difficult to understand
- Looks attractive because of the low monthly payment. In fact, a lease payment can be substantially lower than a corresponding loan payment.
- Leasing is similar to renting a car.
- When the lease expires, you turn in the car and walk away from it. Of course, when you buy the car you make the payments and then you own the car.

The Math/Comparison

Buying:

48 mo @ \$300/mo (DP of \$1,000) = \$15,440 total cost.

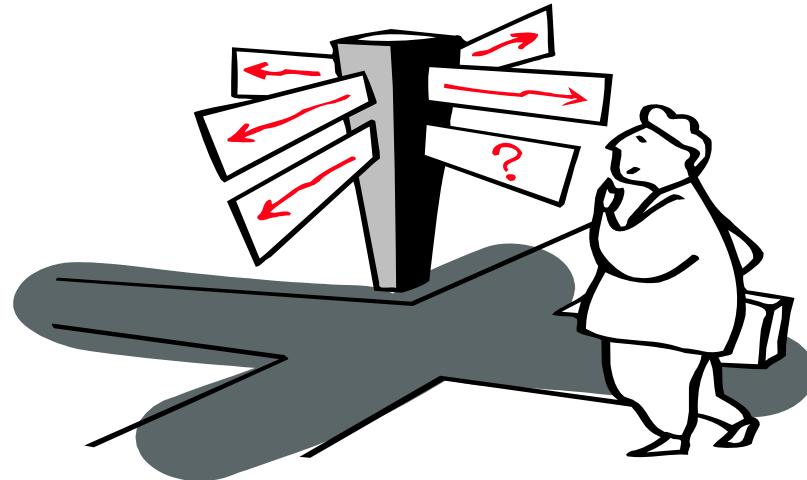
Lease:

48 mo @ \$250/mo (DP of \$1,000) = \$13,000 total
lease cost

** If you buy it, you own a car that will be worth more than the \$2,440 you saved by leasing. If you turn around and sell the car for \$6,000 after the last payment your total cost is only \$9,440, which is substantially less than the cost of the lease. Leasing is almost always more expensive than purchasing the car. \Source:AAA

Member May Benefit From Leasing

- You can write off your lease payment as a business expense.
- You drive less than 15,000 miles per year.
- You prefer to trade your car in every 3 or 4 years.
- You want to avoid the hassle of selling your used car.



Predatory Abusers

- Title Loan Companies
- Consumer Finance Companies
- Dealerships
- Small Dealers
- Captive Finance Co's - GMAC

What are the Scams

Yo-Yo Sales

1. Customer signs purchase contract
2. Give dealer trade in
3. Make down payment
4. Seller lets customer drive off the lot even though the financing is not 'final'
5. A day or so later customer gets call from dealer – “There’s a problem with the financing.”
6. He pulls the customer and the car back to the lot (like a yo-yo).

More Yo-Yo

7. He says the lower rates are not available anymore but how about a higher priced loan.
8. Customer says to cancel the deal and give back the DP and the trade in.
9. Dealer refuses to give back the DP and says your trade in has been sold.
10. Teach members not to drive off with any cars until the financing has been finalized.

...More scams

Bait and Switch Financing

1. Advertisement says wonderful cars are available at great prices and interest rates.
2. When you get to the car lot, you are told you don't qualify for that low rate- but how about buying this jalopy for 22% APR?

..More scams

Fraudulent Financing Apps Scam

1. A salesman wants to sell you a car but you don't qualify because:
 - insufficient income
 - no valid DL
 - size of the loan is out of whack with the car
2. Salesman fills in phony info on app and creates a fake DL. He presents a false statement to the lender adding options on the car it really doesn't have

...More Scams

...More Fraudulent Financing Apps

2. (cont.) The documents are sent to a bank or CU and you are approved.

Problems:

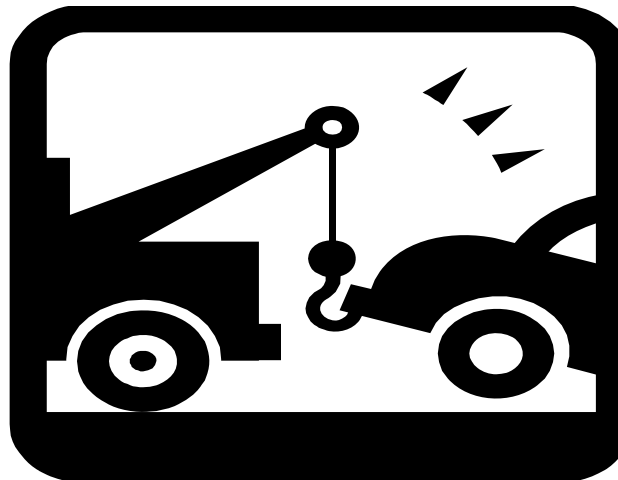
- you can't afford the loan
- loan is fraudulent
- if you knew about the fraud, you are guilty of fraud, also

...More Scams

Product Packing Scam

“Packing Loans”

1. Dealer adds ancillary products to the loan, usually without telling you, i.e. credit life, credit disability, GAP, extended warranty.



...More Scams

Dealer Reserve Scam

1. Financier says rate is 9% - This is the 'buy rate'
2. Dealer marks the rate to 12% and doesn't tell customer what the 'buy rate' is
3. The difference is called the 'mark-up'

Ex: On a \$14,000 used car loan hiking the buy rate from 9% to 12% could cost the consumer \$1200 additional over the life of a 36 month loan.

** There are many lawsuits pending in the U.S. over this problem.

...More Scams

Certified Used Vehicles

Some dealers will list cars as certified after they have had major damage, been in a flood, was a lemon buy back or the odometer had been rolled back.

Title Loan Lender

- Takes the car title on small loans as collateral
- Can now repo car if payment is missed.
- Loans are for 30 days. Payment must be made each month
- Similar financing to Payday Lender

Ex: \$400 loan

\$88 minimum monthly payment, not applied to principal. This makes the loan 264%APR.

Scam Case Study

Addie Coleman had some 'credit blemishes' on her record when she went to buy a car from Beamon Pontiac in Nashville, Tennessee.

The dealership faxed her loan app to GMAC. GMAC approved the loan at 18.25% APR. The dealership, however, wrote a different APR into the contract. They changed the GMAC rate to 20.75% APR.

It was a secret markup that over the course of the loan would cost Addie \$809 in finance charges – money she said could have been used to pay for her daughter's school, but instead was divided among some employees and managers at Beamon's and used to fatten the dealer's bottom line.

Reasons Used Car Buyers Abused by Dealers

- Customer has fewer options
- Customer has less financial experience
- Customer has a diminished sense of marketplace entitlement making them more desperate or susceptible



Subprime Market

- Americredit is the nation's largest lender to car buyers with patchy credit – involved in class action suits against it.
- \$125 Billion annually
- 19% - 29% APR

Some Strategies Used By CUs

“Ask Hank”

1. Member meets with a loan officer to establish a preapproved loan amount. Then Hank (an experienced, former dealer finance manager) interviews the member to find good deals. He is an expert at auto buying and sales. Hank interviews the member to determine the vehicle make, model, year, color, and other custom features. Then Hank is off shopping for the best deal.
2. When the member agrees on a good deal, the loan department does the paperwork, contacts the member to complete the paperwork.
3. Hank retrieves the vehicle from the dealership and has it waiting for the member at the credit union. In some cases delivers it to the member at home.

...More Car Loan Strategies

- Rate Reduction Loans – Relationship Financing
- .25 off for having a checking account or mortgage, or credit card.
- Many credit unions allow more than one product to be used toward the rate reductions. For example some are discounted as much as .75.

Recapture Programs

- Send list of criteria to Credit Bureau to run against members segmented by different criteria.
- List comes back from Bureau showing those who have bought recent autos – new and used.
- Credit union makes an offer to them to come to the CU (to match or better their rate) and/or the CU provides a cash offer (i.e. \$200 to refinance with the CU paid at closing).

“Lifetime Auto Loan”

- An open end lending agreement
- Loan preapproval check at 6 month intervals after the original auto was bought.
- A regular statement is sent to the member showing the member’s current preapproved amount, the current auto loan balance, the car’s trade in balance and the member’s equity in the car.
- The equity statement shows the member when it might be time to trade in that vehicle
- Repeated contact with the member is key.

Smarter Direct Mail

- Credit union preapproves auto loans and notifies members by mail of the available credit amount and rate offered.
- By way of credit scores members are tiered into 5 pricing categories.
- Direct mail is highly personalized and demographically targeted
- At this credit union loans for used cars up to 7 yrs old carry the same rate as for new cars
- The credit union has used additional incentives - \$50 gas cards or rate reduction.

Gas Card Incentives

- Credit Union offers a \$50 gas card for members who purchase vehicle at particular dealers.
- Credit union is able to get the dealers to split or put up the money for the gas cards to get the business in the door.

Questions???

Any questions?

Thank you.