



NATIONAL AUTOMOTIVE FINANCE ASSOCIATION

Standardization of Supplement Financial Reporting STANDARD

The following is the standard that each member of NAF Association should strive to achieve. It is understood that due to the limitations in systems and the availability of historical information, much of this information may not be available at this time. However, NAF Association members should be committed to developing this reporting and adhering to these standards. We are considering a certification for those members who achieve this standard.

Delinquency

Unit delinquency should be categorized by the number of payments past due. For example, an account with two payments past due would be categorized as 31-60 days past due. An account with three payments past due would be categorized as 61-90 days past due, etc. In each category, the total accounts past due should be divided by total accounts outstanding. This should include all accounts that have not been charged off in both the numerator and denominator including skips and bankruptcy accounts

Dollar delinquency should be reported as the total principal of the accounts delinquent divided by the total principal outstanding. The accounts should be the same accounts as in unit delinquency.

A payment should not be counted as collected until at least 90% of the payment has been collected.

A bankruptcy should be included in delinquency, both the numerator and denominator, until it is charged-off. If a bankruptcy account is "crammed down," the amount the balance is reduced by should be charged-off, but the account should continue to be reflected in delinquency. Like all other accounts, any part or all of a bankruptcy account should be charged-off once it is deemed un-collectable.

Extensions

An extension policy should be in place and followed. The reason for an extension should be traceable and legitimate, for example, a temporary problem such as medical expenses or temporary unemployment. Extensions should be approved by management, not collectors. A signed agreement should be obtained or some evidence that the customer is aware the extension is taking place such as the collection of an extension fee.

Extensions should not exceed one month for every six months of expired term.

Three months should be the maximum length of a single extension.

There should be a minimum of three payments made between extensions.

A guideline for the average number of monthly extensions should be 1.5% of accounts outstanding for any twelve month period.

Due date changes, payment date changes less than a full month, are not counted as extensions but should only be used to establish a more appropriate due date for the customer, not as a cure for delinquency.

Credit Losses

A charge-off policy should be in place and followed. Accounts should be charged off once deemed un-collectable or when they become 150 days or more past due, whichever is sooner. Bankruptcies, as long as they are deemed collectable, may be carried for up to 180 days.

Discounts should be shown in financial statements. They could be shown as a component of the loss reserve with full disclosure of any changes in the

amount or as an amortizing account with full disclosure of any increases and decreases.

Credit losses should be reported in detail showing the gross loss at time of repossession; auction proceeds; rebatable proceeds (i.e. Credit life, disability, and warranty rebates); recourse to dealers; default insurance; VSI Insurance; and charge-offs net of recoveries.

Loss reserves need to be established for at least 12 months of projected losses.

Repossession losses should be estimated and charged-off at the time of repossession and adjusted once disposal is completed.

We are establishing the Lifetime Credit Loss Rate as the standard measure of the quality of paper a non-prime finance company manages. This will replace the A, B, C, D measures that are used (or misused) today. We have two different methods for determining your Lifetime Credit Loss Rate. The first is the Default Method and utilizes a projected lifetime unit default rate and severity percentage (average net loss per unit as a percentage of original principal). The product of these two numbers is the Lifetime Credit Loss Rate.

In addition, you may use the Dollar Loss Method. In this method, you determine the Projected Gross Loss Percentage and the Projected Gross Loss Severity Percentage. The product of these two numbers is also the Lifetime Credit Loss Rate.

In either instance, the Lifetime Credit Loss Rate should be developed for all segments of your business and disclosed in all financial reporting. These numbers should be shown before application of discounts, reserves, default insurance, VSI Insurance, or dealer reserves.

Static Pool

Static pool analysis should be presented in prospectus and all financial disclosures. Static pool reporting should be by month or quarter and any other significant characteristic of your portfolio, i.e., new vs. used, term, state, program, etc.

Gain-on-Sale

The information requested in the gain-on-sale section of the Reporting Standard should be provided for each securitization. In addition, this should be disclosed in all financial reporting.

Standardization of Supplement Financial Reporting INSTRUCTIONS

Please complete the attached questionnaire. Once completed, begin filling in the Reporting Standard information. Please note that the "Type" at the beginning of each section of the Report Standard is determined by taking the Letter number combination from each section. For example:

I. Delinquency/Credit Losses

Question Letter	Question Answer
A	1
B	3
C	2
D	4
E	1

The "Type" for the "Delinquency" section of the report would be: A1B3C2D4E1

This was developed by the rating agencies and securities analyst as a way to quickly determine what is in the numbers that are presented.

All sections except Portfolio and Gain-on-Sale should be completed based on all managed/serviced receivables with all charge-offs, extensions and similar policies applied consistently regardless as to whether the portfolio has been sold or not. The data in the Report Standard should match the answers provided in the questionnaire. If you are unable to report all portfolio pools (owned/serviced) in the same manner, you will need to provide reporting on each pool. For example, if you record charge-offs on a securitized pool at a different time than the portfolio you own and you can not restate to the same timing for each pool, you will need to report each pool separately.

Portfolio

“Managed” represents the entire portfolio that you manage or service including securitized portfolios. “Owned” represents the amount of the portfolio that is presently on your books. It would exclude any portfolios that have been sold through securitization or any other means.

Delinquency Percentage

In addition to your normal method of reporting delinquency, please complete the “Total Over 30 incl. Bankruptcy & Skip.” In both the Unit and Dollars section, “Total Over 30 include. Bankruptcy & Skip” section, as described, should include all accounts that have not been charged off including bankruptcies and skips. If you already include bankruptcy and skips in delinquency, then there is no need to have a separate heading.

Bankruptcy

Both the Units and Dollar of this section are requesting “New in Month” which is the amount of new bankruptcies in the month and “Outstanding” which is the amount of bankruptcies that have not been charged-off.

Extensions

The term “Months Extended” refers to the number of months that an account was extended for that month. For example, “1 Months Extended” should be the number of accounts that received a one month extension in that month. “2 Months Extended” represents the number of accounts that received a two month extension in that month.

“Total Accts. Ext. O/S” represents the total number of accounts outstanding that have been extended.

The “Extension Rate” represents the “Total Accts. Ext.” divided by the total accounts outstanding

“Defaults on Ext Acct.” is the number of defaults that have occurred that month that have been extended.

“Due Date Change” is a change in the customers date of payment during the month. For example, if a customers payment is due on the 5th and you change it to the 10th, it is a due date change. This is different than an extension which changes the customers due

date from the 5th of one month to the 5th of another month for example.

Losses

“Gross Loss” is the amount of principal that is due at the time a vehicle is repossessed. This is only for repossession, charge-offs are handled below.

“Sale Proceeds” are the amount of proceeds that are received from the disposal of the repossession.

“Rebatable Items” are the proceeds received from the request from rebate on all rebatable items. For example, credit life Ins., disability Ins. or warranty.

“Recourse to Dealer” are any proceeds from a dealer as a result of the repossession. This could be a full or partial reimbursement for the loss paid by the dealer.

“Default Insurance” is any collection from a default insurance company on a default.

“VSI Insurance” is the reimbursement for losses received from a VSI Insurance company on a default.

“Net Loss on Repo.” is the Gross Loss less the Sales proceeds, Rebatable Items, Recourse to Dealer, Default Insurance and VSI Insurance.

“Charged Off Accts/Other” represent any losses where the collateral was not recovered such as skips and abandonments. This number should be net of any recoveries.

“The Loss before Expenses” is the Net Loss on Repo. plus the Charged Off Accts/Other.

“Repossession Exp.” are any out-of-pocket expenses that are associated with the repossession, such as auction fees, repossession agent fees, shipping expenses.

“Repossessions” are the total number of repossessions that occur in the month.

“Charge-offs” are the total number of charge-offs that occur in the month.

Average Losses should be based on repossessions that have been disposed. These should be the averages of

IV. Losses

A. Over what periods are estimated losses determined for reserve purposes? ____

- 1) Three months
- 2) Six months
- 3) Nine months
- 4) Twelve months
- 5) Estimated time between securitizations
- 6) Other, please describe:

B. How are future loss estimates determined? ____

- 1) Historical average
- 2) Historical weighted average
- 3) Other, please describe:

C. Which of the following are used as predictive loss measurements?

- 1) Credit scores
- 2) Bankruptcies
- 3) Historical Performance
- 4) Other, please describe:

D. Please describe your methodology for determining loss reserves.

E. What is your company policy on the maximum number of days an account can be past due before it is charged-off? ____

- 1) 90 days
- 2) 120 days
- 3) 150 days
- 4) No policy
- 5) Other, please describe:

F. When do you recognize a loss? ____

- 1) At the earlier of repossession, determination that it is un-collectable, or the maximum delinquency policy.
- 2) At the earlier of disposal or the maximum delinquency policy.
- 3) At the maximum delinquency policy.
- 4) Other, please describe:

If you haven't done a securitization, please skip this section and go to section VI. Static Pools.

V. Securitizations

A. Do your securitizations include any accounts that have been rewritten? ____

(A rewrite is a change in an accounts payment amount or term that is beyond your standard extension policy excluding bankruptcies.)

- 1) Yes
- 2) No

B. Do you document exceptions to your underwriting standards for securitizations? ____

- 1) Yes
- 2) No

C. Your extension policy for securitized accounts is ____ your non-securitized accounts.

- 1) More restrictive than
- 2) Less restrictive than
- 3) The same as

D. If C is not the same please describe below.

E. How are your securitizations structured for GAAP? ____

- 1) Financing
- 2) Sales
- 3) Both

F. How are the retained interests classified? ____

- 1) Trading Securities
- 2) Available for Sale Securities
- 3) Other, please describe:

G. Do you use a different rate to discount the loss assumption in your securitization? ____

- 1) Yes
- 2) No

H. Which of the following have you recorded related to the normal servicing fee component? ____

- 1) Servicing asset
- 2) Servicing liability
- 3) Neither A or B because net servicing income is immaterial
- 4) None of the above due to:

I. What internal costs have been included in your estimate of the costs to service?

List _____

J. My cost to service on a per loan basis is \$ _____.

VI. Static Pool Policies

A. We track losses through ____.

- 1) The static pool methodology
- 2) Other, please describe:

If the answer to Question A is 1, please proceed to the next question. If not, you are finished. Thank you.

B. How are your static pools maintained? ____

- 1) Loan by loan
- 2) Monthly
- 3) Quarterly
- 4) Other, please describe:

C. Which of the following additional characteristics do you track your static pools? ____

Note: Multiple answers are acceptable, just list all that apply.

- 1) Credit Risk
- 2) Credit type
- 3) Term
- 4) State/Region
- 5) Program
- 6) None
- 7) Other, please describe:

Thank you.

the vehicles disposed of that month. This could be different from your method of reporting portfolio losses because the average will not be calculated until the vehicle is disposed.

Lifetime Percentages are to represent the percentages based on your Managed Portfolio and New Originations. If your portfolio is made up of different segments of business or there has been a significant change in your portfolio, you may want to show these percentages for each segment.

“Projected Default Rate” should be the projection of the total number of accounts that should default (repossession and charge-off) over their entire life for the business originated in that period.

“Projected Severity Percentage” should be the projected average loss per default over the life of the contract.

“Projected Credit Loss Rate” is the product of the Projected Default Rate and Projected Severity.

The following is another method of determining your Projected Credit Loss Rate.

“Projected Gross Loss Percentage” represents the total losses expected on a pool before any recoveries of any kind divided by the original amount financed of the pool.

“Proj. G.L. Severity Percentage” represents the percentage loss on the projected gross loss.

“Projected Credit Loss Rate” is the product of the Projected Gross Loss Percentage and the Proj. G.L. Severity Percentage.

Securitization/Gain-on-Sale

“Pct.” will be the percentage that the Number is of the corresponding total for example Net Losses will be divided by total receivables at the time of securitization. Unit Defaults will be divided by the total number of units in the original securitization.

“ITD Actual” is the actual experience on the securitization from inception-to-date.

“ITD Projected” is the inception to date portion of the original projection.

“Better/(Worse)” is the amount the ITD Actual is better or worse than the ITD Projected, for example higher net losses are worse and higher gain-on-sale is better.

“Original Projection” should be the numbers used for the securitization at origination.

“Present Projection” is any update to the Original projection based on experience and should include all actual and newly forecasted information.

“Better/(Worse)” is the amount and points that the Present Projection is better or worse than the Original Projection, for example higher net losses are worse and higher gain-on-sale is better.

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REPORTING QUESTIONNAIRE

I. Delinquency

A. When reporting an account delinquent, do you _____. For example if your customer has a payment due on February 1, is it 31 days past due on March 3 (answer 1 assuming it's not leap year) or on March 1 (answer 2)?

- 1) Count the exact number of days past due
- 2) Count the number of payments past due
- 3) Other, please describe:

B. When reporting dollar delinquency percentages, we divide _____.

- 1) The total principal of accounts past due by total principal of active accounts
- 2) The total payments delinquent by total principal of active accounts
- 3) The total payments past due divided by total payments
- 4) Other, please describe:

C. What percentage of a payment must be collected to count the payment as collected? ____

- 1) 100%
- 2) 95%
- 3) 90%
- 4) 85%
- 5) Other, please define:

D. When reporting delinquency, bankrupt accounts are ____.

- 1) Not included in the numerator or denominator.
- 2) Included in the numerator or denominator, if they are not charged off.
- 3) Not included in delinquent accounts (numerator), but are included in outstandings (denominator)
- 4) Other, please describe:

E. What delinquent accounts are not shown in delinquency that have not been taken as a loss (i.e., all or partially charged-off). ____

- 1) None
- 2) Skips
- 3) Other, please describe:

II. Bankruptcy

A. Bankrupt accounts are _____.

- 1) Segregated from active accounts, but no portion is charged-off until they are "crammed down" or deemed uncollectable.
- 2) Charged-off and future proceeds are counted as recoveries
- 3) Other, please describe:

III. Extensions

A. Do you have a documented extension policy?

- 1) Yes
- 2) No

If yes, please list acceptable reasons for extensions.

B. What is your policy for the maximum frequency of extensions? ____

- 1) One extension a year
- 2) One extension every six months
- 3) One extension for every 6 months of term
- 4) One extension for every 3 months of term
- 5) Other, please describe:

C. What is the limit of months that can be extended with any one extension? ____

- 1) One
- 2) Two
- 3) Three
- 4) Other, please describe:

D. What is your limit of payments between extensions? ____

- 1) None
- 2) Three
- 3) Six
- 4) Other, please describe:

E. What is your limit on the average number of accounts that can be extended in any one month over a year? ____

- 1) None
- 2) Less than 1% of the number of accounts outstanding
- 3) Less than 1.5% of the number of accounts outstanding
- 4) Less than 2% of the number of accounts outstanding
- 5) Other, please describe:

F. Do you count due date changes (payment date changes less than 30 days) as extensions? ____

- 1) Yes
- 2) No

G. Do you charge a fee for extensions? ____

- 1) No
- 2) Interest only
- 3) Fee only
- 4) Both a fee and interest
- 5) A fee or interest
- 6) Other, please describe:

H. Do you track extension performance separately? ____

- 1) Yes
- 2) No

If yes, please list what items you track

