



INNOVATIONS ROUNDTABLE SUMMARIES

Portfolio Purchasing/Sales Group Recap

1. Communication with portfolio sellers (dealers and financial institutions) has been easier, because they will listen to someone who is truly interested in buying their paper and not just closing the door.
2. “There are no bad deals, only bad pricing.” A portfolio pricing gap exists between buyers and sellers, as sellers have not fully realized the pricing deterioration due to market conditions and uncertainty.
3. Subprime is a toxic word right now for investors unfamiliar with the auto marketplace. Analogies seem to be made to the mortgage market and deals are perceived as more risky.
4. The recent Americredit deal may signal some easing of the credit markets for auto finance companies.
5. Job security is an issue for some employees of auto finance companies. Communication with staff is paramount so that employees know how their firm differs on many of the issues that mortgage and other finance companies are facing.
6. Portfolio sellers are plentiful and firms with money can pick and choose the best deals.

Action Steps

1. Manage capital partners by clearly differentiating the auto market from the mortgage market. Provide market data and portfolio performance proactively to investors.
2. Proactively keep communication channels open for employees and customers to prove that you are “in the game” for the long-term.
3. Stay open to different opportunities while waiting for sellers to recognize that current market situations have depressed pricing.

Mike Sheridan, President
Global Debt Network Automotive

Sales and Operations Staff Compensation and Incentives

1. What is your #1 staffing issue and what ideas does the group have for resolving that issue?
 - a. People are worrying they might lose their job because of industry changes and layoffs
 - i. Idea---make sure they are told that their service is needed
 - b. People are asking what the new company goal is if it isn't volume anymore
 - i. Idea—set clear goals that everyone can focus on
 - c. Keeping people motivated that aren't getting paid or have lower pay than before
 - i. Idea—give them specific things to focus on and reward on accomplishing those things
 - d. Finding quality people that are suited for the position offered....need closers
 - i. Idea—use personality testing before interviews in order to weed out those who can't close deals
 - e. Hiring freezes—no money for more FTE's
 - i. Idea—explain to existing staff and distribute work between them
2. What kind of incentive package can you offer to your associates that will keep them satisfied with the company and productive?
 - a. Competitive base even as the market is adjusting
 - b. Build in incentives that are not monetary but that build their skills and competencies
 - i. Mentor programs
 - ii. Coaching programs
 - iii. Flexible working hours
 - c. Restructured commission that allows them to make something as opposed to nothing
3. What are you doing to show the associate that they can have confidence in the company?
 - a. Keeping mgmt informed
 - b. Being forthright about developments
 - c. Giving all information in a direct and concise manner so as to allow your associates to make the decision whether they can work with company or not
 - d. Reinvest any surplus back into small things like bringing lunch in for associates...show them that you care to invest your earnings even if they are smaller on them
4. What can you do to attract the right associates with applicable skills and competencies?
 - a. Referrals are the best source.....usually HR waits 90 days to give bonuses for referrals....so give them right when you hire someone's referral
 - b. Rethink/rewrite all recruiting items and job descriptions to fit the changing market and what you are looking for today

Deborah Malinowski, National Sales Director
drive financial services

Independent Dealership/Auto Financing Market

The group agreed that the average dealership being discussed had 5 employees or less and an average of 25 vehicles on its lot. That was the general stereotypical dealership. The perception is that there are about 1,000 independents that do business “just like franchise dealerships without the OEM nameplate”.

Q: What are the three main considerations for doing lending business with independent dealerships?

The group had these comments:

What lenders need to consider when signing up an independent dealership:

- 1) Dealership capitalization
- 2) Dealership financial analysis
- 3) How long has the dealership/dealer principal been in business?
- 4) Reference check (auctions, suppliers, creditors, etc.)
- 5) Dealer principal personal guarantees

Considerations and concerns for loan originations in the *independent market:

- 1) Higher probability of fraudulent deals
 - a. Fraud = misrepresentation of customer identity, customer income, vehicle value, etc.
 - b. Straw purchases
- 2) Higher probability of dealership going out of business therefore propagating fraudulent deals and leaving the lender on the hook
- 3) Poor loan documentation preparation causing slow funding time and friction between lender and dealership
- 4) Rehashing every deal to get a better call or rehashing every turndown with dealerships that have the “every deal is a favor” mentality

*The perception is that doing business in the independent dealership market is equivalent to making subprime loans.

Mitigations to the risks for lenders doing ongoing business in the independent market:

- 1) Validation of items on the credit application to prevent fraud
 - a. SS# validations
 - b. Red Flag Rules enforcement by the dealership
- 2) Training dealership to use the checklist provided by the lender for retail originations
- 3) Annual due diligence on dealership financial status
- 4) Cover relevant statistics (L2B ratios, credit quality, etc.) with dealerships
- 5) Mine lender data from existing dealership portfolios and price accordingly
- 6) Cut off dealerships that propagate fraud

Creative solutions include:

- 1) Lender database of phone numbers to eliminate phone drop #'s
- 2) 20 Group for lenders to discuss best practices
- 3) Risk/pricing management all the way to the dealership level
- 4) Better portfolio performance reporting by lenders (mining portfolio data) to identify problem areas
- 5) Track dealership employee histories, those that have tainted histories

Kevin Kopp, Director of Indirect Lending
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Payment Processing/ NAF Operations Survey

Survey Summary: Survey responses covered the 8-month period January – August, 2007. Response rate was 24% (12 of 51 potential respondents).

Processing of Returned Payments

- Most companies are re-clearing paper and electronic NSF (non-sufficient funds) checks.
- One respondent did not re-clear at all and instead initiated an immediate direct collections effort.
- One respondent was in the process of implementing a new outsourced methodology to convert NSF paper and ACH (automated clearing house) checks to electronic debits that are re-presented on a strategic basis.

Collection of NSF Fees

- 83% of respondents are collecting NSF fees.
- All respondents that collect NSF fees add the fee to the next monthly statement and collect it with the next monthly payment.
- One respondent was in the process of implementing a new outsourced process to collect the NSF fees automatically at the same time as the base payment, i.e., within 5 – 10 days of receipt of the initial check.

Automated Return Check and NSF Collection Process

- All returned paper checks are converted to electronic ACH for re-presentation.
- All electronic items take priority in presentation and enable two re-presentments rather than one allowed for paper checks.
- Customized algorithms allow strategic re-presentation to maximize collection rate of both underlying payment as well as NSF fee (may double collection rate on re-cleared checks).

Benefits of Outsourcing Automated NSF Collection Process

- Bank “re-clear fees” on re-presentments are eliminated.
- Bank “NSF fees” on unsuccessful re-presentments are eliminated.
- Collector time is eliminated for successful collections.
- Collection resources can be allocated to more serious delinquencies.
- Cash flow is increased and interest expense is reduced by collecting more returned check payments and collecting them faster.
- Additional payment(s) collected on some accounts that will default.
- Repossession on some accounts may be accelerated by intensifying the collection effort on the first returned check.

Group participants discussed a number of aspects of payment processing and collections:

- Some finance companies stop taking checks if there is a returned item within first 3 – 6 months – require guaranteed funds thereafter
- ACH fees are assessed on phone payments, but one company found an increase in delinquency due to customer resistance to these fees even at \$12 to \$20 level
- While some companies allow collectors to take credit card payments, concerns are raised about protection of the credit card data privacy and whether collectors will assess unauthorized charges in future months to reduce delinquency or not control privacy of information
- Collection integrity is based on following up and enforcing on broken promises regardless of the payment collection policy and technologies employed
- Use of Western Union and third party guaranteed payment structures is a critical tool to get customers to cover returned items quickly
- NSF and ACH fees are good fee income but must be used and negotiated as part of overall strategy of keeping the customer paying on the vehicle

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