

# NON-PRIME TIMES

NATIONAL AUTOMOTIVE FINANCE ASSOCIATION • 7250 Parkway Drive, Suite 510 • Hanover, MD 21076  
800/463-8955 • FAX 410-712-4038 • E-MAIL [JTracey@nafassociation.com](mailto:JTracey@nafassociation.com)

FALL, 2007

## 12TH ANNUAL CONFERENCE

The 12th Annual Non-Prime Auto Financing Conference will be held June 4 to 6, 2008 at the Renaissance Worthington Hotel in Fort Worth.

The NAF Association is committed to offering professional education opportunities to creditors and dealers. Programs are open to both members and non-members.

The conference is planned by NAF



Association members who work in the industry, and they select topics and speakers that are timely and relevant. Suggestions are welcome. Contact [jtracey@nafassociation.com](mailto:jtracey@nafassociation.com)

Program details and registration information will be posted on the website as it becomes available.

Check [www.nafassociation.com](http://www.nafassociation.com) for updates.

## THE STATE OF THE SUBPRIME AUTO LENDING MARKET

### Does the subprime auto finance business share the difficulties of its housing industry counterpart?

While subprime consumers in both mortgage lending and auto finance share common risk characteristics, the nature of the transactions is distinctly different. Some important differences between mortgage lending and auto finance are as follows:

- Automobile financing transactions are primarily simple interest transactions at fixed rates for the duration of the contract.
- Teaser rates have not been a feature used by auto financing sources to market their product. Below market rates are frequently offered, however they usually apply to the entire term of the contract.
- The payment amount is consistent over the life of the contract (except for balloon financing, and with most balloon financing programs, the cus-

tomor has the right to refinance the balloon payment amount at the contract rate).

- Contract terms are traditionally 72 months or less.
- The amount financed is much smaller than a typical home loan.
- Documentation and verification of employment and income have consistently been applied to auto credit applications.

The current difficulties in mortgage delinquencies and foreclosures have generally not carried over to the auto finance segment as a majority of non-prime auto customers do not own homes. The NAF Association's member companies report that approximately 30% of their borrowers are homeowners. Since only about 38% of mortgages are adjustable rate mortgages, it is clear that the impact is limited.

### What about increasing delinquency and repossessions in the subprime

### auto finance sector?

Subprime auto finance companies commonly have business models and pricing expectations that have tolerances for delinquencies and losses. There is currently no strong indication that these levels exceed established tolerances on these business models. Competition remains strong providing sufficient sources for auto financing both directly to the consumer and through dealers.

Overall, subprime auto financings are performing well.

According to a September 20, 2007 report by Citigroup, "Aggregate subprime performance is slightly weaker in comparison to 2006, but it is still strong compared to five-year historical average levels."

The study reinforces that "Disciplined underwriting, relatively small loan size and the fact that cars are essential

CONTINUED ON PAGE 3

## EXECUTIVE DIRECTOR'S MESSAGE



This year's annual Non-Prime Automotive Financing Survey generated more than the usual number of press inquiries and resulted in mentions in news stories in the U.S. and Europe. The survey reported an increase in delinquencies over last year — an average of 11.6% in number of vehicles and 11.3% in number of dollars. The financial press, already focused on the delinquency disaster in the mortgage market, wondered if there was a connection. We were able to dispel the concern, referring them back more than a decade to the time when the auto finance industry suffered the "correction" the mortgage industry is undergoing.

The 2007 Survey had the greatest number of respondents to date — 28 — with fully half of them new to the survey. Usually the mix of small/medium and large companies is about even; this year about 70% were small/medium. The mix of respondents and the fact that respondents change from year to year are, at least partially, responsible for the change in delinquencies.

The feature article in this month's newsletter was written in response to the inquiries we are all getting from press and customers about the state of the market.

We have also developed an operational survey and urge all members to complete it and return it to BLC Associates. If this proves to be a valuable tool, we will repeat it on a regular

basis. If there are questions you think would benefit association members, please let me know. Refining the survey will help assure that it provides a service to members.

Finally, we will be returning to the Renaissance Worthington Hotel in Fort Worth for the 12th Annual Non-Prime Auto Financing Conference. Please check your calendar now and reserve June 4 to 6, 2008 to attend.

The NAF Association is managed by its members. It is truly your Association. Is there something you would like to learn? contribute? Contact me at 800-463-8955 or [jtracey@nafassociation.com](mailto:jtracey@nafassociation.com).

## MEMBER PROFILE: van Wagenen LENDERS, ARE YOU LEAVING MONEY ON THE TABLE?

### You are if you're not reducing charge-offs and recovering easy cash

Sure, it takes time, money and patience to chase after primary insurance proceeds on repossessed vehicles. Sometimes it's just easier to wash your hands of it. Or is it?

RecoveryPro is a specialized, affordable asset protection program created by van Wagenen, that delivers a cost-effective solution for auto lenders seeking to maximize the recovery of insurance proceeds on damaged, repossessed vehicles, thereby reducing charge-offs.

With more than 30 years of Insurance Tracking and Lender-Placed Insurance experience, van Wagenen saw an opportunity to utilize its expertise, technology, and claims expe-



rience to monitor repossessed vehicles, verify insurance, appraise the vehicle for damage and collect any primary insurance proceeds ... all of which requires very little effort on the part of the lending institution.

"It's fast and it's seamless", explains van Wagenen President Mary Wood. "Whether you have given up on collecting any of these insurance claims, or only manage to track down a few, we know by simply integrating with your remarketing system, we can reduce your charge-offs by identifying and recovering any available primary

insurance proceeds on repossessed vehicles."

For those clients already using van Wagenen for their Insurance Tracking or Lender-Placed Insurance needs, RecoveryPro is another tool they can use in the fight to control physical damage losses on collateralized loans. "It is just one more service we offer that helps reduce losses for our lenders," says Mary. "van Wagenen is already known for outstanding customer service and superior technology, now we can now easily integrate this additional cost saving solution into our Insurance Tracking or Lender-Placed Insurance programs. Whether you are an existing client or considering our services, RecoveryPro, when combined with other products, provides the full pack-

CONTINUED ON PAGE 4

## STATE OF SUBPRIME ... FROM PAGE 1

assets for most consumers limit the probability of default on auto ABS pools and make it likely that credit performance will continue to hold up going forward.”

### **But why is there a spike in delinquency and repossessions in the NAF Association Annual survey?**

Because of a summary response from both large and small subprime auto finance sources, the NAF Association reported a non-weighted increase in delinquency and repossessions as of 12/31/06. When weighted by portfolio size, there wasn't as large an increase in delinquency in financing sources with portfolios over 40,000 accounts.

According to a September 27 report by Moody's Investors Service, "Subprime auto ABS pools are performing generally within expectations. Yearly vintage analysis for sub-

prime auto-backed transactions closing in 2006 reveals slightly higher early term cumulative net losses compared to the same seasoning periods in 2003, 2004 and 2005 vintages, but still well within expectations and better than the weak-performing vintages from 2001 and 2002.”

The report goes on to state, "...the performance deterioration to date is within Moody's expectations and there are no readily identifiable weaknesses in origination practices or loan terms that would suggest any sudden deterioration is just beyond the horizon. Further, required credit enhancement has been sized to address the potential volatility around expected loss ranges commensurate with assigned ratings.”

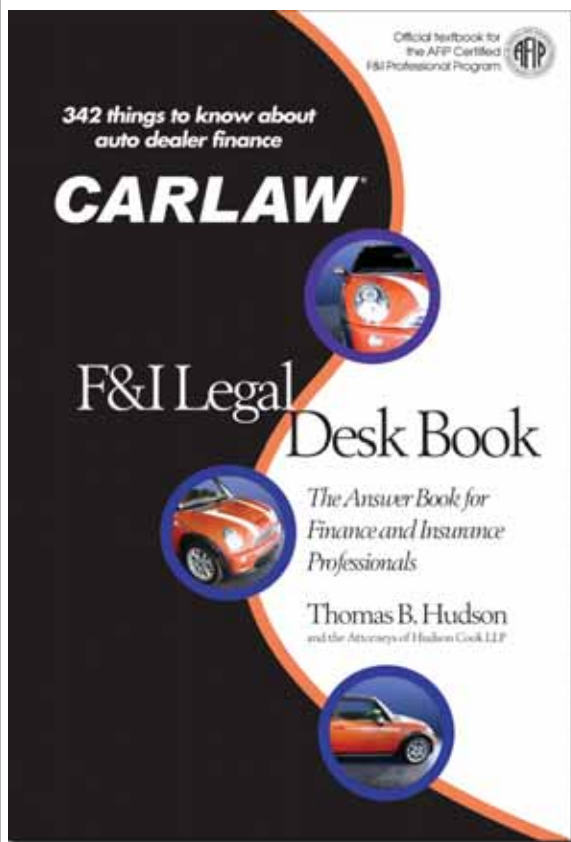
**What economic factors are most important to auto finance companies that might lead to higher delinquencies and stress on their subprime**

### **borrower?**

Historically there has been strong correlation between unemployment rates and auto delinquencies and losses. The unemployment rates have been consistently low over a significant number of months so at this point there are no strong indicators of a problem.

Sudden and significant increases in fuel prices has also had an impact on subprime customers, however fuel prices have remained in a relatively consistent range over the past 12 months.

*These talking points were created to help NAF Association members answer questions that may arise about whether the auto finance industry is encountering the same problems as the subprime mortgage market. Clearly, the answer is "No."*



## Advance Praise for **CARLAW® F&I Legal Desk Book**

"This new book may be called a 'guide' but it's more likely a 'bible' for every dealer, F&I manager, and trainer in the country. A timely and invaluable reference that covers all legal and regulatory touch-points in a dealership's purchase transaction by a consumer. AFIP's endorsement confirms that the stable authors know the 'rights' to follow and the 'wrongs' to avoid. It is on the recommended list by F&I Magazine."

**Ed Bobit**  
**Bobit Business Media**

December 2006 • Hardcover • 310 Pages  
**\$49.95 plus S&H**

 **CounselorLibrary®**

Order Online at  
[www.CounselorLibrary.com](http://www.CounselorLibrary.com)  
or Call 1-888-4-CARLAW ext. 5420

# who's behind your compliance? we are.



Single State Sales Finance Compliance: \$895 annually or \$89 per month!

 **CARLAW**<sup>®</sup>  
**AUTO DEALER SUITE**  
Indirect Consumer Finance Compliance

Includes: Spot Delivery, CARLAW<sup>®</sup> and State Law Database Auto-Indirect

Visit us at [www.counselorlibrary.com](http://www.counselorlibrary.com)  
or please call toll free 877-464-8326 for more information

 **Counselor Library**<sup>®</sup>  
Consumer Credit Compliance

 Hudson Cook, LLP  
powered by

## MEMBER PROFILE

VANWAGENEN ... FROM PAGE 2

age of risk mitigating tools for any automobile portfolio.”

van Wagenen Financial Services, Inc., has been serving financial institutions throughout North America for nearly 75 years. Focused on providing the industry's most efficient, reliable and cost-effective Insurance Tracking and Lender-Placed Insurance products, van Wagenen continues to address the needs of lenders with products backed by responsive, customer-driven services and state-of-the-art technology.

## NEW MEMBERS

The NAF Association welcomes new members:

**Costco Auto Program**

[www.costcoauto.com](http://www.costcoauto.com)

**CreditMax LLC**

[www.creditmaxteam.com](http://www.creditmaxteam.com)

**Interim Funding Corp**

[www.interimfundingcorp.com](http://www.interimfundingcorp.com)

**LexisNexis Risk & Information Analytics Group**

[www.risk.lexisnexis.com](http://www.risk.lexisnexis.com)

**Miles, Bauer, Bergstrom & Winters, LLP**

[www.mileslegal.com](http://www.mileslegal.com)

**Military Assistance Company**

[www.macallotment.com](http://www.macallotment.com)

**Nomis Solutions**

[www.nomissolutions.com](http://www.nomissolutions.com)

**Surge Capital**

[www.surgecapital.com](http://www.surgecapital.com)

**Teletrack, Inc.**

[www.teletrack.com](http://www.teletrack.com)

## JOIN THE NAF ASSOCIATION

Go to [www.nafassociation.com](http://www.nafassociation.com) for information and on-line registration form or call 800-463-8955.

**MAIL:** 7250 Parkway Drive, Suite 510  
Hanover, MD 21076

**PHONE:** 800/463-8955

**FAX:** 410-712-4038

**E-MAIL:** [JTracey@nafassociation.com](mailto:JTracey@nafassociation.com)

**WEBSITE:** [www.nafassociation.com](http://www.nafassociation.com)

If you would like to contribute a newsletter article, contact us for details.

**NAF**  
ASSOCIATION