

Non-Prime Times

Official Publication of the National Automotive Finance Association



Navigating the Consumer Law Minefield



**The Top Five
Predictors of
Sub-prime Risk**
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**Transaction Based
Pricing: Freedom or
Frightening?**
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**The Key Ingredient
for 84-Month Loan
Profitability**
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Director's Note:

So Much Happening...

Jack Tracey



There has been so much happening in the NAF Association since I last wrote this column. We have just completed the 19th Non-Prime Auto Financing Conference and it was our most successful. We had 400 people who attended the event, the exhibit hall was full to capacity and we had an outstanding response to the conference program. We provided a special track of panel presentations from three other associations that work closely with our industry: The American Recovery Association; The National Association of Retail Collection Attorneys; and the Debt Buyers Association International. The dynamics of closer ties with these associations are just beginning to be seen. I believe that our association members will benefit from the bonds we're building with these organizations.

In conjunction with the conference we held the second Module 4 session of Consumer Credit Compliance Certification Program. Over 100 students graduated to bring the total number of NAF Association Certified Compliance Professionals to 225. Additionally, 125 students are in process and working toward graduation. The next Module 1 class is scheduled for September 15 -16, in Irvine, California. The certification program continues to exceed all of our expectations for acceptance by the auto financing industry.

We have just announced a "spin off" of the certification program called the Compliance Certificate Program. We have grouped the laws and regulations that most closely relate to key line functions. We've grouped them together to educate collectors and underwriters in compliance law that directly relates to their work responsibilities. We use case studies specific to the collection and underwriting disciplines to test their knowledge of the law and how to apply it to their daily work. Over the next few months we will introduce three additional certificate programs for funders, sales representatives and customer relations personnel. These five line functions directly impact successful customer experiences and are the areas where it is most likely that consumer complaints will arise. The Compliance Certificate Program is online training and available only to NAF Association member company employees.

At the conference we also introduced the NAF Association's 19th annual Non-Prime Auto Financing Survey. This year we combined our survey efforts with the American Financial Services Association (AFSA) and doubled the number of auto finance companies who responded to the survey. There were 45 companies, who represent over \$20 billion in outstanding principal, who contributed to the survey. The scope of the survey was also expanded and additional non-prime data was provided by two credit reporting agencies: Experian (traditional credit reported data) and Factor Trust (alternative credit data). The report is 50 pages in length and has 130 graphs representing data on the market environment, geographic coverage, industry characteristics, originations, portfolio administration, loss management, compensation levels, IT systems and financial metrics. It is truly the most comprehensive collection of data on non-prime auto financing available. Survey results are provided to eligible NAF Association and AFSA member companies and information about purchasing the report can be found online at www.nafassociation.com.

During the annual membership meeting, held at the conference, members expanded the Association's Executive Committee to seven members and industry leader Mark Floyd was elected president by the board. Membership in the NAF Association now exceeds 175 members.

Before closing I want to thank outgoing Association president, Steve Hall, (driversselect, president) for his service over the past two years. During his tenure the organization grew significantly and some of the best member services were introduced. Steve will continue to serve on the Executive Committee as chairman.

Jack Tracey
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Incoming President's Message



Mark Floyd

As I begin my term as president of the NAF Association, I want to start by thanking Steve Hall for his service the past two years. In his last letter as president of the association he said his primary goal when he took office was to leave the association in a better place than when he started. I believe he attained that goal, and we're fortunate that he will continue to be closely involved as chairman of the association. I look forward to working with Steve, the rest of the board and Jack in the months ahead to build on everything the association has accomplished over the past 19 years.

The theme of our just completed conference was "Relationships Matter," and it was clear from feedback we received during and after the conference that our theme was spot-on. Session content was exceptional, and the exhibit hall was filled with some of the top vendors in the business. One of the biggest draws for most attendees is always the opportunity to network – catch up with old friends, swap stories and get a sense of what's really going on in our industry. The hallways and exhibition hall were abuzz with conversations throughout the week, which further validated the importance of the conference to those in attendance.

Feedback about this year's conference was overwhelmingly positive, and a consistent theme that emerged was members wanting to get more involved in the association. That's great news, and the executive committee has agreed to develop a short list of areas in which more members can get involved in the further development of our association. To be effective we need to maintain our focus on a few important initiatives, but I'm confident there will be ample opportunities for our membership to become more engaged. Look for more information on this in the near future and give some thought to where you would be willing to get more involved.

*Mark Floyd, President
NAF Association*

About NAF Association

The National Automotive Finance Association is the only trade association exclusively serving the non-prime auto financing industry. Organized in the fall of 1996, the NAF Association supports its members and the industry with programs and education. Among the association's accomplishments to date are:

- The Annual Non-Prime Auto Lending Conference
- Annual Non-Prime Automotive Financing Survey, providing the industry's only measurements of growth and changes; available to members at no charge or for purchase by non-members
- Creation and publication of standards of financial reporting
- Development of a code of responsibility for the industry.
- Policy statements (See statement on voluntary standards)
- Regional workshops

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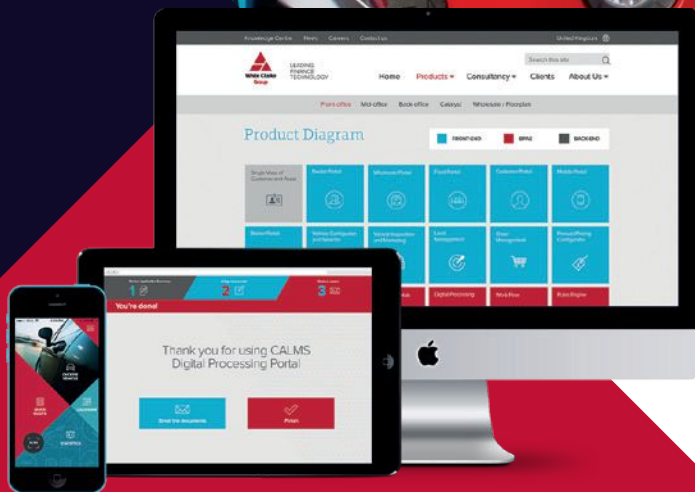
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FactorTrust Hires Dan Richard to Head Analytics, Product Strategy

ATLANTA, June 11, 2015 – Anticipating continued growth in the underbanked consumer market, FactorTrust announces the hire of Dan Richard as vice president, analytics and product strategy. Richard will lead analytical development, product strategy, data acquisition and strategic delivery of scoring models for the company.

Richard joins FactorTrust as an experienced statistical consultant with industry vertical experience in auto, communications, retail banking, retail card, underbanked, lines of credit, third-party debt purchase and collections. Before joining FactorTrust, he worked for a “Big 3” credit bureau where he managed a team of statisticians, scoped and managed analytics product development and research initiatives, and drove third-party analytics. Prior to that role, Richard served as senior project analyst at Scoring Solutions where he developed actionable consumer scoring models and attributes among other services. He holds a Master of Science in Statistics and a Bachelor of Science in Industrial Engineering from Georgia Tech.

“I’m thrilled to join the FactorTrust team,” states Richard. “This company understands the underbanked marketplace inside and out. I look forward to driving lucrative insight for our clients through innovative analytical products developed from the richest and most predictive alternative credit data available.”

FactorTrust uses an internal team of predictive analytics experts and statisticians as well as a deep, proprietary database of underbanked consumer loan performance and best-in-class third-party data sources to serve a variety of lenders throughout the U.S. and U.K. The company has served lenders in alternative and non-prime automotive lending since 2005.

Southeast Toyota Finance Integrates to the RouteOne Platform

Farmington Hills, MI – RouteOne has announced that Southeast Toyota Finance, premier provider of automotive financing to 176 Toyota dealers in the Southeastern United States, has elected to activate RouteOne’s automotive finance platform.

“We are excited to welcome Southeast

Toyota Finance to our platform,” stated Mike Jurecki, RouteOne chief executive officer. “This integration brings our Toyota dealers access to a leading finance source that shares a similar commitment to customer service and strong dealer relationships.”

RouteOne’s credit application system is complimentary to dealers and provides a wide range of options, such as payoff quotes, compliance, and reporting tools. As a result of RouteOne and Southeast Toyota Finance’s integration, Toyota dealers will receive a winning combination of great service, technology, and finance programs.

“We are committed to providing the best possible service to our dealers,” stated Brick Toifel, vice president of Southeast Toyota Finance. “This provides our dealers with multiple service provider options they can utilize to submit credit applications to our dealer service department, streamlining the process for them and providing Toyota customers with the best experience possible.”

AFS Acceptance Partners with FactorTrust to Expand Consumer Credit Options

Auto lender leverages proprietary data and custom scoring models to provide viable financial solutions to non-prime candidates

ATLANTA (June 4, 2015) – FactorTrust, the leading provider of underbanked consumer data, analytics and risk scoring solutions on those underserved by traditional banking channels has announced AFS Acceptance, an established, full service auto finance company, as a new automotive lending customer. Utilizing FactorTrust’s proprietary data and custom scoring models, AFS Acceptance now has the ability to better qualify customers and provide each individual with the best, most customized type of auto loan for their lifestyle.

FactorTrust has provided alternative credit data, analytics and risk management solutions on consumers who lack traditional credit options for lenders since 2005. The company has tens of millions of data points on this consumer segment and works with its customers to enable them to make instant and

well-informed lending decisions utilizing its comprehensive scoring platform.

“FactorTrust offers data on a crucial market of non-prime borrowers and helps non-prime lenders make educated lending decisions,” states Greg Rable, CEO of FactorTrust. “Leveraging our data will help AFS Acceptance evaluate borrowers’ ability to repay, allowing the company to lend to reliable consumers and in turn help rehabilitate the credit of non-prime borrowers.”

AFS Acceptance offers dealer partners flexible non-prime lending options, underwriting and pricing. The company also offers flexible financing options to consumers. Now, with FactorTrust’s scoring platform, AFS Acceptance can better tailor loans to each specific customer.

“We work specifically with the non-prime demographic to provide greater access to financing options,” says Scot Seagrave, president of AFS Acceptance. “By using FactorTrust’s alternative consumer data, we can uncover new ways to help our consumers gain access to the loans they deserve.”

PassTime Raises Money at NABD 2015

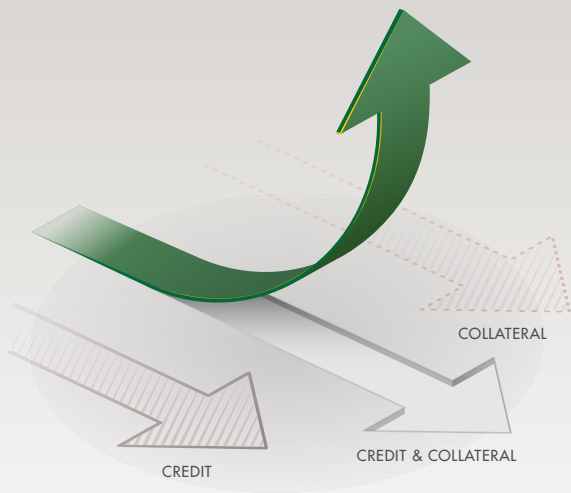
LITTLETON, CO (June 2, 2015) – PassTime, a leading provider of GPS and payment assurance technology solutions, proudly announced that it raised over \$10,000 during this year’s National Alliance of Buy-Here-Pay-Here Dealers (NABD) Conference in Las Vegas.

Through its “mustache campaign”, PassTime – a key sponsor and exhibitor of the conference offered to make a donation for every photo taken at its booth with a mustache – real or fake. The money raised will go to the Terry Underkoffer Fund, to help aid in Terry’s recovery from a major stroke last month.

Terry has worked in the auto industry for more than 20 years and has represented PassTime for the past eight years in Oklahoma. He is a beloved father of two and grandfather of three. Terry is known for his caring nature and unparalleled support of his customers.

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PassTime, through the GoFundMe account setup for Terry, was thrilled with the generosity of others who made personal and professional donations to the fund during the conference. As an additional gesture, CEO Stan Schwarz also matched each personal donation to the fund.

With the tagline, “The GPS Solutions that’s right under your nose”, the company handed out stick-on mustaches, set up a photo booth where visitors could put on fake mustaches and wear props to take a photo, and some PassTime employees even grew mustaches themselves.

“It was a great way to do something a little different at NABD this year and of course, raise money to help Terry,” said Stan Schwarz, CEO and founder of PassTime. “It is outstanding to see the outpouring of support from the industry.”

If you would like to find out more about PassTime or to contribute to the Terry Underkoffer Fund, please email info@pass-timeusa.com or call 877-727-7846.

Black Book Launches Black Book Digital Mobile Application in Spanish

LAWRENCEVILLE, Ga. (May 27, 2015) – Black Book has announced that it has launched Black Book Digital en Espanol, one of the industry’s first mobile applications for Spanish-speaking dealers, remarketers and other automotive professionals.

Black Book Digital en Espanol is a Spanish language version of the mobile application offering the latest accurate and reliable vehicle valuation data, built to accommodate today’s speed of business. The application’s simple-to-use design and features allow Spanish-speaking dealers, remarketers and other professionals to make smarter decisions to accelerate and amplify profit potential among the growing cadre of Hispanic auto shoppers. According to the most recent HispanicBusiness Automotive Report, Hispanic auto buyers have grown 16% year-over-year, totaling 677,799 as of June, 2014.

Black Book Digital en Espanol offers the following features for Spanish-speaking industry professionals:

- Real-time valuation data for thousands of

used cars and trucks without the need for Wi-Fi access

- Intuitive design for faster and easier vehicle searches
- Cutting-edge VIN-scanner technology
- 360-degree valuation perspective with layers of vehicle insight
- Access to CARFAX® and AutoCheck® reports
- Comprehensive Demand Index illustrating regional pricing trends
- Seamless inventory management and information share capabilities

“In today’s world of car shopping, it’s important to have accurate vehicle value data with split-second access, especially in a language that’s familiar to my sales team and customers,” said Hector Rodriguez, president/owner of Bronco Motors. “We recognize the significant growth in our Hispanic car shopper volume and Black Book Digital en Espanol provides the timely, accurate insight needed to remain profitable.”

“Black Book is thrilled to offer its mobile application to Hispanic dealers and remarketers in their native language so they can have access to critical valuation insight for more profitable business growth,” said Mike Williams, vice president of Direct Sales and Mobile for Black Book. “With Black Book Digital en Espanol, Spanish-speaking industry professionals can access real-time pricing data and share it more seamlessly with their wholesale and retail customers for faster decision-making potential.”

For more information and directions on downloading Black Book Digital en Espanol to an iOS or Android mobile device, visit <http://blackbookauto.com/esp/>.

Exeter Finance Names New CFO

Friday, May 22, 2015: Exeter Finance Corp. went outside of the auto finance sector to find its new chief executive officer last fall, and on May 22, 2015, the sub-prime operation repeated the process when choosing a new chief financial officer. Taking on the CFO role for Exeter effective June 8 is Paige Wisdom, who has served as chief enterprise risk officer and executive vice president of the Federal Home Loan Mortgage Corp. (FHLMC/Freddie Mac) since 2010.

“We are excited to work with Paige on Exeter’s continued growth and evolution,” said Exeter CEO Tom Anderson, who brought nearly three decades of management and financial services industry experience to the company last October.

“She has a proven track record of success and a keen understanding of the financial opportunities presented by this industry,” Anderson continued. “We expect that Paige will continue to build upon the success she established in her former roles, serving respected organizations such as FHLMC/Freddie Mac.”

Wisdom also served as a CFO for key business units at Bank of America, including global business and financial services; business, lending, and global technology; and service and fulfillment. Prior to joining Bank of America, Wisdom served at Bank One Corp./JP Morgan from June 2000 to July 2004.

Her additional experience includes leadership positions with UBS/Warburg Dillon Read, Citibank Salomon Smith Barney and Swiss Bank Corporation/SBC Warburg Dillon Read.

defi SOLUTIONS Acquires OpenRule Systems

Offering double the innovation and double the freedom

GRAPEVINE, Texas – defi SOLUTIONS announced the acquisition of Grapevine, Texas-based OpenRule Systems APM (Application Process Manager). The two companies will combine to create an even stronger technology team to serve lenders seeking flexible and affordable loan origination technology.

“defi SOLUTIONS and OpenRule were founded with the same goal in mind, to provide lenders with a level of freedom they don’t have with other LOS providers,” said Stephanie Alsbrooks, defi SOLUTIONS CEO and founder. “By combining forces with OpenRule, defi can offer even more functionality to current and future customers.”

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Member News, continued from P-9

According to Alsbrooks, the company plans to quickly integrate the features and functions of APM into a single, powerful defi system. The new combined defi SOLUTIONS system will offer lenders:

- Automatic upgrades and key feature enhancements
- Increased support from a combined and larger defi team
- Fully configurable settings to allow for easy changes to programs, processes and integrations
- Quick access to more than 30 pre-integrated credit bureaus, valuation services and servicing providers
- Access to alternative credit data offered via existing integrations with ID Analytics, FactorTrust, TransUnion, CreditSmarts and more.

“We look forward to working with the OpenRule team to integrate the many great features of APM that their customers enjoy today,” said Alsbrooks. “During this

initial migration to the defi family, we want OpenRule customers to rest assured that we are focused on their needs and coming together in a seamless fashion so they can even more easily overcome the challenges they face when attempting to balance technology, compliance, and risk operations.”

The OpenRule team has re-located to the defi headquarters, also located in Grapevine. The combined teams will be on the road for the next several weeks, meeting with customers and completing plans for integration.

“We see joining the defi team as an opportunity to advance our functionality and scalability through a hosted technology solution while still offering all the critical support and functionality our customers count on with APM,” said Kevin Perkins, technology director, OpenRule APM (now technology director with defi SOLUTIONS).

Hudson Cook, LLP Adds Rebecca E. Kuehn as Partner

Top financial services attorney joins industry leading compliance law firm

Hanover, MD – June 23, 2015– Hudson Cook, LLP, a nationwide provider of legal compliance services for the financial services industry, announces the addition of Rebecca E. Kuehn as a partner in its Washington, D.C. office. With over 15 years of experience in consumer financial services and consumer protection matters, Becki counsels financial institutions, consumer reporting agencies, service providers, and others in complying with consumer financial laws and prohibitions against unfair, deceptive, or abusive trade practices. She represents clients before federal and state agencies, particularly the Federal Trade Commission and Consumer Financial Protection Bureau, in investigations and other proceedings.

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- ★ Discharged Chapter 7 Bankruptcy Program
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Eric L. Johnson
Legal Committee Chair



Navigating the Consumer Law Minefield

I'm often asked to consult with clients who want to start an automotive sales finance business to purchase retail installment contracts (RICs) from dealers. They often think that once they have the form of RIC reviewed and get their dealer agreement in place with the dealer that they're ready to start buying paper. That's all that's needed, right? Not so fast, my friend!

They're often not aware of the vast array of federal and state laws and regulations that could potentially maim them if they don't navigate the laws correctly. Over the years, I've come to think of the compilation of these federal and state laws and regulations as a "Consumer Law Minefield."

I want you to picture a sprawling field with bright green, freshly cut grass, that's been beautifully manicured. You're standing at one end of the field and your goal of running a compliant sales finance company is at the opposite end. What you may not know is that between you and your goal, buried just beneath the surface, are a multitude of mines that have been placed there by Congress, federal and state regulators – the mines of federal and state laws and regulations. Our shared goal is to plot a course through that Consumer Law Minefield and get to the other side safely. Navigating that minefield is kind of like a game of Frogger, nearly as exasperating, but not nearly as much fun.

So, what are the landmines that make up the Consumer Law Minefield? Here's a summary of the federal laws and regulations that could impact an indirect auto finance business:

Federal laws and regulations:

Consumer Leasing Act (CLA) and Reg M: The CLA governs disclosures in consumer lease transactions. The CLA is actually

Chapter 5 of TILA (the federal Truth in Lending Act), but it is usually referred to as if it is a separate piece of legislation. Reg. M is a regulation of the Federal Reserve Board (FRB) and the Consumer Financial Protection Bureau (CFPB) implementing the CLA.

Controlling the Assault of Non-Solicited Pornography and Marketing Act ("CAN-SPAM"): CAN-SPAM was enacted to regulate the delivery of commercial e-mail.

Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act): As you know, the Dodd-Frank Act was a sweeping reform of federal laws that deal with the regulation of financial institutions. It was enacted on July 21, 2010. One of the principal parts of the Dodd-Frank Act created the CFPB. Under the Dodd-Frank Act, all covered persons or service providers are required to refrain from committing unfair, deceptive, or abusive acts or practices (UDAAP) in violation of the Dodd-Frank Act. In addition, the CFPB expects every regulated entity under its supervision and enforcement authority to have a Compliance Management System (CMS) that is adapted to its business strategy and operations. The CFPB has identified four interdependent control components of an effective CMS: board and management oversight, a compliance program, a complaint resolution program and compliance audit and testing.

Electronic Fund Transfers Act (EFT Act) and Reg E: The EFT Act establishes the rights and liabilities of consumers and the responsibilities of all participants in electronic funds transfer activities. Reg. E is a regulation of the FRB and the CFPB implementing the EFT Act.

Electronic Signatures in Global and

National Commerce Act (ESIGN): ESIGN is a federal law that was passed to facilitate the use of electronic records and electronic signatures in interstate and foreign commerce. The general intent of ESIGN is that a contract or signature may not be denied legal effect, validity, or enforceability solely because it is in electronic form.

Equal Credit Opportunity Act (ECOA) and Reg B: The ECOA prohibits credit discrimination on the basis of race, color, religion, national origin, sex, marital status, or age (provided that the applicant has the capacity to enter into a binding contract); the fact that all or part of the applicant's income derives from any public assistance program; or the fact that the applicant has in good faith exercised any right under the Consumer Credit Protection Act or any state law on which an exemption has been granted by the FTC or CFPB. Reg B is regulation of the Federal Reserve Board (FRB) and the CFPB implementing the ECOA. On this mine, you could activate the "disparate impact" pressure plate and not even know it until it was too late.

Fair Credit Reporting Act (FCRA) and Fair and Accurate Credit Transactions Act (FACT Act): The FCRA regulates the activities of consumer reporting agencies (CRAs), the furnishers of information to CRAs, and the users of consumer reports to achieve certain objectives. The FACT Act was an amendment to the FCRA that permitted consumers to obtain a free credit report, established the Red Flags Rule (which requires entities who engage in financing activities to establish a written Identity Theft Prevention Program) and required the secure disposal of consumer information. Reg. V is a regulation of the FRB and the CFPB that implements the FCRA. The FACT Act also mandated the

RBP or Risk-Based Pricing Rule which was intended to inform higher risk consumers of the fact that a creditor's "risk-based pricing" decision could result in the consumer receiving less favorable terms than those offered to other customers. An impacted consumer may receive a "risk-based pricing" notice or a Credit Score Disclosure Exception Notice.

Fair Debt Collection Practices Act (FDCPA) and Reg F: The FDCPA was designed to eliminate abusive, deceptive and unfair debt collection practices. It applies to the collection of debt incurred by a consumer primarily for personal, family or household purposes. Reg F is a regulation of the CFPB implementing the FDCPA.

Federal Arbitration Act (FAA): The FAA provides the parties to a dispute may agree to arbitrate the dispute, rather than settling the matter in court. The CFPB is currently tinkering with this mine and may make it more deadly to finance companies.

Federal Odometer Act: The Odometer Act was designed to curb abusive practices dealing with vehicle odometers.

Federal Trade Commission Act (FTC Act): The "granddaddy" of them all. The FTC Act was enacted over 100 years ago. The FTC is empowered under this Act to prevent unfair or deceptive acts of practices (UDAP) in or affecting commerce. The FTC has also promulgated several rules, including the Preservation of Consumer Claims and Defenses or Holder Rule which permits a buyer under a RIC to assert against the holder of the contract certain claims and defenses the buyer has against the selling dealer, and the Credit Practices Rule, which is a rule that regulates certain creditor practices, such as the pyramiding of late charges, garnishing wages, notifying cosigners, and the like.

Gramm-Leach-Bliley (GLB) Act and Reg P: GLB governs the treatment of nonpublic personal information (NPI) about consumers by "financial institutions." An entity will be acting as a "financial institution" if it is significantly engaged in financial activities, such as entering into finance or lease transactions with consumers or taking assignment of finance or lease agreements. GLB has two main parts — the Privacy Rule and the

Safeguards Rule. The Privacy Rule is concerned with how financial institutions share NPI about customers who obtain, or apply for, credit or lease products from them. It also requires financial institutions to disclose to consumers how they collect, share and use NPI. The Safeguards Rule addresses how a financial institution protects NPI. Reg. P is a regulation of the CFPB, which implements the GLB Act's privacy provisions.

Junk Fax Prevention Act: This Act permitted faxed advertisements if they are based on an established business relationship or the recipient's advanced permission. The Federal Communications Commission (FCC) issued two regulations that provide the dos and don'ts of faxed ads.

Magnuson-Moss Warranty Act (MagMoss): MagMoss regulates warranties on consumer products. Its purpose is to make warranties on consumer products more readily understood and enforceable and to provide the FTC with the means to protect consumers.

Servicemembers Civil Relief Act (SCRA), formerly the Soldiers and Sailors Civil



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Relief Act: The SCRA protects service members, their dependents, and persons who may be primarily or secondarily liable on obligations with service members from the financial hardships that may result from the service members' call to active duty or transfer of duty station.

Telephone Consumer Protection Act (TCPA): The TCPA regulates contacts with consumers by telephone, text message and telefax. The TCPA directed the FCC to issue regulations implementing the TCPA.

Telemarketing and Consumer Fraud and Abuse Prevention Act (TCFAPA): Congress enacted this legislation to offer consumers necessary protection from telemarketing deception and abuse. The law directed the FTC to prescribe rules prohibiting deceptive telemarketing acts or practices. The TCFAPA established basic standards prohibiting deceptive and abusive telemarketing acts and practices, and the FTC filled in the details of these standards in its Telemarketing Sales Rule (TSR Rule). The TSR Rule is supplemented by the TCPA.

Truth in Lending Act (TILA) and Reg Z: The TILA governs disclosures in consumer credit transactions. This is the "granddaddy" of federal disclosure laws, dating from the late 1960s. Reg Z is regulation of the FRB and the CFPB implementing TILA.

Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (Patriot Act): The Patriot Act was designed to assist law enforcement in identifying, monitoring, and preventing potential terrorist activity. The Patriot Act requires certain creditors to "know their customers," identify and report suspicious financial transactions, and make reports and respond to inquiries from government officials. Creditors must also comply with rules or requirements issued by the Treasury Department's Office of Foreign Assets Control (OFAC), including checking the names of every person with whom a creditor does business against the "Specially Designated Nationals" list (SDN list) maintained by OFAC. If there's a match

to the name on the SDN list, OFAC imposes additional research and reporting requirements, and prohibits the creditor from doing business with the person on the list.

Other federal rules:

IRS Form 8300 Cash Reporting Rule: A rule by the Internal Revenue Service that generally requires you to file Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business, if your business receives more than \$10,000 in cash from one buyer as a result of a single transaction or two or more related transactions.

Telemarketing Sales Rule (TSR): The TSR is issued by the FTC and is the primary federal regulation of telemarketing. It is supplemented by the TCPA.

Used Car Rule: The Used Car Rule was issued by the FTC and requires a Buyers Guide be displayed on each used vehicle offered for sale and requires certain language regarding the Buyers Guide in the contract of sale.

These are the federal laws and regulations that require you to have certain written policies and procedures, such as a written identity theft prevention program (Red Flags Program), written information security program, written furnisher and credit dispute resolution program and a robust compliance management system.

State laws:

Here's a summary of a few of the state laws that could impact an indirect auto finance business:

Retail Installment Sales Acts (RISA): Nearly every state has a RISA. Some states (about half) have a special version of a RISA for motor vehicle financing and a separate RISA for other kinds of personal property financing. RISAs typically regulate finance charge rates, late charges, grace periods, bad check charges, disclosures, and the like in financing agreements between dealers and customers.

Uniform Commercial Code (UCC): The UCC is one of a number of uniform

acts promulgated in efforts to harmonize the laws of commercial transactions in all states. Articles 1 (general provisions), 2 (sales), 2A (leases) and 9 (secured transactions) should be of great interest to a finance company.

Uniform Consumer Credit Code (UCCC): The UCCC is another uniform act promulgated by the Uniform Law Commission, originally in 1968. It was revised in 1974 following criticism from consumer groups. The UCCC was adopted in 9 states: Colorado, Idaho, Indiana, Iowa, Kansas, Maine, Oklahoma, Utah and Wyoming. South Carolina and Wisconsin have enacted consumer protection codes that are similar to the UCCC. The UCCC was proposed as a means of making the law of consumer credit, including administrative rules, more uniform throughout the states.

In addition, a state could have buried other mines, such as specific advertising requirements, anti-discrimination laws, collection and servicing laws, electronic transactions acts, insurance laws, leasing laws, lemon laws, "plain language" requirements, privacy laws, security breach notification requirements, service-member protection laws, telemarketer restrictions, and unfair and deceptive acts and practices statutes.

So, the next time a consumer activist or a state regulator spouts off that you're "unregulated," or they claim they need another law to curb some perceived abuse-of-the-day, you make them aware of the Consumer Law Minefield that you have to navigate each and every day.

Eric L. Johnson is a partner in the Oklahoma City, OK office of Hudson Cook, LLP. He is a frequent speaker and writer on a variety of consumer credit topics. Prior to pursuing his legal career, he spent many years working in various departments for his family's car dealership. Eric can be reached at (405) 602-3812 or ejohnson@hudco.com. This article is provided for informational purposes and is not intended nor should it be taken as legal advice.

Jonna Boyle



Five Tips to Get your Compliance Ball Rolling

You have compliance requirements in hand, but deciding where to begin has you stuck in neutral. Here are some tips and starters to help you gain focus and move forward on your compliance journey.

1. Pick an area...any area. You could pick any area of operations and dive in. Or you could take a more risk-based approach by evaluating your operational state of compliance. Perform a top to bottom review of your operations to identify your most pressing compliance risks. Then make a “to do” list, addressing the most serious deficiencies first. Correct, document, train, and repeat for each area.

2. Create a roadmap. Writing policies and procedures is an overwhelming challenge for most of us, but it must be done. After you’ve picked a focus area, make a roadmap or simple flowchart of the processes in that area (i.e. all steps from receiving credit application to account boarding). Use the roadmap as a guide to create your policies and procedures, one at a time.

3. Get others involved. Collaborate with the managers that oversee your focus area to get the compliance and operational policies knocked out all at once. You may have to dedicate a few weeks or months to the process, but the result will be worth it and your message will be consistent. (Side note: The compliance officer should not be writing the operational policies and procedures, but should review them for coherence with compliance policies and adherence to regulations.)

4. Train as you go. As you start looking at your practices and putting them in writing, you will make some significant changes to your current policies. As you complete the policies and procedures in each area, train the affected employees before moving on to the next area. Also make sure they have access to the policies and procedures for future

reference. Employees should always be made aware of and have access to the most up-to-date information.

5. Build a library. You have forms, letters, policies, procedures, and other templates that are being used throughout your organization. Do you know when they became effective or when/why they were last revised? When drafting or revising policies, procedures or other forms, develop a coding system to track the revision history. Also document the changes that are made. This way, you will know if the

most recent version is being used, and you can pinpoint when and what changes were made if asked by auditors or regulators. Making this part of your documentation process now will prevent headaches later on.

Jonna Boyle, CRCM, is the founder of Iron Compliance, LLC, which specializes in operational compliance consulting for the auto finance industry. She has over 13 years of compliance experience and has established compliance programs at bank-owned and non-bank finance companies.

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Comprehensive Metrics for the N

The **2015 Non-Prime Automotive Financing Survey**, co-sponsored by the **NAF Association** and **AFSA**, is a benchmarking tool to identify trends and guide policy decisions for the non-prime auto finance industry.

Unlike broader industry reports the data in this survey is compiled from **45 finance sources** representing 1.8 million active accounts with an outstanding principal exceeding \$20 billion, as of year-end 2014.

Survey content includes:

- Market Environment and Characteristics
- Geographical Coverage and Dealer Relationships
- Below-Prime Consumer Characteristics
- Originations
- Portfolio Administration
- Loss Management
- Compensation Levels
- Information Technology (IT) Systems
- Financial Metrics

Results are illustrated in 130 graphs.

Non-Prime Auto Financing Industry



Benchmark Consulting International administered the survey and provided the report analysis. Additional market insight is provided by data and analysis from Experian Automotive and FactorTrust.

Survey available for purchase and download at:
www.nafassociation.com

Daniel Parry



The Price is Right ...or is It?

The game show *The Price is Right* has aired on American television for over 40 years. The show consists of contestants bidding on a variety of common household products. The player whose guess (bid) comes closest to the actual retail price without going over wins the game.

Some contestants do a lot of homework, with elaborate methods for deducing the correct price. Others are simply happy to be one penny better than the last bidder. In both cases, contestants are often surprised to find out how far off they were from reality. This is not too different from what we see in auto finance when it comes to the problem of pricing. Like the game show contestants, many lenders have complex models that attempt to account for every cost, while some are merely focused on how close they are to the competition.

Pricing is an important function for any company selling a product, but it is critical in the world of consumer finance where many of the costs associated with the loan cannot be known with certainty at the point of sale (e.g., borrowing costs, credit losses). While there are many great conferences, workshops and publications in the auto finance industry, none of them are fully tackling the issue of pricing. This is understandable, as industry groups wish to avoid the topic for fear of running afoul of antitrust regulation (price collusion), but it is still a subject that deserves attention. Just like collections, risk management and compliance, pricing is a discipline with established ideas and best practices that lenders would be well-advised to embrace.

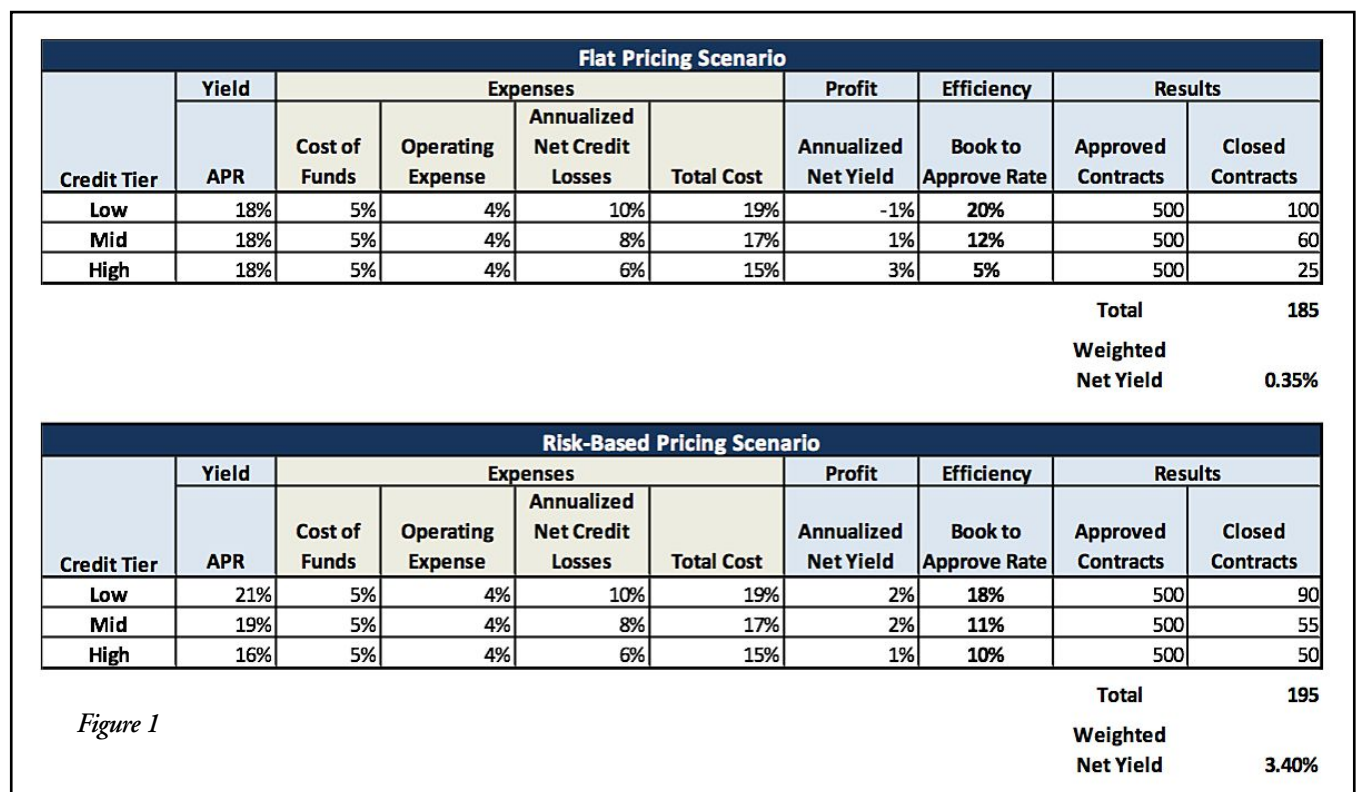
Common pricing strategies

There are generally two basic pricing strategies used in auto finance: Cost-Plus and

Market-Clearing. Cost-Plus suggests that lenders estimate all of their costs, and tack on a desired profit. Market-Clearing holds to the notion that lenders all have similar costs, and thus the best price is the one that closes the desired number of loans.

Both strategies have merit, but they represent extremes. The Cost-Plus approach can result in a strategy that is completely out of market, leading to additional losses due to adverse selection. The Market-Clearing strategy can lead to a volume-chasing mentality that leaves a company wildly unprofitable.

A balanced pricing model will address two basic issues. First, the average price booked must cover all of the lender's costs or the lender won't be around very long. Second, the price actually booked must provide an adequate return to owners or investors or the



funding sources won't be around very long. As such, the pricing methodology must be **risk-based** and **return-based**.

Risk-based pricing

The concept of risk-based pricing in auto finance is quite old, yet a surprising number of lenders have not adopted this approach. Pricing by risk-tier allows a company to extend credit to more consumers while at the same time better matching losses to risk. A flat price means that a lender's best customers subsidize the performance of the worst customers. This leads to worse performance, and the ability to make fewer loans due to reduced margins. Risk-based pricing, on the other hand, matches consumers with a rate that is tied to their expected individual loss profile. This can result in more loans to more consumers, many at better rates. Consider the example in *Figure 1* on previous page.

In the flat pricing scenario, the lender fails to cover its costs on the worst loans, and fails to close many of the best loans. What is not revealed in the table is that those who accept a higher price in the High Tier will probably perform worse than the estimate of 6% (adverse selection). In the risk-based scenario, the lender closes slightly fewer low quality loans (as they are less price-sensitive), and more of the higher quality loans. This leads to more loans closed and a substantially better return.

Return-based pricing

The previous example demonstrates the need to assign price objectively, based on the consumer's individual risk, but it does not address the issue of financial return. Return on Assets (ROA) measures the return against the asset base (portfolio balance). For example, if a lender with a \$100 million portfolio yields \$10 million in annual return, the ROA is 10% (\$10mm/\$100mm). The limitation with this approach is that it does not consider leverage.

Return on Equity (ROE) measures the equity capital compared to the return. For example, if the lender in the previous instance had a \$100 million line of credit at a 50% advance rate, they would only need to put in \$50 million in cash to achieve the \$10 million

return (after deducting the borrowing cost/interest). Therefore, the ROE would be 20% (\$10mm/\$50mm). The limitation in only looking at ROE is that it does not consider how that money comes in over time.

"...many lenders have complex models that attempt to account for every cost, while some are merely focused on how close they are to the competition."

Internal Rate of Return (IRR) is the rate of return that makes the net present value of all cash flows equal to zero. A complete treatment of IRR is beyond the scope of this article, but it suffices to say that it measures how money comes in over time to create a return. A dollar today is worth more than a dollar tomorrow, because that dollar could go in the bank today and earn interest or be redeployed as a new loan. In the prior example, if the bulk of the \$10 million is earned early in the life of the pool it is worth more.

Why does all this matter? It matters because APR alone masks what lenders are truly making on each loan. Equity investors typically have the highest return expectations, which can sometimes be as much as 20% or more. As a result, every dollar that is not leveraged carries the highest cost of funds. Warehouse lenders, and other debt providers, usually do not lend against severely delinquent accounts and so they must be funded out of equity (the most expensive capital).

Accounts in the worst risk tiers have the highest delinquency, which makes the cost of funds on those accounts significantly higher. Conversely, accounts in the best risk tiers

have the lowest delinquency, and therefore lower funding costs. In addition, the worse the credit profile, the more front-loaded the loss timing is. This adds up to fewer payments made before charge-off, a higher gross charge-off amount, and a worse return. APR alone can be very misleading as far as how profitable a particular loan is, which is why lenders must employ risk-based pricing in conjunction with a return metric like IRR that considers how money comes in over time.

Factors to consider

We operate in an environment that is always changing. The credit cycle, economy and competitive environment are always in flux. Because of this, models must be continually re-evaluated to ensure that assumptions remain relevant and accurate.

The next article in this series will consider the following factors and how they impact the assumptions in a well-constructed pricing model:

- **The impact of operations** – Concerns over incentive plans and dealer relationships can create resistance that leads to poor execution, which can thwart the effectiveness of a good model.
- **The impact of the credit cycle** – Credit is a moving target. Where losses are now represents what was originated a year ago. What is booked today could end up in a completely different place based on market factors.
- **The impact of selection bias** – A confusing or non-competitive program will push a lender to the back of the line with dealers, while increasing losses and reducing efficiencies.

Daniel Parry is co-founder and CEO of Praxis Finance, an auto finance company based out of the Dallas/Fort Worth area. He was formerly chief credit officer at Exeter Finance Corp, a company he co-founded in 2006, and senior vice president of Risk Management at AmeriCredit Corp. He has more than 16 years of experience in analytics, business development, capital markets, and executive leadership. Please direct comments or questions to danielparrynaf@live.com.



The Key Ingredient for 84-Month Loan Profitability

There continues to be much interest in the growth and viability of loans in excess of 72-month terms. There is a natural interest on both the lender's part and that of the consumer for these types of loans. Benefits include the lender getting to write more paper while the consumer gets to keep monthly payments low.

Longer loan terms are necessary today to keep monthly payments beneath \$400 – a sweet spot for many consumer auto budgets. In order to accomplish this, lenders must extend the terms to offset the lack of household income growth and the increase in auto transaction prices over the last several years.

According to the U.S. Census Bureau, from 2007 through 2012, household incomes rose just 1.6% from an average of \$48,729 to \$49,486. However, during that same time, the average price of a 2-6 year-old vehicle rose 24.9% from an average of \$11,160 to \$13,949 according to Black Book vehicle valuation data.

As a result, consumers are interested in longer loan terms. It's easy to see signs of growth for loans of this length. According to Experian, loans with terms of 73 to 84 months represented roughly 26% of new-vehicle originations during the fourth quarter of 2014, an increase up from 20% during the same time a year earlier. These loan terms rose from 13% to 15% for used vehicle purchases during that same time.

Additionally, lenders are entering the space for loans of 72 months or longer. Ally Financial Inc. recently announced an 84-month loan package to well-qualified customers this past February. As with all portfolio decisions, the question must be asked: what's the risk versus reward for growth and profitability?

Oftentimes lenders will focus on the applicant's credit profile as a large part of their loan decisions. However, collateral insight can bring longer loan risk into focus. Timely and accurate data, tracking the residual values of segments

and even specific vehicle depreciation data consideration, allow risk personnel to be at ease with their portfolio.

Whether a lender's portfolio strategy is to mitigate or take on additional risk, access to collateral data performance and insight can help identify the right vehicle or segments for a loan with 72-month terms or longer.

When a lender is looking to evaluate the amount of risk tolerance in a long-term loan, there are four things to consider: How much initial loan-to-value they want to establish; the rate of annual depreciation of the collateral; credit profile of customer, whether sub-prime or prime; and determine if the risk-adjusted return on capital is sufficient.

Collateral data can help bring the right decision into focus. Savvy lenders use this data to help determine the loan-to-value ratio during origination, historical depreciation patterns and the projected residual forecast based on the desired time frame for the loan term. Several non-prime Lenders have begun using term based projected residuals as part of their underwriting guidelines.

These considerations are critical since not all vehicles depreciate alike, and even seasonal patterns can experience hiccups making the forecasting phase even more challenging.

Which segments or vehicles are right for a portfolio? Collateral trends can amplify insight into the decision-making process. As an example, pickup trucks have performed well in recent history based on collateral patterns. These vehicles are expected to continue to outperform the market over the next several years. However, as supplies continue to increase, this outlook may change.

Gas prices can also have an impact on vehicle depreciation patterns. As such, pickup trucks are expected to perform well in the near term against the backdrop of moderate fuel prices, which are expected to remain stable through the remainder of 2015 and into 2016.

Conversely, compact cars and EVs have been under more stress, and their depreciation patterns have reflected this pressure. More car shoppers have opted for larger cars, crossovers and SUVs, and as a result, smaller car segments have felt larger depreciation outside of the spring tax-buying season.

Luxury car segments have been stable at the higher end of depreciation. Mid-size cars equipped with more luxury features have captured more car shoppers who have become content-loyal as opposed to brand loyal. Mid-size cars in segments not traditionally known for luxury now offer features such as in-car Wi-Fi and safety technologies, stealing market share from luxury-heavy segments.

Leveraging collateral to obtain better visibility on specific vehicles and segment performance then allows the portfolio manager to focus on the right strategy to maximize profit potential. Profitability on loans underwritten to traditional standard terms lack the desired loan margin at current low rates. Increasing risk is the common method to profitable growth in a market exploding with competitors. Many lenders seek the opportunity to enhance their portfolio margins through the portfolio management via increasing loan terms versus relaxing credit criteria.

Simply put, strong analysis of collateral data can help a lender take on more calculated risk, even in a longer loan environment. The key is leveraging this data to determine the right segment or even the right vehicle for portfolio expansion.

Barrett Teague is the vice president of Lender Solutions for Black Book, a leading provider of timely, independent, and accurate vehicle pricing information. Through its Lender Solutions division, Black Book offers innovative data solutions to help lenders find profitable vehicle opportunities for their portfolio. To schedule a portfolio audit, call 855-371-7532 or visit www.BlackBookAuto.com/lender-solutions.

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Lou Loquasto



The Top Five Predictors of Sub-prime Risk

Better assess sub-prime opportunities by looking at data and attributes

Most of the conversation around automotive finance is currently focused on the growth of originations to consumers with sub-prime credit scores, but there is more remarkable growth in originations made to consumers who do not have a credit score at all.

As seen in Chart 1, sub-prime originations (designated by credit scores between 550 and 619) increased 2.16 percent from 2013 to 2014. Growth was even higher in the deep sub-prime segment (designated by credit scores below 550), with originations increasing 2.9 percent from 2013 to 2014. Yet the group that grew the most were consumers with no score at all, with originations growing 7.89 percent from 2013 to 2014.

These originations are not only growing in number, but also performing quite well. Chart 2 on the next page displays sub-prime auto delinquency rates from 2006 to 2015. In the last five years, both the number of delinquent sub-prime accounts and the amount

of balances owed have decreased overall, with that trend looking to continue in 2015.

It would seem to be common sense that lenders would avoid consumers who do not have a traditional credit score. After all, it should be difficult to accurately gauge an individual's financial situation without that three-digit number. So how can sub-prime originations be growing and performing well, especially among consumers with no credit scores?

The answer is that lenders are starting to leverage non-traditional financial attributes that are often more predictive for the sub-prime segment, as well as consumers without a traditional credit history. In the past, these attributes were used anecdotally and were reliant on information that consumers shared willingly. Moreover, it took time for consumers to hunt for their latest pay stub to prove they currently had a job and stable income. This ultimately led to delayed or derailed sales opportunities, which are lose

situations for all parties involved. Now lenders have access to alternative risk scores and databases of comprehensive financial information.

Many of these emerging databases are more than a simple pooling of data sourced from different companies and public records, with data providers going a step further to generate

state-of-the-art risk models to analyze information about sub-prime borrowers. These models are the result of analyzing financial characteristics that have been prioritized by statistical algorithms. Using these databases and algorithms can reveal that different individuals who have the same sub-prime credit scores may actually have entirely different financial situations.

For example, two borrowers applying for an automotive loan could have the same sub-prime credit score despite a glaring difference – one of them has recently filed for bankruptcy, while the other has no reported bankruptcies. Additionally, the second individual with no bankruptcies has also established a steady track record of paying cell phone and utility bills every month. Some lenders would deny both of these applicants based on their sub-prime credit scores alone. However, a closer look at that second individual would reveal a person who is more than capable of staying current on an auto loan.

A growing number of lenders are looking at these alternative attributes to find the sub-prime borrowers similar to the second individual in the example above – individuals who are rebuilding their credit history after hard times to demonstrate they can manage an auto loan.

These alternative databases can be a goldmine of information, and lenders may be surprised at which financial attributes are the most predictive at assessing the risk of a potential borrower. Five of the most important financial attributes identified by these databases and algorithms include:

Size of delinquent telco and utility balances: Individuals having larger telecommunications or utility balances tend to be a

Prime Auto Lending Growth Rate Exceeds Subprime

Percent Change in Auto Loan Originations 2014 vs 2013 by Equifax Risk ScoreSM Band (% NSA)

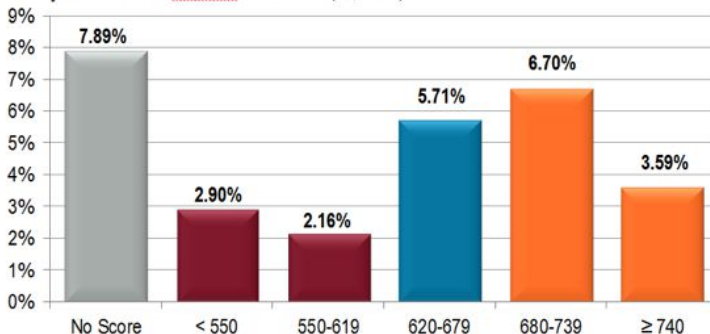
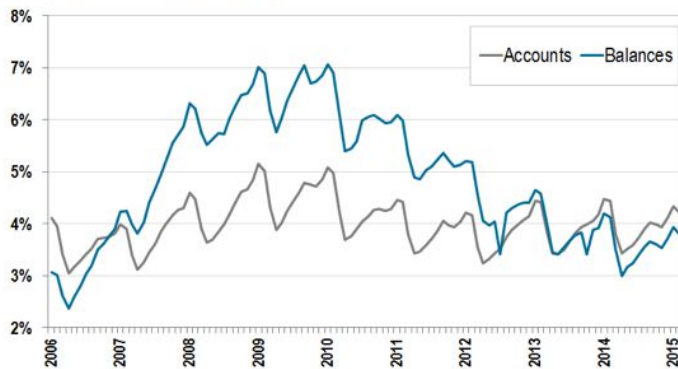


Chart 1

Source: Equifax, data as of January 2015.

Subprime Auto Delinquencies: ERS < 620

Auto Total 60+ DPD Rate
(% of # and % of Balances, NSA)



Source: Equifax (Credit Trends 4.0), data as of January 2015; ERS = Equifax Risk Score.

Chart 2

greater risk for auto lenders. This is particularly true for thin file individuals or those with a bankruptcy on file.

Presence of an involuntary disconnection: Individuals who have had their utilities,

cell phones, cable service or other telco or utility service disconnected due to nonpayment represent greater risk for lenders.

Number of utility inquiries: The presence of utility inquiries is indicative of payment risk for lenders. Risk increases as the number of utility inquiries increase.

Number of address changes: Individuals who have changed their physical address multiple times represent greater risk for lenders.

Professional licenses: The presence of a professional license (RN, MD, CPA, etc.) can be indicative of less risk for lenders.

These attributes are only the tip of the iceberg – there is a wealth of alternative data that can provide lenders with the insight they need to formulate a more comprehensive evaluation of consumers in the sub-prime market. With automotive sales remaining strong, lenders can use these resources to quickly and efficiently assess applicants, communicate with their partners and close more deals.

Lou Loquasto is the automotive finance leader of Equifax Automotive Services. He has more than 20 years of experience in the automotive and financial services industries. Prior to joining Equifax, he served as chief marketing officer for Global Lending, an Atlanta-based automotive lender; head of lender solutions for Black Book; and head of marketing and the centralized direct-to-consumer business at Wells Fargo Auto Finance.





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Stephanie Alsbrooks



Transaction-based Pricing – Freedom or Frightening?

With our recent purchase of a competitor who was one of the last hold-outs in the origination software industry not pricing per transaction, I am often asked to explain why transaction-based pricing makes sense for lenders and why SaaS is the right technology model for an origination technology provider. Following is my take on the subject.

SaaS vendors and lenders are not so different

As a lender you have profitability targets for each deal, the hurdles you have to face on each loan so that the portfolio performs and the business thrives – so do your SaaS vendors. You are covering losses, operating costs and cost of funds, but SaaS vendors have to cover these areas to remain viable:

1. Infrastructure: The cost of infrastructure ranges from 30-40% of transaction-based pricing and is directly tied to volume. When volume goes up, your vendor is having to scale architecture. It would be great to think this is a fixed cost, but it's very much driven by transactions. Isn't it comforting to know that you can grow as much as you want and all the burden is on your vendor to make sure this scales with you?

2. Support and maintenance: It would be ideal to think that these were fixed costs as well, that whether you do 1,000 apps a month or 100,000, it doesn't cost the vendor any more to support you, but that is not the case. It's like hoping a sub-prime customer takes the same amount of servicing as a prime customer. With hosted technology as your volume goes up, so do the number of questions, issues and support needs.

3. R&D: Here is where you might find the largest variance in providers.

- Progressive technology providers are constantly updating and adding to the platform

in the form of reinvesting in new features, integrations and performance enhancements. Other less progressive vendors starve R&D to maximize profit and maintain the status quo. One of these strategies is good for lenders and the other not so good. Technology is ever changing; if your vendor isn't out there working for you, keeping up with the changes, making sure your technology is relevant, you will pay the price at some point – you can only push it off so far.

“As a lender you have profitability targets for each deal, the hurdles you have to face on each loan so that the portfolio performs and the business thrives – so do your SaaS vendors.”

- Remember the “good” days of subvented rates and an abundance of new car incentives? Car buyers were buying more often, money was flowing – but it wasn't sustainable. Cheap pricing may feel good in the moment, but it's not sustainable. Instead of looking for cheap, look for value.

- As Steve Jobs so eloquently put it, “If you keep your eye on the profit, you're going to skim on the product. But if you focus on making really great products, then the profits will follow.”

You get what you pay for

My dad always said, “You get what you pay

for.” I thought he was crazy and just wanting to buy the cool stuff. But indeed it is often the case. However, as with most things the truth lies somewhere in the middle. The saying is a great rule of thumb, but you still need to be a savvy buyer. Total cost of ownership is the most effective way to evaluate your options and determine the true value of what you are getting.

When I was young, I was incredibly attached to my money, so I always wanted to go cheap – clothes, electronics, or furniture – it didn't matter, cheapest won – cheap “felt” like the best deal.

For instance, I would have rather paid \$500 for a desktop computer rather than the \$675 for the laptop. But that desktop needed a monitor, cables, a keyboard and mouse, plus a larger desk to store it all on. After all was said and done the desktop cost \$615 total, but when I went away to college I could not take it along since the space I had would not fit the desktop. So I ended up buying a laptop in 24 months for the then lower price of \$625. Total cost of laptop \$675 versus total cost of desktop choice \$1,240.

So how do you decipher the total cost of ownership (TCO) to determine if transaction-based pricing is really providing freedom or only more cost?

With transaction-based pricing, the idea is not for you to pay more, but to pay for what you use. Some of the strategic benefits of pay per use include:

1. Lower fixed costs, which is good for cyclical industries, anyone remember 2008? With SaaS you only pay for applications you get, not for servers, network people, DBAs and others to keep the system on every day.

2. Lower enhancement costs. A progressive SaaS vendor will continue to enhance the

product to support multiple clients, which provides value for the entire network of customers. In the traditional install software model, you install the software once, but then you pay for new features and integration services (these costs are typically billed hourly so the more time it takes the more you pay).

3. Reap additional operational efficiency rewards. If you find ways to book more loans with fewer applications (higher closure, better targeting) you save on technology costs in a SaaS model. With a traditional model the cost to license and run the system does not change with better operational efficiency.

Making money benefits everyone

Doesn't it upset you when suppliers or regulators suggest you shouldn't charge the rates you do and make profits? Profit margins for smart SaaS businesses can be good, no doubt, just like they can be good for a savvy lender. But it's risky, much like lending can be. We have to keep adding value, improving the network and serving customers. If your vendor isn't constantly improving at being your tech provider, it will catch up eventually, you will easily find another vendor (think loan charged off here) – the business model isn't any more sustainable than a lender throwing a bunch of business on the books to hit volume targets with no thought for the inevitable losses.

A SaaS model inherently aligns profit motives of lenders and vendors. In the "one price regardless of volume" scenario, the vendor makes the same regardless of how you do. "One price" vendors are not incented to help you succeed and grow, only to maintain and stay in business. In the pay by the seat model, again, there is no direct alignment with seeing you succeed – the vendor makes more if you add seats even if adding seats was not growth related. True, you may add seats because you are growing, but you also add seats if you are inefficient. If you want your success tightly aligned with your key technology providers, the SaaS model is the way to go.

Trade-offs not price drops

Much like rehashing a deal between the dealer and the lender, there are many ways to structure the deal so that it works for both the

lender and technology partner. So feel free to get creative, but remember, it is full structure you are negotiating with a long-term impact, not just a lower price on a single transaction. When you are negotiating with the dealer and you have given a 15% rate, which matches the risk and profitability target of the deal and the dealer comes back and needs 13%, what do you do? You don't just say yes, you work to adjust the structure so it works for you and the dealer. You have the dealer put the buyer in a better car, or put more down, or adjust the discount. You also know you will need more business from the dealer in the future so you want a mutually beneficial deal that ensures the dealer makes profits to keep selling cars so you can keep lending.

Smart lenders don't compete on price and the same is true for SaaS providers, they compete on value. If you are looking for a vendor who competes on price, you will have to accept the rock bottom value to go with it. Just like the dealers who are looking for the

lenders that compete on price have to deal with the pitfalls that go with finding new lenders and learning new programs when that lender leaves the market.

Your call, freedom or frightening?

Yes, we know new and different can be frightening, but those who can fight past the fear and look a little bit deeper are finding creative ways to partner with vendors to create new value, reduce risk and experience freedom! Think network power. The power of many with open access, crowd sourcing and blogging has certainly changed the way we live by making information more free and made the knowledge field flatter. We think the same network and platform power will free lenders to focus on lending while savvy technology partners build a lending network of the future, free of high fixed costs, long vendor timelines and misaligned goals.

Stephanie Alsbrooks, chief freedom fighter and CEO.



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Steve Levine



Is too much Knowledge Ever a Bad Thing?

I'm wearing a different hat these days. After four years of serving as counsel for a dealer management software provider, I've become lawyer, head cook and bottle washer of SecureClose, a technology company that recently released a tool to help car dealers explain to customers the terms and conditions associated with financing. A virtual "closer" delivers legally compliant explanations of the finance documents while recording the customer's interaction with the presentation.

Can you take a guess why I'm so passionate about filling the information gap between dealers and consumers? That gap is responsible for a lot of conflict these days. It also caused the CFPB to emphasize the need for transparency and education, illustrated by the bureau's recent push into tracking consumer complaints.

In response to all this, dealers are searching for a way to make the customer experience more friendly and transparent. I've found they are enthusiastic about getting their employees out of the process of delivering complex legal explanations, and they like the idea of recording the whole experience so they can prove what the consumer was told.

Similarly, capital providers are excited because it gives them eyes into the operations of the dealership and comfort that their investment is protected. Industry lawyers, regulators and even other vendors have all embraced this technology.

Out of sight, out of mind

Speaking with finance companies that acquire contracts from dealers, however, has been a different conversation. They've expressed concern about whether they really want to know what happens at the dealership before they acquire the contract. There seems to be a belief that they are somehow protected by not actually knowing what goes on beneath

them. I am troubled by this approach, especially given the increased regulatory scrutiny we've lived under for the past few years.

I think that most sophisticated finance companies already know a lot about their dealer relationships. Basic static pool analysis provides guidance on how any given dealer's paper performs, bankruptcy data helps analyze loss trends, repossession rates give further indication of performance, and the list goes on. There are a multitude of metrics and reporting on hard factors that affect performance.

"...dealers are searching for a way to make the customer experience more friendly and transparent. I've found they are enthusiastic about getting their employees out of the process of delivering complex legal explanations."

These types of losses are quantifiable and, thus, subject to exacting analysis. That explains why significant money is invested into constantly improving underwriting tools to create more predictive models, as well as robust metrics to slice and dice collateral and understand loss rates. Companies want to find every last kernel of knowledge when there is a direct relationship to revenue.

When it comes to things that don't directly impact revenue, though, there is still a lot of

work to be done. In some institutions, I've observed the dilemma of acquiring "too much knowledge" because of the potential negative impact it could have on volume.

Much like the natural tension between underwriting and collections departments, there is almost a moral debate about how much information is a good thing. Companies consider how much volume they are willing to sacrifice, especially when the information pertains to something not quantifiable and not easily applied to things like revenue or losses.

The CFPB's battle cry

As an industry, we need to get ahead of this issue quickly before it is too late. The CFPB has already invested much energy into its Consumer Complaint Database, and this is just the beginning.

The CFPB is also mandating that institutions maintain their own complaint tracking system to identify trends and issues. Much like its preference for the creation of compliance management systems, the CFPB has provided a name but not a whole lot of other guidance on how to go about creating such a system. The one thing that's definite, though, is that they are very interested in how finance companies track and handle complaints.

Revenue versus risk

When I was in house with an independent finance company, I classified and tracked complaints searching for trends and ways to mitigate risk. I know there are lots of vendors that have created their own versions of a complaint management system, and many bright folks in the industry already use their own spreadsheets and formulas to accomplish these things.

Sometimes the information we gathered suggested bad acts on the part of the dealer, and other times it suggested a process

needed improvement. Gathering the information wasn't difficult – that is, once it was decided what to look for and communicated properly at the various touch points within the company.

The greater challenge was what to do with the information once a trend was found. For instance, on one occasion, it was obvious that a dealer wasn't explaining their warranty very well, which was creating call volume in our customer support department. That was easily solved by our local manager contacting the dealer to let him know what our data suggested. We couldn't mandate that the dealer do anything with that information, but if he wanted us to keep buying paper, he knew that we needed to see an improvement.

On another occasion, we found a series of customer complaints that suggested a dealer was using some questionable business tactics. This dealer provided us a good deal of volume, so the internal conversation was a lot more heated. The business folks weighed the incremental losses we seemed to be suffering against the possibility that we'd lose that volume altogether if the dealer chose to start sending contracts elsewhere.

The conversation played out much differently when we discovered a similar situation with a dealer that supplied fewer contracts. Should the volume of business produced play a role in the discussion? Our readers may say "of course," but I believe regulators would answer differently.

Our expanded job description

Given the CFPB's preference for businesses to be proactive and take corrective measures, the days of gathering the information and stopping there are a thing of the past. The industry will not only need to demonstrate that it captures and quantifies this type of information, but that it also acts upon it for the betterment of consumers.

We can choose to view this as a negative and look at it as another cost of compliance. Or, we can recognize that – even though these complaints aren't directly quantifiable and related to losses – they lead to losses in the form of employee time spent handling,

institutional analysis, and ultimately customer satisfaction and performance.

Maybe the choice is yours, or maybe it's already been made for you. Either way, it's time to attack customer complaints with the same vigor that we've attacked more data-driven parts of our businesses.

Steve Levine is chief legal and compliance officer of SecureClose (www.secureclose.net), a technology that facilitates compliant closings for auto dealers. SecureClose uses an automated closing system that verbally walks customers through each closing document, while recording and storing the entire process in cloud. Steve can be reached at steve.levine@secureclose.net.

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Executive Recruitment Quiz – Test your Recruiting Knowledge

Find Don's earlier answers in the e-zine archives at NAFassociation.com.

The best indicator of a candidate's future performance and success with your organization is:

1. How well they present themselves during your interview.
2. They say all the things you were hoping to hear.
3. Strong record of successful past performance.
4. Aced your corporate testing.

Answered in
May/June 2015 e-zine

The best indicator that a sales representative candidate will be a great hire for you is:

1. Blows you away during the interview.
2. Toss a stapler in his lap and ask him to "sell it to you" and he does very well.
3. Past record of high performance.
4. Aced your "Profile Assessment."

If they can "sell you" during the interview, they will sell to your clients as well.

Which point is often overlooked by employers when creating a winning job posting to attract a superior candidate?

1. Very detailed job description covering the duties and responsibilities of the opportunity.
2. List of stringent qualifications to ensure the best candidates will reply.
3. A description of your company and what a person can ascend to in this position.

The best method to delegate responsibilities to a hiring committee is:

(Example is five people on hiring committee deciding between four candidates interviewed)

1. Majority rules.
2. Unanimous or keep looking.
3. All committee members have a say, but final decision rests with the member who the candidate will report to.

When you are interviewing a sales rep or mid-level manager, the best sign that you have a good candidate is:

1. Willing to start right now with you.
2. Cautious, asks a lot of questions, needs time to think about .
3. Blows you away during the interview.

Which is correct – What a candidate wants from a career move, (candidate's mindset) is:

1. Just as important as their education and experience.
2. Not your problem and should be left to the candidate to sort out.

Which is more reflective of a career seeker vs. a job seeker?

1. Comes to your interview enthused and willing to jump through any hoop for you.
2. Willing to commit to your position during first interview.
3. Wants time to reflect on your opportunity and where it will lead them.

Check each that apply – When interviewing candidates in-person:

- You are able to spell out a compelling reason why any candidate should consider leaving their current position to join your company.
- You can explain "what the candidate can become" by taking your position.
- You tell her about the team she will be joining.
- (If candidate is from a different industry) You have compelling reasoning for him joining your industry.
- Provide literature for candidate to take home to review and share with spouse/mentor.

To save everyone's time, do you prepare a list of "knock-out factors" when beginning a search such as:

- ✓ Candidate's ability to commute to your office daily or relocate.
- ✓ A non-compete exists that may affect their current employment
- ✓ Specific knowledge necessary such as "EXCEL Expertise"
- ✓ Needed licensure (driver's license needed to do job, CPA required?)
- ✓ Credit and criminal background checks needed before offer letter
- ✓ Ability to travel as required
- Yes
- No

Post interview – Check all which you do regularly in your post interview meeting with your hiring committee:

- Ask what concerns exist for each candidate.
- Ask how candidate will fit into your corporate culture.
- Ask if candidate can duplicate their past success in your position.
- What obstacles will candidate have in achieving the same level of success with your opportunity?
- What help – training – investment will candidate need from you and can you pay that price?
- Does candidate have a compelling reason to take your opportunity?
- What concerns does the candidate have and can you overcome them?

Below is the continuation of last month's article on testing your recruiting knowledge. We pick it up with Question #4.

4) The best method to delegate responsibilities to a hiring committee is:

(Example is five people on hiring committee deciding between four candidates interviewed)

1. Majority rules.
2. Unanimous vote or keep looking.
3. All committee members have a say, but final decision rests with the member who the candidate will report to.

We like answer #3. I have a long winded philosophy on this, but keep the following points in mind. One person will be managing the new hire and that person needs to take ownership of the hire. I have frequently seen other committee members vote down a very strong candidate because they felt threatened by the candidate's experience, charisma, education, drive, etc. "Majority rules" and "unanimous or keep looking" often provided for vanilla hires.

All committee members need to be on the same page. It is critical that they are looking for "the same candidate." That is why we ask the question: "A year from now what will the new employee need to accomplish to be considered a great hire?" I have seen this question create arguments among committee members. Good! They need to hash this out and know what they are looking for.

Also, remember the adage a "camel is a race horse designed by a committee." Committee members frequently have different agendas. What often happens is that they will compromise or add on too many parts and get the camel when the position needed is a race horse.

In my 26 years in professional search, this is what we have seen work best:

- All committee members should be part of the interviewing and assessment process.
- They should all be part of the discussion regarding the candidates.
- However, the candidate will be reporting to someone and that someone should take ownership of the hire, make the decision and be responsible for their success.
- This person's boss should retain the right to veto the decision, but must do so very judiciously.

Let's look at a recent example

The search: A mid-size sub-prime automotive finance company was looking to replace its

national sales manager. The hiring committee gave us a long job description. As with nearly all job descriptions, there was nothing of value to help us hire a great candidate. The usual was included:

- 15-20 years experience in the sub-prime automotive finance industry
- College degree required
- The accounting person on the hiring committee wanted a candidate who was very experienced with financial statements
- The head of credit wanted a candidate who started as a credit buyer so that they understood the credit process
- The COO wanted a person who could also assist in the recovery area because that has been a challenging area
- HR wanted the candidate with the highest score on corporate assessment tests

Do you see what just happened? The request for a camel was just drawn up!

This is why it is hard for a company of well-intentioned executives to see the mistake of this approach. They think the more the criteria, the better the candidate. But with so many criteria that is not a part of what will drive success in this position, they are eliminating most of the pool of candidates. They are not selecting from the best of the best, they have just greatly reduced their chances of hiring the best! Now, a much smaller group of candidates will be left to select from.

When we asked the hiring committee the question: "A year from now what will the NSM need to accomplish to be considered a great hire,?" we quickly got to the root of their needs.

The client was getting fewer deals from its dealer base and because of the increased competition in their space, they felt forced to fund deals of lesser quality yielding poorer performance.

To solve this we needed a candidate who truly understood the industry and how to raise the individual achievement of each field salesperson.

In the end we did not need 15-20 years of experience, a college degree, expertise with financial statements, experience as a credit underwriter, ability to assist in recovery, nor someone to ace their corporate assessment.

We needed a race horse and focused on finding one. All race horses have a very proven track record.

This is an interesting story from a large auto dealership hiring a director of service for their very large service department. I had a unique candidate who was a terrific service manager running a very large service department. He was actually a practicing CPA auditing auto dealerships early in his career and later decided to become a service manager because he saw the fast pace in a busy service department and liked it. Additionally, he did not want to travel.

I arranged a phone interview between the dealer and the service manager. They got along well and the dealer wanted to fly the service manager out the next week to meet with his management team and see the facilities. The dealer had a very good controller who had worked her way up in the business from a high school part-time receptionist. She had no college background. Intelligence, drive and hard work earned her the controller position.

When the dealer told her about this great service manager candidate coming in the next week she was elated, that is until the dealer told her that the service manager has a degree in accounting and was a CPA. He further communicated that maybe he could help her close the month and prepare their financial statements.

As you could have guessed, the controller may have been intimidated and she told the dealer that she thought he would be a terrible fit for ...whatever reason she had. She did not want someone better educated with better credentials taking any piece of her hard earned corporate turf! The good news is that after interviewing the candidate in person, the dealer listened to the other managers' input and made the decision to hire the service manager. It was a win-win for all! The service manager is still there doing a great job and focuses on running his large department and letting the controller run her office!

To summarize, all committee members should have a say, but the final decision rests with the member who the candidate will report to.

Donald Jasensky is the founder and CEO of Automotive Personnel, LLC. It is in its 26th year providing executives, managers, and sales professionals to the automotive finance, aftermarket and automotive dealership industries. 800-206-6964x21, don@automotivepersonnel.co, www.searchpro1.com

Member News, continued from P-11

“Becki’s valuable experience at the Federal Trade Commission and as counsel for a major information services corporation perfectly aligns with the firm’s practice, and she will be a great asset for our clients,” said Tom Hudson, chairman of Hudson Cook LLP. Becki served as an assistant director in the FTC’s Division of Privacy and Identity Protection, where she led the Fair Credit Reporting Act program and oversaw the commission’s enforcement, outreach, and rulemaking activities in that area.

Spireon to Become Preferred Provider for Integrated Automatic Vehicle Location, Order Entry, Remote Disable, and Payment Alerts

Irvine, CA – June 24, 2015 – Spireon Inc., a leading innovator of Mobile Resource Management (MRM), announced that Megasy, a leading provider of consumer loan servicing systems, will partner with Spireon to provide out-of-box integration with Spireon tools.

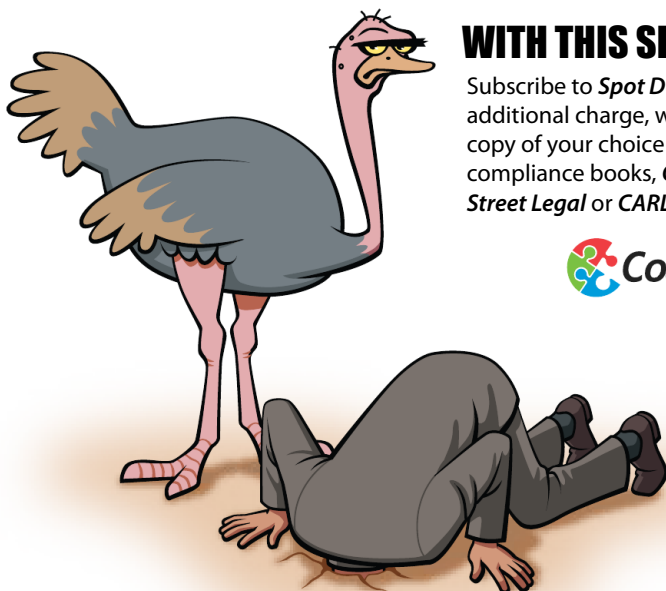
The integration between Spireon GoldStar GPS and Megasy Omega marks the auto lender industry’s first integration between major companies and allows customers to save time and money by centralizing all critical information into one convenient loan servicing system. API’s enable automotive finance companies to automate order entry and use key GoldStar GPS features within Megasy Omega such as locating vehicles, enabling or disabling the starter and sending payment alerts.

“We are excited to enter this partnership with Spireon,” said Theo Austin, president and chief operating officer for Megasy. “Time is money to our lender customers, and we are thrilled to offer additional time-saving tools with the performance and reliability that GoldStar GPS has brought to the market for years. This integration will give lenders the best analytical tools available to help them improve their bottom line and gain the competitive edge.”

Spireon’s industry-leading automotive solutions, including its groundbreaking GoldStar GPS, support the broad automotive ecosystem, allowing dealers and lenders put more of their customers into vehicles. GoldStar GPS is built on Spireon’s award-winning NSpire M2M intelligence platform, providing unparalleled reliability and the industry’s first 99.9 percent performance guarantee.

“Our partnership with Megasy allows us to provide customers with a turnkey, end-to-end system to automate auto loan management. We teamed up with a proven market leader in order to help customers save time and money by enabling them to focus on their core jobs and maximize productivity,” says David Meyer, executive vice president for Spireon’s Automotive Telematics Group.

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