Non-prime Auto Lending

Good for members!

Good for the credit union!

Mark Lynch
REAL Solutions Field Coach
The Challenge Facing Members

86% of Americans need a car to get to work

2009 Census
The Challenge Facing Members

- Members with low or no credit scores need a car to get to work
- Most credit unions are not making auto loans to these members
- These members are forced to use sub-prime auto lenders and pay high interest rates
The Challenge Facing Credit Unions

How can credit unions do non-prime auto loans for members with low or no credit?

At a better interest rate than sub-prime lenders!

In a way that does not place the credit union at risk!
Why should credit unions do non-prime auto loans?

- Because it is “serving people of modest means”
- If done properly, it is good for the credit union
- Lots of people with low or no credit scores have not mismanaged their finances in the past and most likely won’t in the future
Share of non-prime auto loans

- Sub-prime lenders – 60%
- Banks – 30%
- Credit Unions – 5%
Impact of the economic crisis?

Many economists believe that since people have to get to work, they will do what they can to keep their cars. They can always rent a place to live!

“Borrowers absolutely have to have their car,”

Adam Levin, president of the lead generator Credit.com, Inc.
Non-prime auto lending – the CU Way

- Pricing
- Underwriting
- Reliable Autos
- The Credit Union Close
- Using on-time repayment incentives
- Insuring Risk
- Close Monitoring
To existing members who until now don’t qualify
To members who could refinance their current auto loan with the credit union
To potential members
Partnerships

- Enterprise Rent a Car
- Auto Dealers
- Community Organizations
- Churches
- Employers
# Average Risk Based Interest Rates

<table>
<thead>
<tr>
<th>FICO® score</th>
<th>APR [%]</th>
<th>Monthly payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>720-850</td>
<td>3.211%</td>
<td>$292</td>
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<tr>
<td>690-719</td>
<td>4.563%</td>
<td>$298</td>
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<tr>
<td>660-689</td>
<td>6.797%</td>
<td>$308</td>
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<tr>
<td>620-659</td>
<td>10.912%</td>
<td>$327</td>
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<tr>
<td>590-619</td>
<td>15.641%</td>
<td>$350</td>
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<tr>
<td>500-589</td>
<td>17.269%</td>
<td>$358</td>
</tr>
</tbody>
</table>

**Location** | **National Avg.** | **Loan amount** |
|--------------|--------------------|-----------------|

$10,000
<table>
<thead>
<tr>
<th></th>
<th>A+</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Rate*</td>
<td>3.65</td>
<td>4.20</td>
<td>5.15</td>
<td>7.15</td>
<td>12.90</td>
<td>15.65</td>
</tr>
<tr>
<td>Cost of Funds</td>
<td>0.30</td>
<td>0.30</td>
<td>0.30</td>
<td>0.30</td>
<td>0.30</td>
<td>0.30</td>
</tr>
<tr>
<td>Gross Spread</td>
<td>3.35</td>
<td>3.90</td>
<td>4.85</td>
<td>6.85</td>
<td>12.60</td>
<td>15.35</td>
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<tr>
<td>Loss Rate</td>
<td>0.06</td>
<td>0.12</td>
<td>0.43</td>
<td>1.56</td>
<td>2.62</td>
<td>3.62</td>
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<tr>
<td>Net Spread</td>
<td>3.29</td>
<td>3.78</td>
<td>4.42</td>
<td>5.30</td>
<td>9.98</td>
<td>11.73</td>
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<tr>
<td>Origination &amp; Maintenance Cost</td>
<td>0.68</td>
<td>0.68</td>
<td>0.67</td>
<td>0.74</td>
<td>1.05</td>
<td>1.20</td>
</tr>
<tr>
<td>Spread After Costs</td>
<td>2.61</td>
<td>3.10</td>
<td>3.75</td>
<td>4.56</td>
<td>8.93</td>
<td>10.53</td>
</tr>
</tbody>
</table>

* Assumes a 60-month term.
192 New Vehicle owners

- Average car sold for: $10,534
- Average yearly income of RR car owner: $18,415
- Average Credit Score: 556
- 86% were female car owners
- 50% were single parent households, representing as many as 265 dependent children