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# AUTOFINANCENEWS

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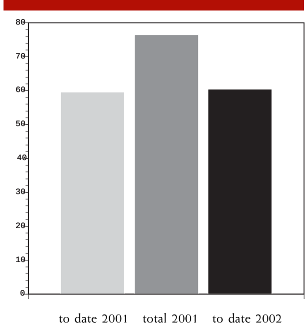
## NEWS INDEX



### AUTO ABS VOLUME




in billions as of 9/20

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## CHASE AUTO, AMERICREDIT ENJOY FAVORED STATUS AMONG DEALERS, STUDY SAYS

When it comes to which lenders dealers are giving their business to these days, **AmeriCredit Corp**. and **Chase Automotive Finance**, a division of **J.P. Morgan Chase & Co**., are leading the pack.

That's according to a recent study conducted by **Momentic Research**, a sister venture of *Auto Finance News*, in which finance and insurance (F&I) professionals at 50 of the nation's largest dealerships were polled. On average, the dealerships represented in the study raked in some $4.3 million in F&I revenue last year, according to **WardsAuto.com**, a company owned by **Primedia Inc.** that tracks the auto industry.

While the study showed pricing is a primary concern of dealers, other factors — such as the volume of lesser-quality loans a lender will buy, and brand recognition of the lender — are also influencing dealers' choices of loan providers.

"You can't always make a general statement across the board of which lender is best, because most times you have to break the loan apart and see who you can do it with," said **Lawrence Ryan**, finance director at **Dobbs Ford on Mt. Moriah**, a dealership in Memphis, Tenn. "But Chase happens to be one of our preferred lenders, because it fits us well. In fact, we did more contracts with Chase, year-to-date, than any other store in the region."

Reputation is also helping propel Chase and AmeriCredit, as well as other lenders.

*Continued on page 10*

### COMINGS & GOINGS

- **Greg Smith** gets a promotion at **Ford Motor Credit.**
- **UAC** taps **Levine** to newly created biz-dev position.
- **NAF** fills key board slots.
- **Manheim** promotes **Peluso** to top sales post.
- **AutoNation's** CEO adds chairman to title.

*see page 3*

## FORD'S LEASING DROPS 39%, AS 0% FINANCING CONTINUES ITS RUN

**Ford Motor Credit Co**.'s leasing volume has dropped 39% since last year when carmakers introduced popular 0% financing deals, said a company official. Those deals have turned many of those one-time lessees into buyers.

Even so, it is unlikely Ford will concentrate its efforts on promoting its leasing operations anytime soon. At one time, auto finance companies would have tried to entice lessees to either renew leases or buy the cars when the leases expired, but 0% financing has made that a hard sell.

"High customer demand is dictating more emphasis on 0% and low-interest financing, and cash-back rebates, than on leasing deals," said **Daniel Jarvis**, a spokesman for the No. 2 automaker. Jarvis explained that the company has not exactly pulled back on leasing, but rather switched gears, plowing its marketing and incentives dollars into 0% and low-interest financing programs.

Carmakers introduced no-interest financing last year after the Sept. 11 terrorist attacks to spur car sales, which had been sluggish because of an overall economic decline. The concept of 0% financing on new vehicles, many times coupled with cash-back rebates, was wildly popular and drew reluctant consumers back to the showrooms. By the end of the year, sales were at their second highest level ever — 17.1 million — compared with the previous record of 17.4 million hit in 2000.

*Continued on page 4*

# Rates

## CALENDAR

**Oct. 27-29: Royal Media Group** will hold its "Auto Finance Summit, 2002" at the Venetian Resort Hotel Casino in Las Vegas. 800.320.4418 x106, lendingintelligence.com.

**Nov. 19-20 Leedom & Associates** sponsors "Buy Here/Pay Here Training School" at a location in Chicago to be announced. 800.966.8733.

*To have your event listed, please send detailed info to: cmcguire@lendingintelligence.com.*

## REGIONAL AND NATIONAL AUTO LOAN RATES

Rates are for 60-month loans on 2001-2002 new autos and one-year-old used autos. For purposes of this survey, borrowers are considered to have A+ credit if their scores on auto-specific models of combined credit reporting bureaus exceeds 720; A if their scores fall between 680 and 719; B, 650 and 679; and C, 625 and 649. For lender-specific rate and fee information, contact Bob Johnston at INFORMA RESEARCH SERVICES INC. at 800-848-0218 x291.

NEW AUTOMOBILE RATES

| | A+ | A | B | C | Nat'l Avg. |
|---|---|---|---|---|---|
| Northeast | 4.84 | 4.94 | 5.86 | 7.91 | 5.88 |
| Southeast | 5.01 | 5.19 | 6.24 | 8.34 | 6.19 |
| Central Midwest | 5.13 | 5.13 | 6.09 | 8.40 | 6.19 |
| TX & Southwest | 5.29 | 5.54 | 7.16 | 10.06 | 7.01 |
| Western | 4.93 | 5.18 | 6.31 | 8.56 | 6.24 |
| Northwest | 5.51 | 6.09 | 7.24 | 9.41 | 7.06 |
| Tier Avg. Rate | 5.12 | 5.34 | 6.48 | 8.78 | 6.43 |

USED AUTOMOBILE RATES

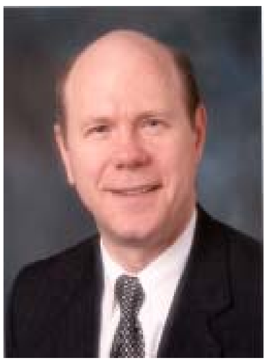
| | A+ | A | B | C | Nat'l Avg. |
|---|---|---|---|---|---|
| Northeast | 4.96 | 5.08 | 5.91 | 8.07 | 6.01 |
| Southeast | 5.22 | 5.38 | 6.43 | 8.55 | 6.39 |
| Central Midwest | 5.38 | 5.38 | 6.17 | 8.67 | 6.40 |
| TX & Southwest | 5.51 | 5.83 | 7.38 | 10.20 | 7.23 |
| Western | 5.15 | 5.38 | 6.43 | 8.55 | 6.38 |
| Northwest | 5.51 | 6.09 | 7.27 | 9.42 | 7.07 |
| Tier Avg. Rate | 5.29 | 5.52 | 6.60 | 8.91 | 6.58 |

Source: Informa Research Services Inc., 800-848-0218 *as of 9/20

# Comings & Goings

## SMITH NAMED CHAIRMAN AND CEO AT FORD MOTOR CREDIT

**Ford Motor Co.**, Dearborn, Mich., has named **Greg Smith** as chairman and chief executive of **Ford Motor Credit Co.**, replacing **Donald Winkler**, who left in December. Additionally, Ford named Smith a group vice president.



Greg Smith, Ford

Smith, 51, had served as company vice president and chief operating officer — while also holding the president post on an interim basis since Winkler's departure. Winkler was one of several high ranking Ford executives who resigned or were fired after Ford's board removed former Chief Executive **Jacques Nasser** last October.

Smith inherited a financing business besieged in the past by rising credit losses. In early December 2001, Ford Credit announced that it would attempt to limit exposure to bad loans after Ford Motor blamed its lower earnings on mounting loan losses at the credit division.

Furthermore, in an effort to preserve operating cash, as well as to raise its loan-loss reserves to $3.3 billion, Ford Credit had to forego paying Ford its regular dividend. Ford Credit reported a fourth-quarter loss of $297 million. It was at this time that Smith was installed to run operations when Winkler left.

Ford Motor's financial situation has improved, and in the second quarter it reported its first quarterly profits in a year, earning $610 million, or $0.31 a share, compared with a loss of $551 million, or $0.31 a share, a year earlier. Even so, Ford is still struggling. On Sept. 18, its share price fell to a 10-year low of $9.53. At this time last year, Ford's share price was around $16.50.

## UAC TAPS LEVINE FOR NEW POST

**Union Acceptance Corp.**, Indianapolis, has named **Gary Levine** senior vice president of business development, reporting to **Lee Ervin**, chief executive. This position has been created to coordinate and execute all sales and marketing efforts for third-party servicing. Levine's responsibilities include development of sales initiatives, client relationships, client analysis and pricing.

UAC launched third-party servicing in April 2002, in order to diversify the company's product line. This new product will leverage UAC's existing business and technical processes and procedures while taking advantage of UAC's state-of-the-art technology and management expertise.

Levine came to UAC from **American Investment Bank N.A.**, a Salt Lake City lender wholly owned by **Leucadia National Corp.**, N.Y., where he served as an executive vice president, and most recently, securitization consultant. Levine has also held executive management positions at a number of auto finance companies and dealerships in the Indianapolis area.

## NAF FILLS KEY BOARD POSTS

**Stephen Hall**, **Easterns Automotive Group**, McLean, Penn., has been elected president of the **National Automotive Finance Association** 2002-2003 board of directors. Meanwhile, **James Bass**, **Autoeloan.com Inc.**, Irving, Texas, a founding member of the organization, has been elected chairman.

Other officers are: **Peter Franklin, Franklin's National Suzuki**, vice president of the board and president, dealer members; **Jack Bloom, Auto America Inc.**, treasurer; and **Stephen Levine, Law Offices of Stephen E. Levine**, recording secretary.

New full members of the board are: **Edward Bourgeois, Crescent Bank & Trust**; and **John Griggs, Capital One Financial Corp**.

*(See page 11 for an interview with Stephen Hall, NAF's new board president.)*

## MANHEIM TAPS PELUSO FOR TOP SALES SEAT

**Nicholas Peluso** was recently named senior vice president of sales for **Manheim Auctions Inc.** He now reports to **Jamie Porter**, senior vice president of operations, and will be based out of the company's Atlanta headquarters.

Previously, Peluso ran Manheim's remarketing solutions division. Peluso will continue to play an important role in that division as a member of its newly created advisory board, said to a spokesman for the company.

Peluso joined Manheim when the company purchased **ADT Automotive Inc.** in October 2000.

## AUTONATION CEO NAMED CHAIRMAN

U.S. car retail group **AutoNation Inc.** has appointed Chief Executive **Mike Jackson** chairman, effective Jan. 1, 2003, succeeding founder **Wayne Huizenga**, who will retire on Dec. 31.

Huizenga will continue as a director. Jackson will remain CEO.

# Leasing

## FORD LEASING DROPS

*continued from page 1*

Since the introduction of 0% financing last fall, Ford's leasing operations, and leasing in general, has experienced a steady decline. Of the 17.1 million cars sold last year in America, about 25% were leased, 20% were purchased in cash, and the rest were financed, according to **J.D. Power & Associates**, a Westlake, Calif.-based research firm. This year, leasing activity for new car sales is at 18%. At Ford, it has dropped even further, to 16% from 20% in 2001. Typically, and as was the case in 2000, about 26% of Ford's total retail light vehicle sales are leased, according to Jarvis. Of the remaining 74% of sales, most are usually financed, with a smaller percentage paid for in cash. Leasing activity in the industry peaked in the late 1990s, at around 40% of overall sales.

FORD SPENDING INCENTIVE $ ON NEW CAR SALES

With the shift in emphasis at Ford now on new car financing, Ford has reduced the amount of money it spends advertising and marketing leasing deals, as well as the amount of money set aside for leasing incentives deals.

"We still offer a very wide range of leasing deals, which differ from vehicle to vehicle, and range from down payment support to lower interest rates," said Jarvis. "But where in a normal year we would have used more incentive money to attract new lease customers, more incentive money this year is instead being used to increase renewals."

Analysts do not find Ford's shifted focus unusual. **David McKay**, senior account director, auto finance, J.D. Power said that in the current economic climate Ford is balancing its leasing business based on market demand while using incentives resources to maximize the potential of 0% deals.

"It looks like Ford is headed in a prudent direction," said McKay. He said that Ford was a leader in the leasing business in the 1990s, and when residual values [or the overall values of the vehicle as it depreciates over the life of the lease] began to drop in 1999, leasing was no longer as profitable.

"I think the market has overreacted, and I expect very shortly for leasing levels to rise back into the low 20s [%]," said McKay. "And, I wouldn't be surprised, as vehicles durability gets better, leasing pulls in even more consumers, especially when low financing deals evaporate. But even with the low financing, there's always going to be a segment of the population that leasing works for, such as companies leasing for employees, and certainly on luxury cars, where the penetration is even higher than in the rest of the industry."

# Q&A

## DEALERS NEED TO THINK MORE LIKE LENDERS, NAF PRES SAYS

*With the auto finance industry facing increased federal regulatory pressure, the **National Automotive Finance Association**, a trade group focused on the nonprime sector, is looking to attract more dealers to its ranks. Why? Because dealers will soon have to adhere to the same regulatory rules as lenders. NAF leaders say dealers and lenders will have to join forces to addressing future legislation and to navigate newly ratified laws, such as changes to the Truth in Lending Act and the passage of the Patriot Act. The Patriot Act will also require that dealers, not just lenders, will act to head off financial crimes, such as money laundering.*

Auto Finance News *recently spoke with **Stephen Hall**, the newly appointed president of the board at NAF, about the organization has refocused its efforts on reaching out to dealerships.*

**AFN**: Why do dealers need to take such an interest in finance issues today?

**SH**: Many dealers assume they don't have the responsibilities a lender has, and that they only have to comply with laws, applying to the sale of the vehicle, and not the financing. But, in fact, they are the ones that actually originate the contract, and the nonprime lenders indirectly buy the paper from the dealers.

**AFN**: Why the urgency now?

**SH**: The fact that the dealers are the originators isn't a new development. What is new is the fact that we can expect, over the next few years, to see more regulation on nonprime lending. Dealers play a big role in this industry. They need to not only participate, but learn about lender issues, lender compliance, and regulatory statutes.

**AFN**: What regulatory issues are you referring to, specifically?

**SH**: There's Truth in Lending, the Patriot Act, the Privacy Act, and various other issues. It used to be that the Feds were really looking at the lending community, but they are drilling down deeper and scrutinizing the dealers more.

**AFN**: Aside from compliance, what other reasons are there to motivate dealers to become more familiar with the lending process?

**SH**: It benefits the lending community, because if dealers structure loan properly up front, and take more responsibility for putting loans on books, it improves the overall portfolio performance.

## LINGERING RISK SPURS DELINQUENCIES, BUT TIGHTENING NOT EXPECTED

Despite higher auto loan delinquencies, economists do not expect widespread credit tightening in the auto finance sector.

The **American Bankers Association** reported last week that auto loan delinquencies rose to 2.36% in the second quarter, up from 2.29% in the first quarter. Delinquencies for indirect auto loans also rose, to 2.06% from 1.98%.

Overall, the composite ratio of closed-end installment loans 30 days or more past due — gauging eight categories, from mortgages to credit cards — also rose, to 2.17% from 2.10% in the first quarter.

"The chickens are marching home to roost," said **Stuart A. Feldstein**, president and founder of **SMR Research Corp.**, Hackettstown, N.J. "There's just a lot of risk that originally wasn't properly priced for by lenders with liberal lending policies looking to grow fast by going deeper into the subprime market."

Meanwhile, **Richard J. DeKaser**, chief economist, **National City Corp.**, Cleveland, said there still exists excess risk in many portfolios, but for the most part auto finance companies have made the appropriate adjustments. Both Feldstein and DeKaser do not anticipate any widespreadcredit tightening.

As for why auto loan performance fell short of the composite average, DeKaser said: "Auto loan payments are like credit card bills. Unless there's large collateral on the line, like you have with a mortgage on a home, borrowers are more likely to skip a payment."

## THE PATRIOT ACT AND AUTO FINANCE

The **National Automotive Finance Association** is preparing its members to deal with the ramifications of the U.S. Patriot Act, which will change the way regulators look at the auto finanace industry.

The act, passed last October, essentially draws car dealers and lenders, among others, under the jurisdiction of the Treasury Department and the Bank Secrecy Act. According to the law, administered by the Treasury Department's Office of Foreign Assets Control (OFAC), the Treasury Department maintains a list of individuals it considers threats to launder money. Before a car dealer or auto finance company closes a transaction, that company must first check that the buyer is not on that list.

Should a buyer's name appear on the list, the dealer or finance company cannot do business with the customer until it confirms that there was either a mistake or proves the buyer shares the same name. Additionally, car dealers and finance companies have to establish "reasonable procedures," or measures that ensure they have correctly identified customers. A moratorium on the law is slated to expire in October.

# Exclusive

## DEBT COUNSELING ABUSES MOUNT AS ADVOCATES ARM FOR BATTLE

More consumers than ever before are complaining about the exploitive practices of a growing number of unscrupulous credit counseling agencies.

And despite an explosion in demand for counseling services, which is expected to continue growing unabated, there are few substantial reform efforts underway to root out the problem firms.

In the auto finance sector, the ramifications are particularly acute, as auto loan payments, like credit cards, are usually among the first bills troubled debtors will forgo — as opposed to other personal liabilities such as mortgage payments, rent, heat, and electricity.

According to previously unreleased statistics compiled by the Council of Better Business Bureaus, complaints about credit counselors more than doubled in 2001 to 832, up from 404 grievances filed in 2000, and the 353 lodged in 1999.

Industry experts estimate that more than 9 million consumers sought some sort of credit counseling services in 2001 alone.

Deceptive practices, like so-called "hidden-fees," accounted for most of the complaints about credit counseling firms received last year by a watchdog agency.

Consider the experience with credit counselors of **Reinaldo Llano**. Like thousands of young Americans graduating college and entering the workforce, Llano found himself saddled with upwards of $10,000 in credit card debt, with little near-term prospects of paying it off. Unable to cope with daunting monthly payments, a result of exorbitant interest rates, and the high cost of living in New York City, Llano enrolled in a debt management program offered by a Florida-based counseling agency. The agency told Llano that it would help free him from debt in 54 months. What he was not told, though, was that his first monthly payment of an estimated $250 was being kept by the agency as a "voluntary contribution" — a fact he did not learn until the agency had cashed his check.

According to a BBB spokeswoman, deceptive practices like this, regarding so-called "hidden-fees," accounted for most of the complaints the watchdog agency received last year.

Other abuses include promising but not delivering adequate counseling on effective debt management techniques; deceptive advertising; unrealistically offering to easily pull consumers out from under staggering debt; and even charges of outright fraud and misappropriation of funds that counselors should have forwarded to lenders on behalf of their clients.

Just as alarming is the questionable relationships between a number of non-profit providers and for-profit entities. After all, credit counseling was spawned by the lending industry decades ago to provide, as a non-profit, debt management education to the neediest of borrowers. Today, though, many new entrants to the sector have altered that original model to a concentration on generating revenue from collections from providing needy debtors with credit advice. Often, they direct debtors into less-than-appropriate payment plans they negotiate with the various creditors.

According to tax returns obtained by *Auto Finance News* (which conducted this investigation with its three sister publications), **AmeriDebt**, Germantown, Md. — among the largest non-profit credit counseling agencies in the nation — paid **DebtWorks**, founded by **Andris Pukke**, whose wife, Pamela, was AmeriDebt's president, more than $13 million in 2000 to process AmeriDebt's debt management plans. AmeriDebt's tax returns for 2001 and 2002 have yet to be made available. The amount AmeriDebt paid to DebtWorks accounted for more than 40% of AmeriDebt's total revenue in 2000. No other AmeriDebt contractor was paid more than $3 million in that year. AmeriDebt President **Doug Nunes** attributes the high costs to the large volume of customers AmeriDebt deals with. There is no evidence that AmeriDebt's relationship with DebtWorks

*Continued on page 7*

### HOW COUNSELORS MAKE MONEY

Credit counseling firms generate revenue from charging fees for service, charitable donations, and from "fair-share" reimbursement from lenders, which are negotiated percentages from the money debtors pay back to the creditors because of the counseling service. Agencies usually charge a nominal up-front consultation fee, often voluntary, which starts at around $10. If a consumer opts for a more involved debt management plan, the agency often also charges a monthly maintenance fee.

The increase in the number of complaints about credit counseling services has led, in part, to a drop in "fair-share" reimbursement, to less than 10% from 15%.

Meanwhile, credit industry market conditions are forcing counseling agencies to rely on consumers for more revenue. Debt management plans often require that the credit card companies forgo their late and over-the-limit fees and that they reduce interest rates.

This in turn forces the credit card firms to cut back on their "fair share" payments to counseling agencies to make up for the lost fee and interests income.

## CREDIT COUNSELING

*continued from page 6*

is anything more than a dubious business arrangement.

Separately, AmeriDebt was sued in 1999 by the District of Columbia for allegedly violating consumer protection laws by referring customers to a lending business being run by Andris Pukke. That suit was settled last year for an undisclosed sum.

**Tiff Worley**, president of **Auriton Solutions**, a Roseville, Minn.-based counseling agency that operates nationwide, and an Association of Independent Consumer Credit Counseling Agencies board member, estimated that at least 25% of counseling firms are mired in these sorts of questionable relationships.

With the economy in decline, consumers, strapped with larger amounts of debt, are seeking credit counseling assistance in greater numbers. The debt-service burden for the average American household — the ratio of debt payments to total disposable income — reached a record in 2001 of 14.12%, up from 13.94% in 2000, according to the Federal Reserve Board. New bankruptcy filings are also on the rise. In the second quarter of 2002, and for the past 12 months, new bankruptcy filings set all time records, for the first time exceeding 1.5 million for a 12 month period, according to the Administrative Office of the U.S. Courts.

And, while unemployment seems to be stabilizing — most recent Department of Labor statistics put August's unemployment rate at 5.7%, down from 5.9% the previous month — the high rate of joblessness is one factor driving up demand for credit counseling. Unemployed debtors are often unable to meet many of their financial obligations and they seek the services of credit counseling agencies as they slide deeper into debt.

That demand has spurred the growth of the new breed of profit-seeking counselors, said **James Focareta**, former president of **Consumer Credit Counseling Services of Western Pennsylvania**. As these counseling groups spring up, they flood the airwaves and internet with promises of debt salvation.

"The industry is in turmoil. Agencies are trying to meet the demand of more clients than ever before, with fewer resources."

They must be reigned in, said **Travis Plunkett**, the legislative director of the **Consumer Federation of America**. And since no government agency monitors counseling, one must be created, he said. His group is calling for cohesive state and federal legislation to commission oversight and policing entities. Plunkett said such regulatory bodies would be most able to identify problem areas and devise remedies.

"The industry is in turmoil," explained Plunkett. "Agencies are trying to meet the demand of more clients than ever before, with fewer resources."

Currently, the only avenue available to consumers abused by unscrupulous counselors are statutes for unfair and deceptive business practices on the books in most states. **Thomas B. Hudson**, a partner of Hudson Cook LLP, Linthicum, Md., said while these statutes can be used to redress abuses, such as false and deceptive practices, including hidden-fees, they are not specifically tailored to the counseling industry.

Even though these statutes do allow for double penalties and lawyers fees, often the amount in dispute may be less than a $1,000. Most debtors, Reinaldo Llano included, will not be inclined to hire a lawyer, leaving the agency free to move onto the next consumer. Furthermore, these statutes are not preventative, and do not address such issues as minimum credit counselor performance requirements.

"Sure, there are deceptive-practices laws, but they only deal with outright fraud," Plunkett said. "When you need a license in most states to cut hair or polish nails, but not to provide credit counseling, then there's something really wrong."

With BBB numbers for 2001 not even tabulated until last month, the issue of abuse has garnered little attention this year. In the past, numbers on credit counseling abuses released by the BBB have prompted responses from advocates and the media.

But now that new BBB statistics are available, late in the year or not, Plunkett said the CFA and other consumer groups will once again lobby for substantive legislative action on the state federal levels by contacting U.S. Congressional representatives, state legislators, and recruiting support from

*Continued on page 15*

### LYING IN WAIT

**Stephen Gardner**, a Dallas-based attorney who has served as an expert witness in several civil cases involving credit counseling abuses, said due to the nature of the credit counseling business, with vulnerable debtors often in a desperate state seek assistance, there will always be a certain level of dishonesty.

"The true crooks are not phased by the potential of getting caught, because they are just thieves to begin with, and there will always be some amount of dysfunction in this marketplace," said Gardner, who is also a member of the **National Association of Consumer Advocates**. Gardner said the NACA also plans to push for reform later this year.

## CHRYSLER (2002 MODEL INCENTIVES)

| Model | Cash Back | 26 Mos. | 48 Mos. | 60 Mos. |
|---|---|---|---|---|
| 300M | $2,000 | 0.0% | 0.0% | 0.0% |
| Concorde | $2,000 | 0.0% | 0.0% | 0.0% |
| PT Cruiser | $1,000 | 0.0% | 2.9% | 3.9% |
| Sebring | $1,000 | 0.0% | 0.0% | 0.0% |
| Town & Country | $2,500 | 0.0% | 0.0% | 0.0% |
| Voyager | $2,500 | 0.0% | 0.0% | 0.0% |

## MITSUBISHI (2002 MODEL INCENTIVES)

| Model | Cash Back | 36 Mos. | 48 Mos. | 60 Mos. |
|---|---|---|---|---|
| Diamante | $3,000 | 0.0% | 0.0% | 0.9% |
| Eclipse | $1,750 | 0.9% | 0.9% | 1.9% |
| Eclipse Spyder | — | 2.9% | 2.9% | 3.9% |
| Galant | $2,000 | 0.9% | 0.9% | 1.9% |
| Lancer | $1,000 | 1.9% | 1.9% | 2.9% |
| Mirage | $2,000 | 0.0% | 0.0% | 0.9% |
| Montero | $3,000 | 0.0% | 0.0% | 0.9% |
| Montero Sport | $2,500 | 0.0% | 0.0% | 0.9% |

## FORD (2002 MODEL INCENTIVES)

| Model | Cash Back | 36 Mo. | 48 Mo. | 60 Mo. |
|---|---|---|---|---|
| Windstar | $3,500 | 0.0% | 0.0% | 0.0% |
| F-150 (not Super Crew) | $2,500 | 0.0% | 1.9% | 2.9% |
| F-150 Super Crew | $2,000 | 0.0% | 1.9% | 2.9% |
| F-Series Super Duty | $500 | 0.0% | 3.9% | 5.9% |
| Expedition | $2,500 | 0.0% | 2.9% | 3.9% |
| Explorer | $2,500 | 0.0% | 0.0% | 0.0% |
| Explorer (Sport) | $3,000 | 0.0% | 0.0% | 0.0% |
| Explorer (Sport Trac) | $2,000 | 0.0% | 2.9% | 4.9% |
| Escape | $1,000 | 2.9% | 3.9% | 4.9% |
| Taurus | $2,500 | 0.0% | 0.0% | 0.0% |
| Ranger | $2,500 | 0.0% | 0.0% | 0.0% |
| Excursion | $2,000 | 0.0% | 2.9% | 4.9% |
| Crown Victoria | $3,000 | 0.0% | 0.0% | 0.0% |
| Focus | $1,500 | 0.0% | 0.0% | 2.9% |
| Mustang | $2,000 | 0.0% | 0.0% | 0.0% |

## GENERAL MOTORS (2002 MODEL INCENTIVES)

| Model | Cash Back | 36 Mo. | 48 Mo. | 60 Mo. |
|---|---|---|---|---|
| Prizm | $3,000 | 0.0% | 0.0% | 0.0% |
| Cavalier | $2,500 | 0.0% | 0.0% | 0.0% |
| Sunfire | $2,500 | 0.0% | 0.0% | 0.0% |
| Camaro | $3,000 | 0.0% | 0.0% | 0.0% |
| Firebird | $3,000 | 0.0% | 0.0% | 0.0% |
| Corvette | — | 0.0% | 0.0% | 0.0% |
| Alero | $3,000 | 0.0% | 0.0% | 0.0% |
| Grand Am | $3,000 | 0.0% | 0.0% | 0.0% |
| Malibu | $3,000 | 0.0% | 0.0% | 0.0% |
| Impala | $2,500 | 0.0% | 0.0% | 0.0% |
| Century | $3,000 | 0.0% | 0.0% | 0.0% |
| Monte Carlo | $2,500 | 0.0% | 0.0% | 0.0% |
| Grand Prix | $3,000 | 0.0% | 0.0% | 0.0% |
| Intrigue | $3,000 | 0.0% | 0.0% | 0.0% |
| Regal | $3,000 | 0.0% | 0.0% | 0.0% |
| Bonneville | $3,000 | 0.0% | 0.0% | 0.0% |
| LeSabre | $3,000 | 0.0% | 0.0% | 0.0% |
| Park Avenue | $3,000 | 0.0% | 0.0% | 0.0% |
| Aurora | $3,000 | 0.0% | 0.0% | 0.0% |
| S-10 (all models) | $3,000 | 0.0% | 0.0% | 0.0% |
| Sonoma | $3,000 | 0.0% | 0.0% | 0.0% |
| Silverado | $2,000 | 0.0% | 0.0% | 0.0% |
| Sierra (not crew) | $2,000 | 0.0% | 0.0% | 0.0% |
| Avalanche | $2,000 | 0.0% | 0.0% | 0.0% |
| Tracker | $3,000 | 0.0% | 0.0% | 0.0% |
| Blazer (all models) | $2,500 | 0.0% | 0.0% | 0.0% |
| TrailBlazer | $2,000 | 0.0% | 0.0% | 0.0% |
| TrailBlazer EXT | $2,000 | 0.0% | 0.0% | 0.0% |
| Envoy (GMT360) | $2,000 | 0.0% | 0.0% | 0.0% |
| Envoy XL | $2,000 | 0.0% | 0.0% | 0.0% |
| Bravada | $2,000 | 0.0% | 0.0% | 0.0% |
| Aztek | $3,000 | 0.0% | 0.0% | 0.0% |
| Rendezvous | $3,000 | 0.0% | 0.0% | 0.0% |
| Tahoe | $2,000 | 0.0% | 0.0% | 0.0% |
| Yukon | $2,000 | 0.0% | 0.0% | 0.0% |
| Venture | $4,000 | 0.0% | 0.0% | 0.0% |
| Silhouette | $4,000 | 0.0% | 0.0% | 0.0% |
| Montana | $4,000 | 0.0% | 0.0% | 0.0% |
| Astro (All Models) | $3,000 | 0.0% | 0.0% | 0.0% |
| Safari (All Models) | $3,000 | 0.0% | 0.0% | 0.0% |

# Rumblings

## LENDING INDUSTRY COPING WITH LOW RESIDUAL PRICING

With more car buyers drawn to 0% financing, buyers who might ordinarily have opted for a used car, pre-owned vehicle prices have plummeted, affecting lenders' ability to recover the value of off-lease and repossessed vehicles.

Considering the difficulty involved with recouping the residual value of a vehicle at auction when a customer doesn't  renew their lease, it is no wonder the leasing market is constricting.

"We're seeing O% financing continuing to severely affect used-car pricing," said **P.K. Chatterjee**, head of consumer lending at **AmSouth Bancorp**, Birmingham, Ala. "Captive finance companies are trying to recoup the residual value when the vehicle comes off-lease. For us, it's a similar problem, as we try to recover value on repossessed vehicles. Either way, when the used-car prices drop, you can't recoup that residual value, and it's a loss."

In fact, the latest annual survey by the **Consumer Bankers Association** of 41 lenders and automaker finance companies shows they lost an average $2,451 a vehicle in 2001, up from $2,342 in 2000 and more than twice the $1,200 average loss in 1998. **GE Capital Corp**., **Bank of America Corp**., **KeyCorp** and others are among lenders that were driven out of leasing entirely in the past two years.

"The problem in the 1990s was the poor estimation of residuals, not to mention reaching out to too many people who obviously couldn't afford to the cars they were leasing," said **David McKay**, an auto finanace analyst at **J.D. Power & Associates**, Westlake, Calif. "The banks got hammered, because they came in late and stayed too long. Those left in the industry are trying to cope, because they need that segment of consumers who will always want to lease."



# Frontlines

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## DEALERS' FAVORITES

*continued from page 1*

"Both Chase and AmeriCredit have great reputations and are highly visible, which plays heavily when it comes to a dealer making a decision," said **David N. Martin**, **BrandSync LLC**, a brand-consulting service based in Richmond, Va. "These organizations are effective, in part, because they have personalities — a claim to fame. Whether that's for low rates, quick turnaround, or because they've carved out a niche in a particular segment of the market."

Martin explained that some lenders may not be sector leaders, like a Chase or an AmeriCredit, but their ability to establish themselves as the best lender in a particular sub-segment of the industry, especially in the nonprime space, can ensure growth.

Specifically, the study showed that when asked which are the top three lenders most often used for auto loans, 40% highlighted Chase, while 36% said AmeriCredit. Other lenders that scored well included **Capital One Financial Corp**. (12%), **Bank One Corp**. (10%), **Household International Inc.** (10%), **Bank of America Corp.** (6%), **BB&T Corp.** (6%), **Compass Bancshares Inc.** (6%), **Huntington National Bank Corp.** (8%), **WFS Financial Inc.** (8%), and **Wells Fargo & Co**. (8%).

[This study does not include dealers' preferences for the captive finance companies of their manufacturers.]

More than 36% of respondents said that Chase, by far, exceeded all other lenders on price competitiveness on prime loans.

As for which lender was most price competitive on nonprime loans, the responses were more spread out. AmeriCredit scored 20.6%, leading Capital One with 17.6%, and Household with 11.1%.

The study showed that 28.3% of F&I managers viewed pricing as the primary motivator to work with a particular lender; 21.2% said buying deep — meaning a lender would buy more loans of lower quality as an incentive for a dealer to give it more prime loans — 12.1% said turnaround time; 11.1% said funding speed; 4% said they like the ability to track their loan applications via the internet.

Martin, the brand expert, said companies that enjoy good reputations and brand recognition need to practice effective brand management.

"If you want the staying power of a Chase or an AmeriCredit, you'd better keep an eye on the people that represent the company," he said. "Especially in the nonprime category, there's been a prevalent problem with turnaround time. If your people aren't responsive and meeting the needs of the dealers, don't wonder why when they don't call back."

**David McKay**, senior account director auto finance at **J.D. Power Associates**, a Westlake, Calif.-based research firm, said reputation is more of a consideration today, as lenders are constrained by how much they can charge for a given amount of risk and still be competitive enough to get dealers' business.

J.D. Power conducts its own dealer satisfaction survey each year, the most recent of which garnered 5,700 responses.

"While we found in our study that small regional banks tend to do better in certain areas than Chase or AmeriCredit, overall they are both ranked near the top," said McKay. "They perform well because they have solid business models, they're consistent, and they spend a fair amount of time trying to find out what dealers need."

Consider, for example, the viewpoint expressed by the F&I manager at **Bill Heard Chevrolet Inc.**, a Tennessee dealership that generated nearly $5 million of lending revenue last year:

"Chase is pretty competitive in the prime market, and AmeriCredit is very competitive on subprime loans," said the F&I manager at Bill Heard. "But really, it's deal-to-deal with many of these guys. Each one of the lenders has its own little niche. They know what they like. Some like bankruptcies. Some like multiple bankruptcies. Some like slow credit, etc."

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## 96% OF BMW DEALERS AUTOMATE FLOORPLAN OPS WITH DAS

**BMW Financial Services LLC** reports that 96% of its dealer base is now using an online system to instantly access, update, and inquire about floorplan loan information.

BMW deployed **DataScan Technologies Inc**.'s Dealer Access Systems (DAS) earlier this year, and says dealers have been able to significantly reduce manual and redundant back-office transactions, such as billing and inventory tracking.

Essentially, BMW dealers, like other dealers, finance their entire inventory wholesale, or floorplan, from the manufacturer. Manual wholesale floorplan management has always been a cumbersome, labor-intensive part of a dealer's operation involving extensive fax and paper-filing systems.

While neither BMW FS, nor DataScan officials, would provide an exact count of the total number of dealers linked to the captive finance arm of **The BMW Group**, a division of **BMW AG**, BMW FS leases or finances more than half of the new BMW vehicles sold in the U.S. According to **Autodata Corp**., a company that tracks the auto industry, BMW U.S. light-vehicle sales rose 17% in August from July (22,315 from 19,054), and are 16% above August last year (168,745 against 145,357).

### MANUAL PROCESSING REPLACED

In fact, according to **John Nore**, general manger of retailer finance at BMW FS, approximately 92% of all of the manual tasks associated with floorplan management at the dealerships that have relationships with the captive financier have since been replaced by DAS.

Using DAS, dealers go online and access the Wholesale Management System to conduct various floorplan transactions via secure internet access. The system allows dealers direct input of wholesale loans from the dealership, automated Vehicle Identification Number encoding and used vehicle valuation, payment input for individual pay-as-sold units and invoices, and monthly billing statements and payments.

"It's particularly effective for four core functions. Those are setting up new wholesale floorplan loans; making payments on existing loans or other outstanding fees; and providing both great reporting; and monitoring capabilities," said Nore.

### PAPERLESS ENVIRONMENT

"We've essentially gone from a manual intensive, to a virtually paperless environment," Nore said. He added that not only has DAS enabled BMW FS to scale down its operatoions staff, but furthermore, he said BMW FS could easily facilitate upwards of 40 new dealer relationships, without adding any personnel. That is because when BMW FS previously signed a new dealership, it would need the added staff to manage the numerous manual processes — tasks that have since been automated at the finance company by DAS.

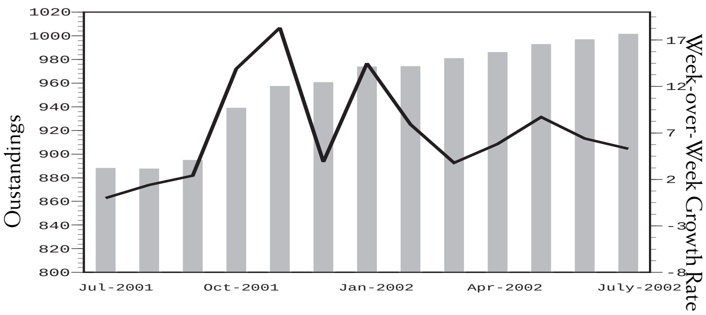
While Nore said the employees whose positions were eliminated were relocated to other departments, he would not provide a specific count.

In addition to DAS and WMS, BMW FS also uses DataScan's Collateral Management System, Dealer Loan System, and Nationwide Audit Services — all hosted at DataScan's corporate headquarters.

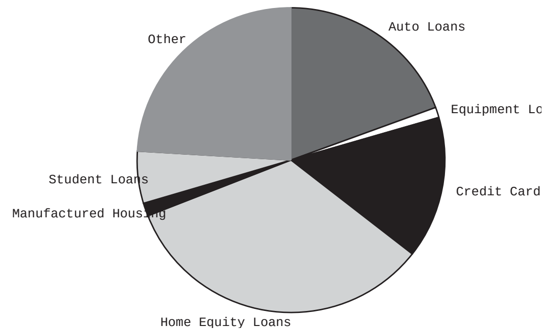
"The dealer monthly floorplan interest statement can be accessed and printed at any time," said **Christine Koeller**, office manager at **Crevier BMW**, a dealership in Santa Ana, Calif. "Floorplan auditors love the system, because there are no 'payments in transit.'"

**DataScan** President and Chief Executive **Thomas Martin** said he sees BMW FS as a good example it can use to attract other captive finance companies — especially considering that BMW FS has a higher dealer usage rate than any other lender currently on DAS.

## BANKS' NONREVOLVING LOAN OUT.*

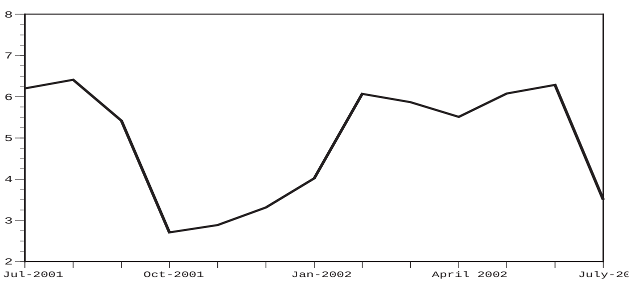



## ASSET SECURITIZATION BY SECTOR

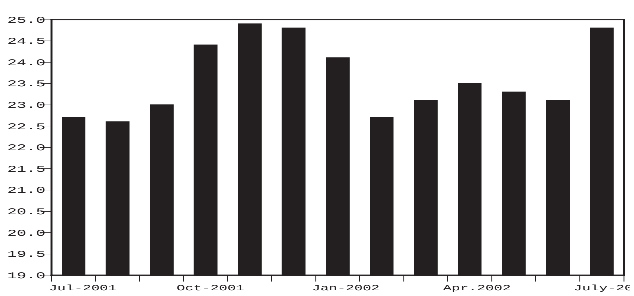



| Type | '02 YTD (%) | '01 YTD (%) |
|---|---|---|
| Auto Loans | 19.41 | 22.57 |
| Equipment Loans | 1.09 | 1.85 |
| Credit Cards | 15.08 | 20.76 |
| Home Equity Loans | 33.44 | 28.98 |
| Manufactured Housing | 1.37 | 1.39 |
| Student Loans | 5.54 | 3.50 |
| Other | 24.07 | 20.95 |

## AVG. INTEREST RATE AT FINANCE COS.♦




## LENDING VOL. AT AUTO FINANCE COS.♦




*In $billions
♦Includes data from Ford Motor Co., General Motors Corp., and DaimlerChrysler AG.
*Source: Federal Reserve Board*

## NEW CAR LENDING AT FINANCE COS.♦

Average Maturity*

| Feb. | March | April | May | June | July |
|---|---|---|---|---|---|
| 56.4 | 56.4 | 55.9 | 57 | 58.6 | 59.1 |

Average Loan-to-Value Ratio

| Feb. | March | April | May | June | July |
|---|---|---|---|---|---|
| 89 | 90 | 93 | 92 | 92 | 95 |

* in months
*Source: Federal Reserve Board*

## SECURITIZATION SCOREBOARD

| Date | Seller/Servicer | Lead Manager | Amount ($M) | Enhancement |
|---|---|---|---|---|
| 9/04 | Capital One Auto | Wachovia Securities | 1,100 | MBIA |
| 9/08 | AmeriCredit | CSFB/Barclays Capital | 1,300 | FSA |

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## RECENT PERFORMANCE OF PUBLICLY TRADED AUTO FINANCE COMPANIES

| Company | Ticker Symbol | Price 9/24 | Price 9/09 | % Ch. | P/E | 52-Wk Hi | 52-Wk Lo | Shrs.Out.* | Mkt.Cap.* | Avg Vol* |
|---|---|---|---|---|---|---|---|---|---|---|
| **AmeriCredit Corp.** | **ACF** | **6.680** | **13.060** | **-48.9** | **1.7** | **46.930** | **6.040** | **85,500** | **571,140** | **3,040** |
| Asbury Automotive | ABG | 8.710 | 11.370 | -23.4 | 8.0 | 22.450 | 8.710 | 34,000 | 825,692 | 90 |
| AutoNation Inc. | AN | 11.650 | 13.150 | -11.4 | 12.9 | 18.730 | 7.800 | 318,300 | 3,708,195 | 1,169 |
| CarMax Group | KMX | 15.230 | 19.500 | -21.9 | 17.5 | 34.000 | 9.300 | 37,100 | 565,033 | 734 |
| Consumer Portfolio | CPSS | 1.920 | 1.900 | 1.1 | 185.0 | 3.810 | 1.010 | 20,400 | 39,168 | 11 |
| Credit Acceptance | CACC | 8.121 | 10.050 | -19.2 | 11.8 | 14.950 | 7.221 | 42,400 | 344,330 | 31 |
| FirstCity Financial | FCFC | 0.980 | 1.000 | -2.0 | n/a | 2.000 | 0.400 | 8,380 | 8,212 | 7 |
| **First Investors Fin'l Svcs.** | **FIFS** | **3.400** | **2.800** | **21.4** | **n/a** | **3.950** | **2.000** | **5,400** | **18,360** | **20** |
| Household International | HI | 26.950 | 33.750 | -20.1 | 6.2 | 63.250 | 27.300 | 454,800 | 12,256,860 | 4,824 |
| Nicholas Financial Inc. | NICK | 4.050 | 4.150 | -2.4 | 5.3 | 6.250 | 3.500 | 5,010 | 20,290 | 3 |
| Onyx Acceptance Corp. | ONYX | 2.560 | 3.650 | -29.9 | 5.5 | 5.730 | 2.520 | 5,090 | 13,030 | 5 |
| TFC Enterprises Inc. | TFCE | 1.540 | 1.650 | -6.7 | 4.9 | 2.800 | 0.700 | 11,500 | 17,710 | 19 |
| Union Acceptance Corp. | UACA | 3.820 | 4.500 | -15.1 | 22.5 | 7.240 | 3.050 | 31,000 | 118,420 | 26 |
| United PanAm Financial | UPFC | 6.800 | 6.770 | 0.4 | 12.1 | 8.000 | 4.400 | 15,600 | 106,080 | 10 |
| WFS Financial Inc. | WFSI | 19.980 | 19.959 | 0.1 | 11.5 | 31.950 | 15.160 | 41,000 | 819,180 | 53 |

**in thousands. ** Greatest gainer and loser since Sept. 9 in boldface.*

## CREDIT COUNSELING

*continued from page 7*

various organizations and leaders in the lending industry.

While Plunkett said he plans to press on, he added he does not relief to come anytime soon, and that abuse in the credit counseling industry will probably get worse.

"I predicted that there would be more complaints in 2001 than 2000, and I think there will be more still in 2002, basically because very little is being done," Plunkett said.

The situation could get even worse. Bankruptcy reform legislation, currently shelved by Congress until next year, would, in part, force consumers to seek debt counseling before filing for bankruptcy protection. That's another million or so people required to get credit counseling from an industry that already appears to have fallen short of its mission.