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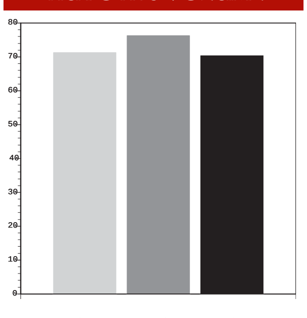

in billions as of 11/01

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GMAC NAMES FELDSTEIN PRES. AS FINNEGAN EXITS FOR CHUBB

Sharpening **General Motors Acceptance Corp.**'s focus and working through the funding issues at the **General Motors Corp.** captive should be at the top of the list of initiatives for newly named GMAC President **Eric A. Feldstein, auto analysts said**.


Eric Feldstein, GMAC

Feldstein replaced **John D. Finnegan**, who resigned last week as GMAC's chairman and president — as well as an executive vice president at GM — to take the chief executive post at insurer **Chubb Corp.**, Warren, N.J.

GMAC provides vehicle and home financing, as well as insurance products.

"I don't think we will see any loss in momentum at GMAC," said **Scott Hill**, domestic auto and auto parts analyst at **AllianceBernstein**, a unit of **Alliance Capital Management LP**, New York.

Still, Finnegan's departure will be a loss for the company overall, analysts said.

"I think the world of Finnegan," Hill said. "He is one of the very best financial executives within the automotive space. His financial acumen is very good."

But Feldstein, Finnegan's replacement, is a "sharp financial mind," Hill added. Other analysts referred to him as "experienced" and "extremely bright." Nonetheless, Feldstein will have his work cut out for him.

Continued on page 17

COMINGS & GOINGS

- Manheim promotes Broe.
- NADA names Starling chairman, Kain treasurer, and Ciccolo secretary.
- Former NADA president McCarthy inducted into Auto Hall of Fame.

see pages 17 and 19

BANKRUPT UNION ACCEPTANCE SUES MBIA OVER "SHAKEDOWN"

Union Acceptance Corp. has accused insurer **MBIA Inc.** of a "shakedown," which led to the Indiana-based auto financier's bankruptcy filing on Oct. 31. Union is pursuing legal action against MBIA.

According to its bankruptcy filing, Union Acceptance has turned to MBIA for insurance against failure to make monthly interest and principal payments on the fixed-rate securities, which have a face value of about $2.35 billion. MBIA, Armonk, N.Y., also insures a credit facility provided by **Bank of America Corp**.

The BofA credit line was set to expire on Aug. 26. However, last June, Bank of America indicated it would renew the facility for another year. But MBIA said it would not insure the credit facility unless Union raised $35 million of additional equity and "showed some improved performance" in its loan portfolio.

So, according to Union's bankruptcy filing, the company made efforts to seek out the additional cash to improve its capital position by July. At that time, MBIA indicated that Union's deadline for the $35 million capital infusion could be extended until the end of October.

Weeks went by and still MBIA had not formally approved the extension for Union's deadline. But on Aug. 15, MBIA told Union officials that the deadline extension "had been approved by one committee, but that a second committee approval was required,"

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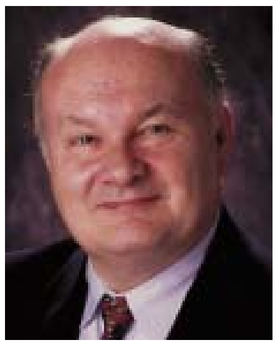
TRIARC FULL-PAGE FOUR-COLOR ADVERTISE- MENT

Incentives

CAR SALES EXPECTED TO DECLINE DESPITE INDUSTRY'S ADDICTION TO 0%

With U.S. auto sales plummeting in October, some experts expect manufacturers to add to already record-high incentives — no matter how expensive they have become.

Industry analysts estimate automakers lose, on average, $3,000 per vehicle on interest-rate and cash-back incentives — a major increase from the $1,400 average earlier this year, and the $1,200 average last October. But as subventing — the manufacturers' practice of providing their captive financiers with incentives money — becomes more expensive, consumers have grown more demanding of lower rates.


Bill Thaxton, Hyundai

These losses were acceptable when offset by higher sales. However, they have become less palatable as sales have dropped, with consumers still demanding lucrative deals.

"Incentives have become like a drug for our industry," said **C. William Thaxton**, president and chief executive of **Hyundai Motor Finance Co**. "Once you get started, it's difficult to stop, and once you do stop, and sales drop, it's hard not to pick them back up."

That is what happened to No. 1 U.S. automaker **General Motors Corp**., which recently saw its October sales slide 32% to 391,070 units from October last year. The fall prompted GM to extend until January its incentive offer that waives down payments and interest charges and requires no payments for three months on new cars and trucks. GM's "Zero, Zero, Zero" program had been scheduled to expire at the end of October. *(see Incentives Monitor, page 12.)*

Ford Motor Co. said its sales of 287,975 vehicles in October was 31% lower than for the same period last year. And **Chrysler Group**, the U.S. unit of **DaimlerChrysler AG**, said sales slid 31% for the month to 150,254 vehicles.

Officials at all three automakers blamed the drop-off primarily on comparison to an incredible October last year, which followed introduction of 0% financing in September, in the wake of the Sept. 11 terrorist attacks, which propelled the U.S. auto industry to its second-highest year ever (17.1 million sales, behind the 17.4 billion sold in 2000).

A record annualized rate of 21.3 million vehicles were sold last October. However, following strong sales in July and August, and driven by lucrative offers issued by manufacturers looking to clear out 2002 inventory from showrooms to make room for the 2003 models (the model year in the U.S. auto industry commences Oct. 1), September and October sales have dropped off.

While 0% financing is still attractive, it has lost much of the novelty that drew hordes of interested shoppers into dealerships last year when it was initially released. And though more consumers now will forgo a visit to their dealership until 0% or low-interest deals are available, these programs alone can no longer be counted on to sustain high sales levels, said Thaxton.

The slowdown is indicative of an overall muffling of consumer spending in the U.S. In October, consumer confidence fell for the fourth consecutive month to its lowest level since November 2001. And most recent figures show consumers cut their spending by 0.4% in September, the largest decline in 10 months. That is after a 0.4% increase in spending in August. The pullback, led by a reduction in spending on big-ticket items, like autos, has groups like the **Economic Cycle Research Institute** predicting consumer lending will slow even further during the fourth quarter.

In fact, eyeing October's lackluster sales, industry analysts, like those at J.**D. Powers & Associates**, the Westlake Village, Calif., research company, have revised their annual

Continued on page 10

CALENDAR

Nov. 14 The National Automotive Finance Association will hold a regional workshop at the Embassy Suites in Dallas.
To register: jtracey @nafassociation.com

Nov. 19-20 Leedom & Associates sponsors "Buy Here/ Pay Here Training School" at the Embassy Suites Rosemont in Chicago. To register: 800.966.8733.

Feb. 1-4 National Automobile Dealers Association holds its Annual Convention & Exposition in San Francisco. To register: www.nada.org/ convention

Feb. 9-11 Debt Buyers' Association holds its 6th Annual Conference at Caesars Palace in Las Vegas. To register: 562.903.7222 or www.debtbuyers.com.

Feb. 9-12 Strategic Research Institute holds its 10th Annual Asset Securitization 2003 Symposium at the Fairmont Scottsdale Princess in Scottsdale, Ariz. To register: www.srinstitute.com or 212.967.0095.

DATASCAN FULL-PAGE FOUR-COLOR ADVERTISE- MENT

Front Lines

BOFA AUTO GROUP TO TAKE OVER BANK'S DIRECT BUSINESS

Looking to better leverage its banking customers seeking auto loans, **Bank of America Corp.** plans to pilot a program that will reassign management of its direct-to-consumer auto lending to the bank's Auto Group.

Most of BofA's auto lending business derives from indirectly originating loans to car buyers through the dealerships it does business with, with the customer having little, if any, contact with the bank until after the loan is closed and he begins making payments. BofA's Dealer Financial Services division, which includes the lender's Auto Group and Specialty Group, currently holds some $22 billion in vehicles loans.

Traditionally, customers interested in getting an auto loan directly from BofA would inquire at a branch, and that prospect's credit application and information would be handled by BofA's Consumer Banking division. Under a pilot plan — which BofA made public at the Auto Finance Summit 2002, an event sponsored by *Auto Finance News* — that direct business would be managed by the sales department in the Auto Group. The pilot is slated to start in early 2003.


Floyd Robinson, BofA

"We have not specifically quantified the potential, but this represents a significant amount of business," said **Floyd S. Robinson**, president, Dealer Financial Services. "Depending upon the amount of application activity that comes from the piloting of this program, including the closure rate on that activity, we will make a determination. But, all indications are very positive."

Facing stiff competition from the captive finance arms of the major auto manufacturers, which offer lucrative 0% and other low-interest financing programs that banks often have a difficult time competing with, more banks are looking to leverage their existing relationships with customers by cross selling other financial products. A bank customer with a deposit account and a mortgage, for example, may be more inclined to accept an auto loan from his bank, rather than indirectly from another lender through a dealership.

BofA has juggled the management duties within its consumer financing business before. Last year, BofA similarly reassigned its direct-to-consumer recreational vehicles and marine financing businesses to the Specialty Group from the consumer banking unit. While Robinson would not provide specifics on that program — significantly smaller in scope than auto lending — he did say the pilot was successful, and it helped pave the way for this more recent pilot.

Robinson said the focus of the pilot program is two-fold: improving customer satisfaction while converting more prospects into loan buyers.

"This is one way we can extend our relationship with our customers," Robinson said. "And as they already have a relationship with us, the customers are going to get better service and probably [but not always] better pricing than they would from other lenders."

Other banks have also taken up more aggressive cross-selling initiatives. For example, **National City Corp.**, a regional lender based in Cleveland, is one of many banks that now has its customer service representatives solicit its customers of core financial services products — such as deposit accounts — with new car financing deals.

"Banks have traditionally not done a great job cross-selling when it comes to auto lending, mainly because it has been viewed as a transaction-based financial product where customers are most concerned with the price, no matter who the lender is," said **Todd Friesner**, senior vice president at **National City**. "That attitude has changed, because there is real opportunity to leverage relationships we have with customers when they are ready to purchase a car."

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Rates

Rates are for 60-month loans on 2002-2003 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	4.58	4.66	5.56	7.78	5.64
Southeast	4.90	4.95	6.11	8.01	5.99
Central Midwest	5.11	5.14	6.03	8.37	6.16
TX & Southwest	5.10	5.38	7.06	10.02	6.89
Western	4.82	5.07	6.26	8.40	6.14
Northwest	5.36	5.90	7.00	9.30	6.89
Tier Avg. Rate	4.98	5.18	6.34	8.65	6.29

USED AUTOMOBILE RATES

	A+	A	B	C	Nat'l Avg.
Northeast	4.85	4.95	5.80	7.94	5.88
Southeast	5.13	5.23	6.28	8.21	6.21
Central Midwest	5.30	5.30	6.13	8.64	6.34
TX & Southwest	5.37	5.69	7.33	10.21	7.15
Western	5.09	5.35	6.37	8.45	6.31
Northwest	5.45	5.96	7.06	9.37	6.96
Tier Avg. Rate	5.20	5.41	6.50	8.80	6.48

Source: Informa Research Services Inc. *as of 11/01/02

Credit Quality

SUNTRUST BANKS COUNTERS BAD LOANS WITH TIGHTER STANDARDS

Facing deteriorating performance among its auto loans outstanding, **SunTrust Banks Inc**. has tightened credit standards and beefed up collections.

The bank has been battling declining credit quality in its consumer loan portfolio for the last 18 months, **said Paul Neal**, group vice president at SunTrust, at the recent Auto Finance Summit 2002, an annual event sponsored by *Auto Finance News*. Many loans in the portfolio are performing below what was expected, based on the borrowers' Fico scores — a credit rating developed by **Fair, Isaac & Co**., Neal said.

FICO SCORES MISLEADING

"What used to be 720s are performing like 680s, and what used to be 680s are performing like 640s," Neal said. "Because of this performance, our strategy has to be different today. This decline isn't necessarily anyone's fault, but in response to the performance, we've had to make some changes."

Fico scores can be as high as 800. The Federal Reserve Board considers any borrower with a Fico score below 660 to be subprime, or with damaged credit.

With funding relationships with some 2,000 dealers in 11 states, Atlanta-based SunTrust originates more than $400 million of auto loans per month, and has $7 billion of such loans in its portfolio, Neal said. The bank operates in Alabama, Florida, Georgia, Maryland, Tennessee, Virginia, and Washington, D.C.

To right its credit performance, SunTrust has revised its loan-purchasing policies and tightened its credit standards, Neal said. The bank has also beefed up its collections activities, and begun using predictive dialing technology to step up collection productivity, he added. SunTrust Banks is not alone among regional banks wrestling with credit quality. In fact, **UBS Warburg**, an investment bank, cut its investment ratings on several regional banks, including SunTrust and **Wells Fargo & Co.**, because of slow loan origination growth and higher credit losses.

EARNINGS MISS ANALYSTS' MARK

Though SunTrust posted higher quarterly profits recently — mainly on the strength of deposit growth as many investors pulled money out of the stock market and dumped it into their savings accounts — the bank fell short of Wall Street's earnings expectations by $0.01 per share.

SunTrust reported third quarter net income of $343 million last month, or $1.20 per share, up from $334.1 million, or $1.15 per share a year ago.

SunTrust's nonperforming loans, which include loans with repayment problems, totaled $553.8 million at the end of the third quarter, up 16% from $479 million at the end of the second quarter.

Much of that increase was driven by a bad $46 million loan to a unit of bankrupt cable operator **Adelphia Corp.,** SunTrust stated in its filing.

Net chargeoffs in the third quarter were $98.3 million or 0.54% of average loans, down from 0.62% in the second quarter this year and up from 0.46% for the same time in 2001.

SunTrust officials said they do not expect a substantial decline in the number of problem loans in the bank's portfolio anytime soon.

EQUITIES MONITOR

Company	Ticker Symbol	Price 11/06	Price 10/22	% Ch.	P/E	52-Wk Hi	52-Wk Lo	Shrs.Out.*	Mkt.Cap.*	Avg Vol*
AmeriCredit Corp.	ACF	8.270	7.100	16.5	2.1	46.930	5.900	152,800	1,263,656	3,555
Asbury Automotive	ABG	9.470	8.900	6.4	8.0	22.450	7.110	34,000	825,692	88
AutoNation Inc.	AN	11.050	11.020	0.3	10.7	18.730	9.050	312,800	3,456,440	1,151
CarMax Group	KMX	16.850	17.500	-3.7	19.3	34.000	12.900	103,100	1,737,235	1,398
Consumer Portfolio	CPSS	1.990	1.980	0.5	49.4	3.810	1.110	20,400	40,596	12
Credit Acceptance	CACC	9.520	8.061	18.1	14.0	14.950	7.221	42,400	403,648	27
FirstCity Financial	**FCFC**	**1.000**	**0.700**	**42.9**	**n/a**	**1.790**	**0.400**	**8,380**	**8,380**	**5**
First Investors	FIFS	3.450	2.951	16.9	n/a	3.950	2.000	5,030	17,353	7
Household Intl.	**HI**	**24.960**	**28.400**	**-12.1**	**7.4**	**63.250**	**20.010**	**454,800**	**11,351,808**	**6,603**
Nicholas Financial	NICK	4.340	3.950	9.9	5.3	6.250	3.500	5,010	21,743	2
Onyx Acceptance	ONYX	3.290	2.700	21.9	10.2	5.500	2.100	5,090	16,746	4
TFC Enterprises Inc.	TFCE	1.680	1.750	-4.0	6.0	1.850	0.700	11,500	19,320	13
United PanAm Fin.	UPFC	6.360	6.300	1.0	10.2	8.000	4.400	15,600	99,216	9
WFS Financial	WFSI	20.569	19.770	4.0	10.2	31.950	16.230	41,000	843,329	43

*in thousands. ** Greatest gainer and loser by percentage change since Oct. 22 in boldface.*

CAPTIVES REWARDING F&I MANAGERS FOR FINANCING BIZ WITH CASH

With auto sales sliding despite a record amount of incentive dollars available to consumers, some captive finance companies have taken to offering bonus cash kickbacks to dealership finance managers for steering business their way.

Martin Swanty, president and chief executive of three eponymously named dealerships in Arizona, said when he recently learned some of his finance managers were accepting payments from a manufacturer, he quickly put a stop to it.

"I found out that **Chrysler** was offering my F&I [finance and insurance] guys a $25 cash incentive on each car they funded through our dealerships," said Swanty. "I am definitely against it. I don't think deals of this nature have a place in our industry."

A spokesman for Chrysler said the incentives offers are always sent directly to the dealer principals. He added that Chrysler periodically runs similar incentives, developed with input from its dealership council, a collection of Chrysler dealership owners.

Swanty said there is a definite conflict of interest, as these types of incentives may motivate a finance manager to accept a loan from a finance company that may not be the best deal for his dealership or for the customer, but yields the highest kickback.

Chrysler is not the only auto manufacturer to offer such incentives to dealers. One high ranking auto executive at a major finance company said that not only is he aware of several financiers extending such incentives, but often they do not inform the owner, and will even send checks directly to the finance manager's home to avoid alerting the owner.

Daniel Hubbert, a spokesman for **General Motors Corp**., said that GM offers a variety of dealer incentives, and has also heard that other manufacturers do as well.

However, while he did say dealer incentives were used by GM to motivate dealers to sell certain models, with some programs based on per-unit sales and others awarding volume sales, he would not detail the programs, nor would he say to what extent they were used at the manufacturer's captive financing arm. Hubbert also said GM informs dealership owners of the dealer incentives it offers.

Continued on page 12

SLOW SALES AHEAD

continued from page 3

forecasts down to 16.6 million in sales for 2002 from 16.8 million.

"Sales this October were awful," said Thaxton, who made his comments at the recent 2002 Auto Finance Summit, an annual conference sponsored by *Auto Finance News*. "Automakers must now substantially boost incentives, or flood the fleet market, or both, to prevent a yearend sales disaster."

> "At least four [manufacturers] will disappear by 2005."
>
> C. William Thaxton
> Hyundai Motor Finance

To put this year's sales into context, the U.S. auto industry posted sales of 15 million from 1996 to 1997, improving to 15.5 in 1998 before jumping to just under 17 million in 1999.

Taking a less pessimistic view of the auto industry at the conference, **Paul Taylor**, the chief economist for the **National Automobile Dealers Association,** pointed out that a sales level over 16 million would have been considered an amazing success just five years ago.

INCENTIVES FATIGUE SETTING IN

"Going forward, it's going to be harder to attract the number of buyers we saw earlier this year and last year, because incentives fatigue seems to have set in," said **Thomas Kontos**, chief economist at **ADESA Corp**.

Kontos does, however, point out that year-to-date, the industry is, in fact, ahead of last year (12.89 million sales YTD recently, as opposed to 12.81 million YTD last year). However, at this time last year 0% financing was just released, which enabled the industry to race up to 17.1 million in sales by the end of 2001.

Though consumer confidence is waning just as it did late last year, this year no-interest financing is not having the same positive effect it had on motivating consumers to buy cars.

Therefore, Thaxton offered some ominous predictions for the industry ahead.

"At least four [manufacturers] will disappear by 2005, and only strong independent banks will be able to stay in the sector," said Thaxton. "Many banks and credit unions will be squeezed out, as captives capture more with subvention."

PULLING 2003 SALES FORWARD

Perhaps the most discouraging fact, said Thaxton, is that many consumers were drawn into the market this year that probably would have waited until next year, if not longer, to purchase a new vehicle. Exhausting those future sales this year will have consequences next year, he said.

With leasing accounting for roughly 20% of all new car sales, the combination of lower sales and higher incentives on new car financing has adversely affected U.S. leasing activity.

500,000 FEWER LEASES SOLD THIS YEAR

Kontos points out that there were 500,000 fewer new vehicles were leased so far this year, as many lessees have opted for finance deals. "What that means, among other things, is that in three years, the 500,000 buyers who would have had to enter the new car market when their leases expired, won't be coming down to the dealerships," said Kontos.

Ironically, it is the economy's anemic performance that is making it possible for manufacturers to offer such attractive financing deals.

While the economy is recovering, economists expect growth to slow to around 2% or less in the current quarter, raising the likelihood that the Federal Reserve Board will continue to cut its overnight lending target. Since January 2001, the Fed has cut that fed funds target 12 times and 475 basis points to 1.25% to pull the economy out of its slump.

It is this plunge in the cost of borrowing that has made it possible for the automakers to offer 0% and other low-interest financing programs.

Inevitably, the Federal Reserve will raise its rate, making the low-interest financing programs cost-prohibitive.

BANK OF AMERICA SIGNS ON WITH BOTH DEALERTRACK AND ROUTEONE

The battle between technology vendors **RouteOne LLC** and **DealerTrack.com Inc**. escalated recently when news emerged that **Bank of America Corp**. would use both companies' automated loan application-processing systems to electronically link with auto dealers.

For both vendors, Bank of America is not only one of the best recognized brands in consumer lending, but it is also one of the top providers of indirect auto loans to car buyers through dealerships.

Mike Jurecki
RouteOne

RouteOne — the venture launched in April by **DaimlerChrysler Services**, **Ford Motor Credit Co.**, and **General Motors Acceptance Corp**., and later joined by **Toyota Financial Services Corp**. — was the first to announce it had signed Bank of America as a customer late last month.

RouteOne will pilot a system early next year designed to free auto dealers from the onerous process of manually entering loan-application data, enabling them to electronically transmit applications to multiple finance sources online. The system will be available for general use sometime during the second quarter, said **Michael Jurecki**, RouteOne's president.

With RouteOne's Big 3 pedigree, many in the industry felt that it would be able to sell its technology to most of the 25,000 dealerships that do business with the captive finance arms of the major manufacturers. However, without a major bank on board, it was unproven how successful RouteOne would be in penetrating the market for independent dealerships.

Dealers use a variety of lenders on a regular basis. Essentially, if RouteOne does not have the lenders a particular dealer uses, then that dealer would not be inclined to use RouteOne.

Launched in January 2001 by **J.P. Morgan Chase & Co**., **AmeriCredit Corp**., and **Wells Fargo & Co**., DealerTrack's system for automating the loan application process is being used today by more than 17,000 independent dealerships to link with 20 lenders. At press time, DealerTrack was preparing to announce its Bank of America signing, said a spokesman for the vendor — a deal that came on the heels of a similar service agreement the company announced last week with **Bank One Corp**. and **Long Beach Acceptance Corp.**, both major indirect auto lenders.

Auto dealers that use Bank of America to indirectly lend to their car-buying customers can now send credit-application information via DealerTrack's web-based system to the bank's credit analysts. The dealers will be able to perform similar functions through RouteOne once that system comes live next year.

While they may be competitors, systems like RouteOne, DealerTrack and **Credit Online Inc**.— an Annapolis Junction, Md.-based vendor launched in 1996 with similar technology, touting 1,000 dealers and 30 lenders — do not have to be operated exclusively.

For example, if you are a Ford dealer, you can link with Ford Credit using RouteOne next year for the majority of your business. However, should you need to access another lender you use, such as AmeriCredit for loans to borrowers with less-than-perfect credit, you could use DealerTrack.

"These are web-based systems, so it wouldn't be cost-prohibitive for the dealers to use more than one," said **Howard Tischler**, president and chief executive of Credit Online. "RouteOne, when it does bring a product to market, will have a sizable piece of the dealership market with the four captives. But then again, we have lenders on our system that dealers cannot access on the other systems."

Howard Tischler
Credit Online

Bank of America, which does business with some 4,500 dealerships, expects to use the technology to better serve its dealers. "Credit-aggregation systems are the future of automotive finance," said **Floyd S. Robinson**, president of the Auto Group for Bank of America.

From Bank of America's perspective, automation not only reduces processing costs, but as it makes the process itself easier, dealers are more likely to deal with Bank of America, as opposed to another lender using manual processing.

Meanwhile, the competition will intensify as Jurecki said RouteOne will close two or three additional deals by the end of December.

"Since announcing the Bank of America signing, we are not only pursuing similar deals with a couple of dozen other finance sources, including banks and subprime lenders, but we're being pursued," said Jurecki. "With this deal, we answer the critics who were skeptical whether or not RouteOne was going to be an open system available to multiple lending sources and not just captive finance companies."

Spokesmen for both Credit Online at DealerTrack said they continue to pursue deals to expand their lists of lenders, and thereby attract more dealers.

FORD (2003 MODEL INCENTIVES)

Model	Cash Back	36 Mo.	48 Mo.	60 Mo.
Windstar	$2,500	0.0%	0.0%	0.0%
F-150	$1,500	0.0%	2.9%	3.9%
F-250 Super Duty	$1,500	0.0%	3.9%	5.9%
F-350 Super Duty	$1,500	0.0%	3.9%	5.9%
E-Series	$2,000	0.0%	2.9%	3.9%
Explorer	$1,500	0.0%	2.9%	3.9%
Explorer (Sport)	$1,500	0.0%	2.9%	3.9%
Explorer (Sport Trac)	$1,000	0.0%	2.9%	3.9%
Escape	$500	—	—	—
Taurus	$2,000	0.0%	1.9%	2.9%
Ranger	$1,500	0.0%	2.9%	3.9%
Excursion	$2,000	0.0%	2.9%	3.9%
Crown Victoria	$2,000	0.0%	2.9%	3.9%
Focus	$1,000	0.0%	2.9%	3.9%
Mustang	$1,000	0.0%	2.9%	3.9%

GENERAL MOTORS (2003 MODEL INCENTIVES)

Model	Cash Back	36 Mo.	48 Mo.	60 Mo.
CTS	—	0.0%	2.9%	3.9%
Deville	—	0.0%	2.9%	3.9%
Escalade	—	0.0%	2.9%	3.9%
Escalade EXT	—	0.0%	2.9%	3.9%
Seville	—	0.0%	2.9%	3.9%
Astro	$2,000	0.0%	2.9%	3.9%
Avalanche	$2,000	0.0%	2.9%	3.9%
Blazer	$2,000	0.0%	2.9%	3.9%
Cavalier	$2,000	0.0%	0.0%	0.0%
Express	$2,000	0.0%	2.9%	3.9%
Impala	$2,000	0.0%	2.9%	3.9%
Malibu	$2,000	0.0%	2.9%	3.9%
Monte Carlo	$2,000	0.0%	0.0%	0.0%
S-10	$2,000	0.0%	2.9%	3.9%
Silverado 1500	$2,000	0.0%	2.9%	3.9%
Silverado 2500	$2,000	0.0%	2.9%	3.9%
Silverado 3500	$2,000	0.0%	2.9%	3.9%
Suburban	$1,500	0.0%	2.9%	3.9%
Tahoe	$1,500	0.0%	2.9%	3.9%
Tracker	$2,000	0.0%	2.9%	3.9%
Trailblazer	$2,000	0.0%	2.9%	3.9%
Trailblazer EXT	$2,000	0.0%	2.9%	3.9%
Venture	$2,000	0.0%	2.9%	3.9%
Envoy	$2,000	0.0%	2.9%	3.9%
Envoy XL	$2,000	0.0%	2.9%	3.9%
Safari	$2,000	0.0%	2.9%	3.9%
Savana	$2,000	0.0%	2.9%	3.9%
Sierra 1500	$2,000	0.0%	2.9%	3.9%
Sierra 2500	$2,000	0.0%	2.9%	3.9%
Sierra 3500	$2,000	0.0%	2.9%	3.9%
Sierra Denali	$2,000	0.0%	2.9%	3.9%
Sonoma	$2,000	0.0%	2.9%	3.9%
Yukon	$2,000	0.0%	2.9%	3.9%
Yukon Denali	$2,000	0.0%	2.9%	3.9%
Yukon XL	$2,000	0.0%	2.9%	3.9%
Alero	$2,000	0.0%	2.9%	3.9%
Aurora	$2,000	0.0%	2.9%	3.9%
Bravada	$2,000	0.0%	2.9%	3.9%
Silhouette	$2,000	0.0%	2.9%	3.9%
Aztek	$2,000	0.0%	0.0%	0.0%
Bonneville	$2,000	0.0%	0.0%	0.0%
Grand Am	$2,000	0.0%	2.9%	3.9%
Grand Prix	$1,500	0.0%	0.0%	0.0%
Montana	$2,000	0.0%	0.0%	0.0%
Sunfire	$2,000	0.0%	0.0%	0.0%
Vibe	$2,000	3.9%	0.0%	2.9%

Source: N.A.D.A Appraisal Guides (www.nadaguides.com)

KICKBACKS TO F&I MANAGERS

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Swanty made the revelation at the recent 2002 Auto Finance Summit in Las Vegas, an annual conference sponsored by this publication. **William C. Jensen**, senior vice president at **Banc One Credit Co**., also speaking at AFS '02, said that while he has heard of similar types of incentives sponsored by other lenders, they are not widespread.

"We offer our sales force incentives with their compensation packages, including salary and bonus awards, but there is a cap on the bonuses they can receive," said Jensen. "As for the finance managers we deal with, we offer them prizes, such as golf clubs, but it is based on volume, not individual deals, and we always get permission from the dealer principal."

THE UAC "SHAKEDOWN"

continued from page 1

UNION ACCEPTANCE'S 10 LARGEST CREDITORS

The following is a list of the companies holding the 10 largest unsecured claims from **Union Acceptance Corp**, according to the lender's recent bankruptcy filing.

1. **Principal Mutual Life Insurance Co.**, Des Moines, Iowa ($15M)
2. **New York Life Insurance and Annuity Corp.**, NY ($10.3M)
3. **The Guardian Life Insurance Co. of America**, NY ($10M)
4. **RDV Auto LLC**, Grand Rapids, Mich. ($10M)
5. **Gerlach & Co.**, Tampa, Fla. ($9.3M)
6. **New York Life Insurance Co.**, NY ($8.3M)
7. **ABSF II LLC**, Buffalo, NY ($6M)
8. **The Minnesota Mutual Life Insurance Co.**, St. Paul, Minn. ($6M)
9. **National Rural Electric Cooperative Association**, Quincy, Mass. ($3M)
10. **Metropolitan Life Insurance Co**., Convent Station, NJ ($3M)

according to Union Acceptance court documents. The second committee was scheduled to meet on Aug. 21.

The second committee did not immediately approve the extension. Instead, it required Union to agree to additional "servicing term agreements" in order to receive the extension. According to the court documents, the new servicing agreements were more onerous than the previous contracts between Union and MBIA.

UAC SIGNS NEW DEALS

Union signed the new servicing agreements, which Union stated would jeopardize its servicing-related revenue of more than $20 million per year, to get the two-month extension. Union generated a $41 million revenue loss in 2001, and a net loss of $35.5 million, or $1.14 per share, last quarter, compared with a net loss of $23.8 million, or $0.77 cents per share, during the same period in 2001.

Even with the extension, Union failed to raise the $35 million. This led MBIA to withdraw its backing of Union's Bank of America credit facility. Without the credit facility, Union no longer had enough money to continue operations, forcing it to file for bankruptcy protection with the U.S. Bankruptcy Court in the Southern District of Indiana.

UAC ALLEGES "ECONOMIC DURESS"

The legal dispute centers on whether MBIA forced Union to sign the new servicing agreements under duress. Alleging that MBIA did not act in good faith, Union claims it was forced under "economic duress" into signing the new agreements, rendering them unenforceable. Union seeks injunctive relief prohibiting MBIA from trying to replace or remove it as the servicer for its securitized loans — a major source of revenue for Union Acceptance.

MBIA SAID NO LOSSES EXPECTED

The day after UAC announced it was filing for Chapter 11 protection, MBIA, issued a press release stating it did not expect to incur any losses as a result of Union's action. An MBIA spokesman said the company would not comment further on the specifics of its relationship with Union Acceptance.

UAC was still wrestling with deteriorating credit quality last quarter. The delinquency rate at the company climbed to 4.22%, compared with 3.79% in the prior quarter and 3.73% during the same quarter a year ago.

UAC said it expects seasonally higher delinquency rates in the fourth quarter. In addition, 4.5% of Union's portfolio was written off because of nonpayment, compared with 4.08% in the second quarter and 3.67% in the third quarter of 2001.

NASDAQ HALTS TRADING

Nasdaq halted trading on Union Acceptance [Nasdaq: UACA] Thursday, and **Lee N. Ervin**, Union's president and chief executive, said that while he was in negotiations with officials at the exchange, he could not definitively assure investors the company would avoid being delisted.

Union executives plan to hold weekly conference calls to update investors on the company's situation.

UAC PURSUING PRUDENCY

Ironically, the lender had been pursuing more prudent lending practices recently, one analyst said.

"UAC changed its strategy around 12 to 18 months ago, moving upstream away from the subprime business it is known for and buying more middle-market and prime paper," said **Salil Mehta**, managing director, **Second Curve Capital LLC**, a New York hedge fund.

"However, it is still too early to see if this change is having the desired effect from a credit-quality perspective," said Mehta. "I think MBIA's decision apparently reflects that it is not yet ready to give UAC credit for moving upstream."

TREASURY DEPT. QUIETLY POSTPONES AUTO FINANCE COMPLIANCE WITH PATRIOT ACT

Auto financiers and the car dealers they serve can breathe a sigh of relief. They will not have to comply with the USA Patriot Act for the next six months.

Many in the auto finance sector had been preparing their compliance officers to more closely monitor transactions and customers as required under this act, officially known as the "Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001." It was passed last October in the wake of the Sept. 11 terrorist attacks and is, in part, intended to curb money laundering by known terrorists, drug traffickers, and other criminals.

AUTO FINANCE PROS PREPARING

The auto sector had been making plans because in April, the U.S. Treasury Department announced it would broaden the scope of the law to include some financial institutions that had not previously been subject to laws or regulations, like the Bank Secrecy Act, that required them to establish anti-money laundering programs. Auto finance companies and dealers, which indirectly originate auto loans, fell under that wider net.

2nd POSTPONEMENT GRANTED

Within days of being passed, a moratorium was granted when the Treasury's Financial Crimes Enforcement Network (FinCEN), successfully petitioned these companies be exempt till Oct. 24, pending further analysis and review by Treasury and FinCEN.

While a spokeswoman for the Treasury Department said she would not elaborate on why they postponed enforcement, **Michael A. Benoit**, a partner at **Hudson Cook LLP**, Linthicum, Md., said that as the Treasury previously did not oversee these other industries, it needed to better understand how they transacted business.

CRACKDOWN ON LAUNDERERS

Following the Sept. 11 attacks, and the intense media coverage of money laundering to terrorist groups, a crackdown was called for, and not just in industries traditionally covered under the Bank Secrecy Act, but also in such areas as the auto industry, where relatively large sums of cash sometimes changes hands.

Essentially, the Patriot Act draws car dealers and lenders, among others, under

Continued on page 15

TREASURY POSTPONES

continued from page 14

the jurisdiction of the Treasury and the Bank Secrecy Act as the government looks to crack down on money laundering.

The Internal Revenue Service has always required lenders and dealers to report cash transactions over $10,000. The Patriot Act, however, does not include a dollar amount threshold, even though the BSA has a $10,000 cash threshold requirement.

It is uncertain what threshold, if any, would be applied under the Patriot Act.

VERIFYING ALL CUSTOMERS' IDs

As the Patriot Act is written, lenders and dealers would have to verify the identity of all customers, no matter what the amount of the transaction.

The Treasury issued an interim final rule on Oct. 25, postponing enforcement until the Treasury can complete a study on how the law will be applied to these industries. A spokeswoman for the Treasury said the department will publish its decision within the next six months.

"While the Treasury has the authority to completely exempt auto dealers and/or loan and finance companies, I don't think that is a likely outcome," said Benoit. "I think the Treasury will spend some time getting to understand the non-banking industries they are trying to regulate, and then craft some sort of anti-money laundering rule."

In addition to "businesses engaged in vehicle sales", the spokeswoman for the Treasury said the industries that would be affected include businesses with significant cash transactions, including certain insurance companies; investment companies other than mutual funds; loan and finance companies; dealers in precious metals, stones, or jewels; commodity pool operators and commodity trading advisors; persons involved in real estate closings and settlements; pawnbrokers; travel agencies; telegraph companies; and others.

TREASURY COULD LIMIT SCOPE

Benoit said it is possible the Treasury could limit lenders' and dealers' compliance to include checking the Treasury's "bad-guy list" before entering into a transaction, SAR (suspicious activity reporting) and CTR (currency transaction reporting). "But again, that's a fairly unlikely scenario," he said.

The Treasury's Office of Foreign Assets Control maintains this list of individuals it considers threats to money laundering.

The most likely ruling, said Benoit, would have the Treasury implementing four elements of the law, requiring auto lenders and dealers to (1) develop internal policies and procedures to deter money-laundering activities; (2) designate a compliance officer to coordinate the program; (3) provide ongoing employee training; and (4) establish an independent audit function to test the program.

CREDIT BUREAUS AS COMPLIANCE AIDES

While the auto finance sector recently got a reprieve from complying with the USA Patriot Act, some in the industry said they plan to use the credit bureaus they do business with to comply with the new law, should they have to.

There is still plenty of confusion among auto lenders as to how they will comply with the Patriot Act, which was passed in October 2001 in the wake of the Sept. 11 terrorist attacks. Among the provisions of the act are those requiring financial institutions to strengthen procedures to prevent money laundering. Compliance will include such measures as designating a compliance officer and checking the names of people the lender transacts business with against a Treasury list of known terrorists, drug traffickers, and other criminals.

"We're just going to use our credit bureau, **Experian**, to meet the requirement," said **Stephan Saulnier**, senior vice president at **Union Acceptance Corp.**, Indianapolis.

Experian, Costa Mesa, Calif. — one of the three major credit bureaus along with **TransUnion LLC**, Jackson, Miss., and **Equifax Inc**., Atlanta — released a number of compliance products earlier this year, including a name-matching service designed to check borrowers' names against the federal list.

Though each company will have to designate a compliance officer, Patriot Act compliance does not have to be that staffer's sole function. Using relatively inexpensive compliance software also ensures smaller operations do not incur large costs.

At a cost of $0.15 for each name Experian checks, Saulnier said the expenditure is not that great. "But still, it is money I would rather spend elsewhere in my operation," he said.

More recently, TransUnion issued a screening solution of its own. However, as TransUnion reportedly charges $0.45 per search, at least one lender is eyeing Experian, and not just for compliance.

"We're thinking of moving all of our credit bureau business over to Experian," said **Jeffrey Edwards**, vice president of operations at **Nissan Motor Acceptance Corp**. "We already use Experian throughout most of our operations anyway, and even though we may upset some folks here who like TransUnion, it may be the way to go."

INSIDE THE HUDDLE AT THE AUTO FINANCE SUMMIT 2002

LAS VEGAS — A somewhat dim outlook of the auto finance industry will be partially offset by strides in technology, particularly companywide data aggregation, said lending executives at last month's Auto Finance Summit 2002, an annual conference sponsored by *Auto Finance News* and consumer finance research firm **Momentic Research**.

Auto finance in 2003 will be "sluggish but stable," said **C. William Thaxton**, conference keynote and president and chief executive of **Hyundai Motor Finance Co.** Not only does Thaxton expect sliding U.S. auto sales to worsen next year, but he predicted that most MSRPs will be on the rise. In the past year, the average new car price has inched up 1%, to $25,591, he said.

To make matters worse, manufacturers' incentive spending is expected to continue at a record pace — with 0% financing further driving down profitability.

LENDERS BEING FORCED OUT

Those aggressive incentives will serve to force many banks and credit unions out of auto finance, as captives capture the best customers, he added. Not only that, but at least four manufacturers will disappear from the U.S. market by 2005, Thaxton predicted.

Still, despite the lower vehicle sales and the tough competition, technological advances will help lenders gain marketshare. To that end, **General Motors Corp.** has combined the customer-relationship operations of all its units — including auto, mortgage, and credit card — into a single division, said **Carol J. Knorr**, vice president of marketing and development for **General Motors Acceptance Corp.**, the carmaker's captive. The move, completed earlier this year, was done to better manage client-prospect leads, reinforce brand loyalty, and cross sell GM products, such as selling a GM vehicle to a new GMAC mortgagor.

DRAWING DATA TOGETHER

Efforts are currently underway to aggregate the data in GMAC's disparate databases, which would further enhance cross-selling opportunities, Knorr added.

Charlotte, N.C.-based **Bank of America Corp.** has already combined the customer information in its various companywide databases, not an easy feat for a bank with customers in one out of every three U.S.

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Comings & Goings

GMAC TAPS NEW HEAD

continued from page 1

"He needs to strategically decide where the emphasis will be — automotive finance versus mortgage versus insurance," said **Michael R. Bruynesteyn**, auto analyst at **Prudential Securities Inc.**, New York.

GMAC earned $476 million last quarter, up 8.9% from third quarter earnings of $437 million in the same quarter last year. But a large percentage of that growth stemmed from improvements in GMAC's mortgage operations, not its auto business.

Scott Sprinzen, managing director of corporate ratings at **Standard & Poor's Corp.**, identified Feldstein's primary challenge as "dealing with GMAC's difficult funding environment."

GM has been struggling with pension liabilities, of late. GM's pension plan might be underfunded by more than $20 billion at yearend, compared with a $12 billion shortfall at yearend 2001. "Absent a dramatic rebound in investment performance, pension contributions will now absorb the dominant portion of GM's surplus cash generation over the foreseeable future," Sprinzen wrote in a report downgrading GM's and GMAC's corporate credit ratings last month.

Still, Feldstein's 21 years of treasury and finance experience at GM should stand him in good stead. He had been serving as GM's treasurer and vice president of finance, and was named chairman of **GMAC Mortgage** in 1996. With last week's appointment, Feldstein was promoted to GM group vice president. He will also assume the role of president of GMAC Mortgage.

For Finnegan, a 26-year veteran of GM, the new position gives him the opportunity to "run a company by himself," Hill said. "He was limited by [GM President and Chief Executive **G. Richard**] **Wagoner** [**Jr.**]'s age at General Motors."

Hill was referring to the fact that Wagoner is 49, leaving him ample time to retain his top post at the company. Finnegan is 53.

John Finnegan, Chubb

Though his resignation was effective immediately, Finnegan will not take over at Chubb until Dec. 1, when **Dean R. O'Hare** retires as chairman and chief executive. Finnegan's employment contract stipulates the waiting period should he transfer to a competitor; Chubb is considered a competitor to GMAC's insurance business, a GMAC spokeswoman said.

What remains to be seen at GM is who will replace Feldstein in the treasury department. That is the "bigger issue," Hill said.

But GM's treasury group is known for its stellar alumni, and it likely has someone in the wings ready to take on the role.

"I don't think any organization has turned out more CEOs or CFOs than that treasury group," Hill said. "It is a source of financial talent globally."

For example, Wagoner transferred to the carmaker's treasurer's office a year after joining the company in 1976. **E. Stanley O'Neal**, president and chief operating officer of New York investment bank **Merrill Lynch & Co.**, joined GM's treasury department in 1978, where he served in a succession of positions in New York and Madrid, including as general assistant treasurer responsible for mergers and acquisitions and domestic financing activities. **Neal S. Cohen**, executive vice president of finance and chief financial officer of **US Airways Inc.**, and **Paul D. Novas**, vice president and treasurer of **Tenneco Automotive**, among others, have also held positions in GM's treasury.

For additional Comings & Goings, see page 19

MANHEIM'S BROE PROMOTED

Michael Broe has been promoted to the newly created position of vice president of human resources and career development for **Manheim Auctions Inc.** Most recently a group vice president of operations, Broe reported to **Dean Eisner**, president and chief executive officer.

In this newly created position, Broe will be responsible for coordinating the efforts of the human resources and career development departments.

Broe joined the company in 1987 as finance manager of **Minneapolis Auto Auction**, one of the many outlets Manheim operates. Later, he was named auction manager of **Portland** (Oregon) **Auto Auction** in early 1997, and in July of that year was promoted to general manager. In 1999, he was transferred to **Texas Hobby Auto Auction** as general manager, a position he held until May 2001 when he was named a group vice president of operations.

Conference Report

NOTES FROM AFS '02

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households, according to **Floyd S. Robinson**, president of the bank's **Dealer Financial Services** group. The data was then provided to BofA's customer service group, which deals most often with the bank's clients.

Jeff Parent, VW Credit

"In the past, you sometimes would have customer service representatives from different sides of the bank pitching the same customer," Robinson said. "Not only was it inefficient, but it was embarrassing."

Other technologies becoming more mainstream at lending companies serve to improve turnaround time. While Cleveland-based **National City Corp.** employs some automatic loan-decisioning tools, it still has a ways to go.

For National City's Dealer Finance Group to become reach optimum efficiency, "40% of our applications need to be auto-decisioned," said **Todd Friesner**, a senior vice president and manager of planning and product development for the auto unit. "We're not close to that yet."

National City also plans to go live with **DealerTrack Inc.**'s online credit-application processing system in early 2003, Friesner said.

VW Credit Inc., on the other hand, has attempted to improve turnaround times using internally created technology. VW Credit recently rolled out a dealer extranet — a secure link between the lender and its dealers; now 86% of the captive's credit applications are submitted electronically.

"On a lot of those, we have less than one-minute turnaround," said **Jeff M. Parent**, VW Credit's national sales manager. VW Credit will attempt to employ the extranet technology to speed funding, Parent added.

Electronic signatures and electronic contracting are still at least a year away, lenders said.

Despite the increasing use of technology, though, IT spending at some lenders is declining.

"IT expense as a percentage of revenue has gone down," said **David Morris**, a senior vice president at nonprime lender **AmeriCredit Corp.**, Forth Worth, Texas. "In fact, it has dropped significantly over the last budget cycle."

Some 350 auto finance professionals and 30 exhibitors attended the three-day Auto Finance Summit.

Comings & Goings

NADA ELECTS FLORIDA AUTO DEALER STARLING 2003 CHAIRMAN

The **National Automobile Dealers Association** has elected **Alan C. Starling** as its 2003 chairman. Starling is president of **Holiday Chevrolet-Oldsmobile Inc.**, in St. Cloud, Fla.

Charles R. Smith, chairman of the board of **Watson Truck & Supply Inc.**, Hobbs, N.M., was elected the NADA's 2003 vice chairman.

Alan Starling, NADA

Starling, a new car and truck dealer since 1975, serves on NADA's Information Technology and Automotive Trade Association executive committees, as well as the Salesperson Certification Board of Trustees. Previously, he was chairman of the NADA's Industry Relations Committee.

Smith, a new car and truck dealer since 1985, is the association's Region IV vice chairman and NADA's Strategic Planning Committee vice chairman. He also serves on NADA's Information Technology and Government Relations committees, Insurance Trust Board, and National Automobile Dealers Charitable Foundation. Starling and Smith will assume office in February.

In other NADA news, Kentucky dealer **Jack Kain** was named treasurer, and Massachusetts dealer **Raymond J. Ciccolo** secretary.

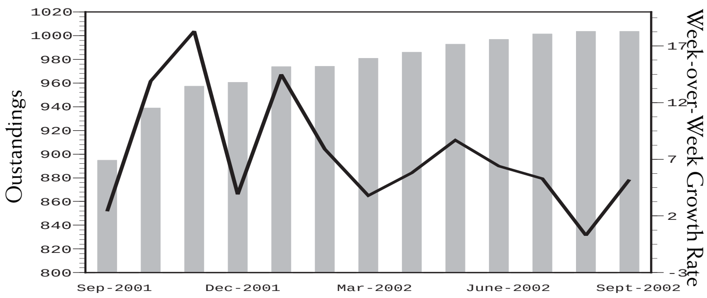
Kain, owner of **Jack Kain Ford** in Versailles, Ky., is chairman of NADA's Convention Committee and serves on the Used Car Guide Committee. Ciccolo, president of **Boston Volvo**, has been a new-car dealer since 1963. He is a director of the Massachusetts State Automobile Dealers Association.

FORMER NADA PREXY INDUCTED INTO AUTO HALL OF FAME

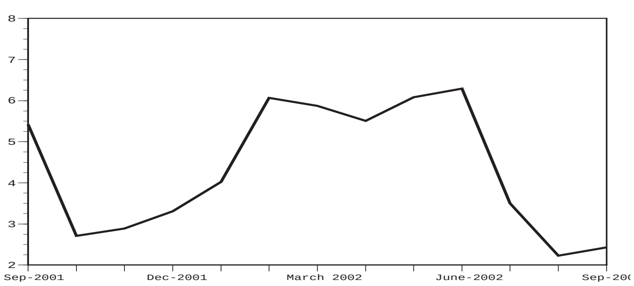
Frank E. McCarthy, former president of the **National Automobile Dealers Association**, was recently inducted into the **Automotive Hall of Fame**.

McCarthy, who served as NADA's chief executive for 33 years, passed away Feb. 25, 2001, at the age of 66, after a battle with cancer.

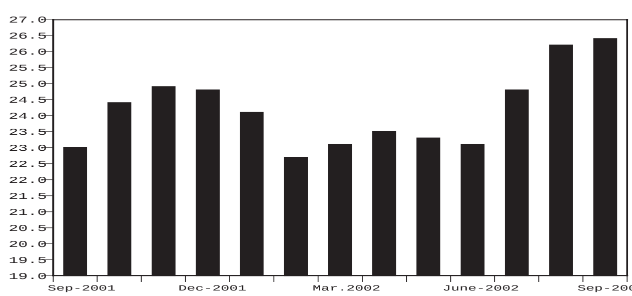
BANKS' NONREVOLVING LOAN OUT.*



AVG. INTEREST RATE AT FINANCE COS.♦

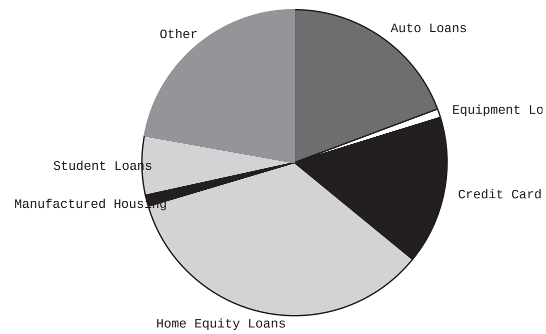


LENDING VOL. AT AUTO FINANCE COS.♦



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

ASSET SECURITIZATION BY SECTOR



Type	'02 YTD (%)	'01 YTD (%)
Auto Loans	19.30	22.73
Equipment Loans	0.93	1.82
Credit Cards	15.70	19.76
Home Equity Loans	34.45	30.07
Manufactured Housing	1.17	1.73
Student Loans	6.26	3.05
Other	22.18	20.85

NEW CAR LENDING AT FINANCE COS.♦

Average Maturity*

April	May	June	July	Aug.	Sept.
55.9	57	58.6	59.1	59.4	58.4

Average Loan-to-Value Ratio

April	May	June	July	Aug.	Sept.
93	92	92	95	96	96

* in months
Source: Federal Reserve Board

SECURITIZATION SCOREBOARD

Date	Seller/Servicer	Lead Manager	Amount ($M)	Enhancement
10/10	Mitsubishi Motors Credit of America	J.P. Morgan Securities	769	senior-sub
10/10	Onyx Acceptance Corp.	Salomon Smith Barney/CSFB	450	MBIA
10/15	DaimlerChrysler AG	CSFB/J.P. Morgan Securities	2,069	senior-sub
10/17	AmeriCredit Corp.	CSFB/Deutsche Bank Securities	1,700	MBIA
10/30	WFS Financial Inc.	Credit Suisse First Boston	1,350	FSA

