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NEWS INDEX

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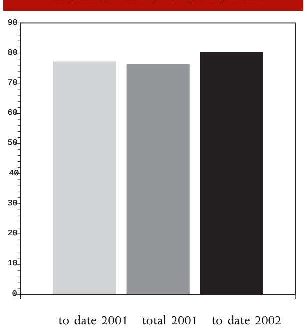

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HYUNDAI EYEING 0% PROGRAM FOR 1Q, CEO THAXTON SAYS

Having opted out of the no-interest financing war this year, **Hyundai Motor Co**. could launch its own version of the popular 0% financing program as early as the first quarter of 2003. That is according to **C.W. Thaxton**, president and chief executive of the automaker's captive finance arm, **Hyundai Motor Finance Co**., who said in a December interview with *Auto Finance News* that if competitors did not ease their aggressive 0% campaigns, then Hyundai would reluctantly enter the fray.

Thaxton said the so-called 0-0-0 programs launched by some manufacturers that offer 0% financing, require no down payment, as well as no payments for a period of time, are difficult to compete with.

"What it's doing is forcing us to look at implementing some form of these programs next year," said Thaxton. "And I do say forcing, because it is not something we would do by choice." Thaxton said that is mainly because the no-interest and low-interest deals some competitors are offering are siphoning off many of the sales Hyundai would otherwise make.

In fact, while Hyundai is outperforming many U.S. manufacturers in terms of sales growth, the carmaker is under intense pressure from its parent to increase overall sales to 1 million vehicles annually by 2010.

While U.S. sales of South Korea's No. 1 automaker dipped 4.6% in November to 26,042, from the 27,299 sold last November, Hyundai's year-to-date sales through November rose 8.3% to 349,675 from 321,822. For

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COMINGS & GOINGS

- Former **OSI** execs create auto collection start-up.
- **Michael Butler** to "Add Bodies" at **KeyCorp**.

see page 7

AUTO SECTOR STILL HAMPERED BY HEAVY AUCTION LOSSES

As demand for used vehicles drops, auto financiers, dealers and fleet managers, unable to sell sufficient numbers of cars at auction, have cut their leasing activity to the lowest level ever. All totaled, they expect to earn $3 billion to $4 billion less at auction this year.

Low-interest financing has lured many typical used-car buyers to the new-car market since it began last year, following the Sept. 11 terrorist attacks. When manufacturers such as **General Motors Corp**. introduced 0% financing to spur sales, the low-payment, low-interest, and no-interest programs also discouraged people who were leasing their vehicles from purchasing them at lease end.

This move has left manufacturers, fleet companies and dealers with excess capacity and unrealized revenue targets. Manufacturers typically bring off-lease and older model cars to auction to make room for newly produced models, while fleet companies and dealers are looking to clear out their showrooms.

The percentage of cars brought to auction that these companies managed to sell dropped to its lowest level — 53% — this past summer.

"From July through September, conversion rates really plummeted, which happened to be the same time the Big Three were reintroducing 0% financing programs they had let lapse in May and June," said **Thomas Kontos**, chief economist at **Adesa Corp**.

Continued on page 8

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.

REGIONAL AND NATIONAL AUTO LOAN RATES

NEW AUTOMOBILE RATES

	A+	A	B	C	Nat'l Avg.
Northeast	4.36	4.48	5.41	7.43	5.42
Southeast	4.65	4.67	5.84	7.79	5.74
Central Midwest	4.50	4.50	5.69	8.03	5.68
TX & Southwest	4.89	5.14	6.64	9.40	6.52
Western	4.57	4.92	6.11	8.14	5.94
Northwest	4.97	5.43	6.52	9.26	6.54
Tier Avg. Rate	4.66	4.86	6.03	8.34	5.97

USED AUTOMOBILE RATES

	A+	A	B	C	Nat'l Avg.
Northeast	4.60	4.74	5.70	7.79	5.71
Southeast	4.89	4.96	6.12	8.11	6.02
Central Midwest	4.86	4.86	5.85	8.88	6.11
TX & Southwest	5.21	5.49	6.99	9.62	6.83
Western	4.69	5.06	6.29	8.20	6.06
Northwest	5.06	5.48	6.59	9.33	6.61
Tier Avg. Rate	4.88	5.10	6.26	8.65	6.22

Source: Informa Research Services Inc. *as of 12/16/02

The Year In Review

0% FINANCING HOGS THE ROAD IN '02

No-interest financing incentives may have helped the U.S. automotive industry attain impressive sales levels in a tough economic climate this year, but some auto finance executives say it has also saddled the auto sector with an expensive "crutch" it has shown little ability, or desire, to live without.

"There's no doubt about it, 0% financing has helped move cars," said **Richard Daly**, vice president of credit at **BMW Bank of NA**, the U.S. financing arm of **BMW AG**, who said his company has resisted the allure of no-interest deals. "You may be successful in moving cars off the lot, but are you making money at it?"

New vehicle sales rose to 17.1 million in 2001 after automakers launched their wildly popular 0% financing campaigns. That was the second-highest year on record behind the 17.4 million vehicles sold in 2000.

This year, no-interest financing continues to support sales. **J.D. Power & Associates**, the Westlake, Calif., research group, forecasts 16.6 million sales for 2002. Despite these healthy sales, automakers say they are losing, 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.

A CHANGING INDUSTRY

Zero-percent financing is altering many key aspects of the auto finance industry. More cars are being sold, but fewer are being leased. The concept of 0% would never have even been possible had borrowing costs not gone on a precipitous decline as the U.S. economy fell into recession and the Federal Reserve Board cuts its overnight lending target 12 times for a total of 475 basis points to 1.25% to pull it out.

The Fed is not expected to raise rates before the third quarter of 2003, according to surveys of economists. In turn, industry experts do not expect automakers to forsake the incentives, considering the quick sales fix they provide.

The low-interest financing directly impacted monthly sales volumes this year. As such, many are now comparing the reliance of some manufacturers on no-interest and low-interest financing to a drug, others to a crutch.

"ADDICTED" TO INCENTIVES

"It is clear some of the automakers are now addicted to these incentives," said **C.W. Thaxton**, president of **Hyundai Motor Finance Co**. "The (incentives) may be propping up sales — and even with that, they are not as effective anymore — but they are hurting everyone in the industry by driving down profits and driving up costs."

At no point this past year was no-interest financing's affect on sales more evident than in the spring when many of the major automakers curtailed their 0% financing programs. They were then hammered by significant drop-offs in sales in May and June, which dipped below the 16 million annualized pace. Subsequently, sales volumes only recovered to an above-16-million annualized rate after 0% was reintroduced in July.

LEASING GETS HAMMERED

At the same time, perhaps no area has been as negatively impacted this year by 0% financing as the market for leasing. With no-interest and low-interest financing lowering monthly payments on new vehicles to unprecedented levels, many consumers who probably would have leased, instead bought their cars, driving leasing's share of total new vehicle sales down to 18%, from around 25% last year, and levels as high as 35% in the late 1990s, according to statistics kept by vehicle remarketing company **Adesa Corp**., Indianapolis.

"If the manufacturers still continue to subvent as they have throughout this year, many of these problems that plagued the leasing and used car markets could continue," said **Thomas Kontos**, chief economist at Adesa.

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Thomas Kontos, Adesa

NEW VEHICLE SALES STATS, BY YEAR

This year, the U.S. auto industry is expected to produce about 16.6 million in sales, the fourth-best year ever. To put that in perspective, here is a list of the totals from the last five years.

02 Sales: 16.6 million *

'01 Sales: 17.1 million

'00 Sales: 17.4 million

'99 Sales: 16.9 million

'98 Sales: 15.5 million

** J.D. Power & Associates yearend forecast.*

INCENTIVES MONITOR

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%

VOLKSWAGEN (2003 MODEL INCENTIVES)

Model	24 Mo.	36 Mo.	48 Mo.	60 Mo.
Beetle	1.9%	2.9%	3.5%	3.9%
EuroVan	3.5%	4.25%	4.50%	4.75%
Golf	2.9%	3.9%	3.9%	4.5%
GTI	2.9%	3.9%	3.9%	4.5%
Jetta	1.9%	2.9%	3.5%	3.9%
Passat	2.9%	3.9%	3.9%	4.5%

AUDI (2003 MODEL INCENTIVES)

Model	36 Mo.	48 Mo.	60 Mo.
A4	1.9%	2.9%	3.9%
A6	1.9%	2.9%	2.9%
A8	1.9%	2.9%	2.9%
Allroad	1.9%	2.9%	2.9%
S6	1.9%	2.9%	2.9%
S8	1.9%	2.9%	2.9%
TT	1.9%	2.9%	2.9%

CHRYSLER (2003 MODEL INCENTIVES)

Model	Cash Back	36 Mo.	48 Mo.	60 Mo.
300M	$1,500	0.0%	1.9%	2.9%
Concorde	$1,500	0.0%	1.9%	2.9%
PT Cruiser	$1,500	0.0%	1.9%	2.9%
Town & Country	$1,500	0.0%	1.9%	2.9%
Voyager	$2,500	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	$1,500	0.0%	2.9%	3.9%
Escalade	$1,500	0.0%	2.9%	3.9%
Escalade EXT	$1,500	0.0%	2.9%	3.9%
Seville	$1,500	0.0%	2.9%	3.9%
Astro	$2,000	0.0%	2.9%	3.9%
Avalanche	$3,000	0.0%	2.9%	3.9%
Blazer	$2,000	0.0%	0.0%	0.0%
Cavalier	$3,000	0.0%	2.9%	3.9%
Corvette	—	0.0%	2.9%	3.9%
Express	$2,000	0.0%	2.9%	3.9%
Impala	$3,000	0.0%	2.9%	3.9%
Malibu	$3,000	0.0%	2.9%	3.9%
Monte Carlo	$3,000	0.0%	2.9%	3.9%
S-10	$3,000	—	—	—
Silverado 1500	$3,000	0.0%	2.9%	3.9%
Silverado 2500	$3,000	0.0%	2.9%	3.9%
Silverado 3500	$3,000	—	—	—
Suburban	$2,000	0.0%	0.0%	0.0%
Tahoe	$2,000	0.0%	0.0%	0.0%
Tracker	$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%
Venture	$3,000	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%	0.0%	0.0%
Bravada	$2,000	0.0%	0.0%	0.0%
Silhouette	$2,000	0.0%	0.0%	0.0%
Aztek	$2,000	0.0%	2.9%	3.9%
Bonneville	$1,500	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	$1,500	0.0%	0.0%	0.0%

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

Growth Opportunities

VW CREDIT PARTNERS WITH BANK ONE FOR CREDIT CARD LAUNCH

VW Credit Inc. signed a partnership with **Bank One Corp**. in late November that will enable the captive finance arm of **Volkswagen of America** to launch branded credit cards early next year.

VW Credit announced earlier this year its plans to introduce a credit card in 2003 under its **Volkswagen Bank USA**. The captive financier launched the Salt Lake City-based web-only bank this past spring as a means to cross-sell other financial products to its base of car-buying borrowers.


Jeffrey Parent, VW Credit

While this mix of products includes new car loans and leases, credit cards, and mortgages, it will eventually be expanded to include deposit accounts as well. In addition to the obvious fees and interest payments VW Credit will receive from cardholders, the lender is also looking to reinforce its relationship with its customers, thereby increasing the chances that they will purchase other products and vehicles from VW in the future.

Credit cards are one of the more manageable financial products to offer borrowers, as they involve relatively low dollar amounts, and do not require the lender to open up actual branch locations to support, as you need with deposit accounts. **General Motors Corp**. was the first automaker to debut a credit card, and since launching that card 10 years ago, the No. 1 U.S. automaker has garnered over 6 million card members.

> "This is a product the F&I managers will push...so when a customer gets an auto loan, they will be offered a credit card with an instant line of credit."
> Jeffrey Parent, national sales director
> VW Credit Inc.

Volkswagen Bank is already pitching home equity loans and balloon mortgages in Florida, Illinois, Maryland, Pennsylvania, and Vermont. The new bank, which received its Federal Deposit Insurance Corp. charter in January, also offers balloon notes in Texas.

Bank One, one of the largest credit-card lenders in the nation, provides the expertise and servicing infrastructure VW Credit will need as it starts pitching its Volkswagen and Audi affinity, or branded, credit cards next year. Audi is owned by VW.

What VW Credit offers Bank One is access to its pool of borrowers.

While **Jeffrey Parent**, national sales director at VW Credit, would not divulge the size of the company's total customer base, which includes both existing borrowers and prospects that visit the automaker's numerous dealerships, he said the company projects to sign up at least 200,000 cardholders within 18 months of the April 1 launch of the credit card. He added that VW Credit will solicit its customer base primarily through a direct-mail campaign and through its Volkswagen and Audi dealerships.

"The biggest push on the finance side during the first quarter will be to ensure the success of these new credit cards, and we will be aggressively working our dealer channels," said Parent. "This is a new product the F&I [finance and insurance] managers will be pushing, so when a customer gets an auto loan, they will be offered a credit card with an instant line of credit."

There are currently approximately 600 Volkswagen dealerships and 260 Audi dealerships in the U.S.

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The Year In Review

0% HOGS THE ROAD IN '02

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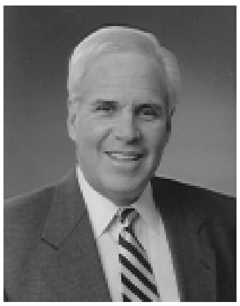
"The most significant surprise I noted in 2002 flowed from the number of lessors who exited the leasing arena," said **Stuart Angert**, chief executive of **Remarketing Services of America Inc**. Based on his recent conversations with high-ranking executives at a number of banks, Angert said banks are more willing to deal with credit risk, such as you have with credit cards and auto loans, but not as willing to handle collateral risk, or the risk associated with managing a substantial amount of physical assets, such as leased vehicles.



Stuart Angert, RSA

500,000 FEWER CARS LEASED in '02

Meanwhile, one consolation is that with 500,000 fewer vehicles being leased throughout 2002, according to Adesa, that means there are 500,000 fewer vehicles lenders will need lessees to buy at the end of their leases in three years. And, with 500,000 fewer vehicles to dispose of at auction, the pressure on leasing may subside.

For the American consuming public, the lower monthly payments that come with 0% financing could not have come at a better time.

UNDAUNTED BY SLOW GROWTH

Millions of consumers made their way to local dealerships to take advantage of the financing deals this year, undaunted by news of slow economic growth, high unemployment and consistently slumping equities markets.

The higher unemployment, which rose to 6% in November, and waning consumer confidence that has been evident throughout 2002, normally would have resulted in much lower car sales were it not for 0% financing, said **Robert Schnorbus**, the chief economist at J.D. Power. In fact, Schnorbus said sales could have been off by at least 1 million units this year were it not for the aggressive incentives.

4th BEST SALES YEAR ON RECORD

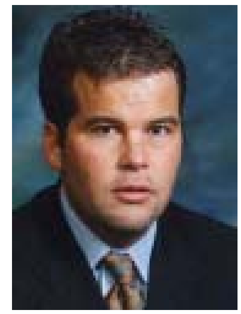
And, while 16.4 million in sales may be a far cry from the 16.8 million to 17 million projected at various times throughout this year, it would still be the fourth-best-selling year on record. To put these sales into context, the U.S. auto industry posted sales of 15 million in 1996 and 1997, improving to 15.5 million in 1998 before rocketing to just under 17 million in 1999.

Currently, banks are lending money to finance companies for two-year terms at rates that are 2 percentage points above the yield on a Treasury security of a comparable maturity, said **Floyd Robinson**, president of **Bank of America Corp**.'s Dealer Financial Services unit. The yield on two-year Treasury securities was at 1.86% as of Dec. 17, 2002.

Floyd Robinson, BofA

"Some say that rate could rise as high as 150 basis points (to 3.5 percentage points above Treasuries) within the next 12 months, which would translate into thinner margins for lenders, and higher rates for consumers," said Robinson. "But now is when you've got to plan for it, not in 12 months, so you'd better not be asleep at the wheel."

Essentially, Robinson said with the flexibility of borrowing money at lower rates, lenders have an opportunity now to make sure they are properly accounting for credit risk. When interest rates eventually rise, and lending becomes therefore more competitive, it is more difficult to address credit risk, he said.



Stephen Hall, NAF

Already, much of the conservative strategizing Robinson advocates is manifesting itself as some lenders tighten their credit requirements.

LENDERS "SWIMMING UPSTREAM"

"We are seeing more and more lenders swimming upstream, and no longer accepting Fico scores below 550," said **Stephen Hall**, president of the **National Automotive Finance Association**, a trade group, referring to the industry-standard scoring system developed by **Fair Issacs & Co**. Hall is also president of **Easterns Automotive Group**, a dealership group in Virginia.

He said while some regional lenders, such as **Consumer Portfolio Services Inc**., **Transouth Inc**., **KeyBank & Trust Inc**., and **Universal Underwriters Inc**., still accept under 550, other auto financiers sometimes will not, namely **Capital One Financial Corp**. and **Household Automotive**, a unit of **Household International Inc**.

The lenders themselves declined to discuss their credit scoring strategies.

"And not only that, lenders are also raising the minimum income requirements of borrowers, to $1,800 per month from $1,500," said Hall. "But really, anything below $2,000, and you're going to have a problem getting a loan."

Comings & Goings

FORMER OSI EXECS CREATE AUTO COLLECTION STARTUP

In early December, two former executives from **Outsourcing Solutions Inc.** created a company specializing in auto finance collections and loan servicing.

"Our goal is to build a better mousetrap from Day 1," said **Chris J. Gugala**, executive vice president and chief relationship officer for the new company, called **Vital Solutions Inc.**, Norcross, Ga. Gugala was formerly head of OSI's auto finance collection servicing unit.

"Our servicing focus will be quite narrow, as we take advantage of our 70-plus years of specific industry experience. We will not be like other collection vendors, offering 'all-things-to-all-people.' Our unique 'back-to-basics' technique, coupled with our creative process functionality, will create our distinguishing mark — essential receivable performance." Vital Solutions has two subsidiaries — **Vital Recovery Services Inc.**, which will handle third-party collections; and **Vital Outsourcing Services Inc.**, which will perform first-party collections. In first-party servicing, finance companies originate loans which are then serviced — by a third party — in the lender's name. Third-party servicing, on the other hand, involves collecting loans using the collection agency's name.

In addition to collection and recovery work, Vital Solutions will offer clients lettering and statement services via a licensing agreement with an existing company called **Envelopes & Forms Inc.**, Norcross, Ga.

The company plans to secure 10 to 12 auto finance clients next year, with staffing expected to reach 110 collection associates, Gugala said.

Along with Gugala, **Christopher J. Shuler** completes Vital Solutions's chief management team. Shuler, who serves as the company's president and chief executive, held the post of senior vice president of operations at OSI, handling the subservicer's first-party and third-party work. Before joining OSI, Shuler was president of **Credit Performance Services**, the unit of Denver-based **First Data Corp.** that handles pre-chargeoff, first-party collections.

Gugala, who led OSI's auto finance unit for 10 years, spent seven years at a captive before joining OSI. Vital Solutions will start with an initial capacity for 165.

BUTLER EXPECTED TO "ADD BODIES" IN AUTO FINANCE AT KEYCORP

Michael Butler, KeyCorp

Settling in to the newly created post of president of the recently formed consumer finance unit at **KeyCorp**, **Michael A. Butler** plans to grow auto loan originations, and at the same time add staff next year.

"While I am still reviewing how many hires we will actually make, I plan to add plenty of bodies to our auto finance operations, especially expanding our sales force," said Butler. He said he intends to grow both the prime and subprime portions of the lender's $3.2 billion auto loan portfolio.

Butler had most recently headed the company's business-banking unit — a post he was appointed to in 1999 — before he was named to head the company's consumer finance arm, which now includes the auto finance, recreation lending, education lending, and consumer real-estate business units at KeyCorp, Cleveland.

"What we did was take these national consumer lending businesses and place them all under one umbrella," said Butler. "The purpose was to ensure we are leveraging the national infrastructure we have in place to support these units, which are essentially national business lines."

Leveraging this infrastructure this coming year, said Butler, will involve increased cross-selling of financial products to KeyCorp's auto loan borrowers. But, there is definitely one business line Butler will not pursue.

"For all intents and purposes, we are finally out of the leasing business...and we have no interest in jumping back in," he said. KeyCorp left leasing in 2000, but still holds a sizable leasing portfolio it has been shedding.

Auction Performance

CALENDAR

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.

Mar. 9-11
The Consumer Bankers Association will holds its 23rd National Auto Finance Conference & Tradeshow in Dallas. To register: www.cbanet.org.

DIM OUTLOOK FOR '03

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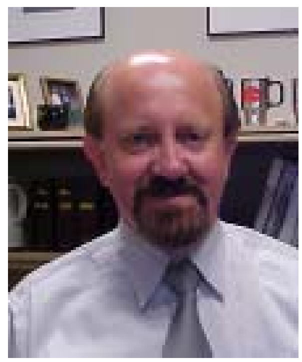
The rate at which these companies have been able to sell their used-vehicle supply at auction has fallen throughout the past year, according data from **Adesa Corp**. In 2001, that so-called conversion rate was at 58% for most of the year.

The introduction of 0% financing boosted new car sales dramatically, but also drove used car sales down, and the conversion rate slid to 55%. In fact, analysts estimate the auto finance industry will earn $3 billion to $4 billion less on auctioning its cars than expected because of the drop in this rate. That estimate assumes a conversion rate of 56%, which was hit in November. It is also based on estimates that 9.5 million vehicles would be brought to market and a $7,500 average auction price for a used vehicle. Therefore, at 56%, the industry will garner roughly $39.9 million at auction this year, which is almost $3 billion less than it would have earned if it had achieved a 60% conversion rate — the industry benchmark.


David Langley, Honda Finance

Even so, the 56% hit in November is an improvement from the 53% average the rate stood at for most of 2002.

But, lower-than-expected conversion rates prompted lenders such as **Bank of America Corp**. and **National City Bank** to exit the leasing business over the last few years, and continue to drive others out this year.

No. 2 automaker **Ford Motor Co**. reduced its leasing activity by 30% since last year, partially because of the drop in these conversion rates, said **Daniel Jarvis**, a spokesman for **Ford Motor Credit Co**. Leased vehicles now account for less than 16% of its total sales with the other 20% in cash and the rest in financing.

Indeed, leasing activity is declining industry wide. It fell to 18% in 2002 from 25% just last year, according to **J.D. Power & Associates**, the Westlake, Calif., research group. That represents the portion of total new vehicle sales that are leased. The others are financed or paid for with cash. In the mid 1990s, leasing accounted for upwards of 35% of all new vehicle sales.

American Honda Finance Corp., the Torrance Calif.-based captive finance arm of **American Honda Motor Co**., saw its conversion rates sink to 70% this summer. Even following Sept. 11, American Honda's conversion rate only fell to 75%, from its normal average of 90% to 95%, said **David Langley, the captive's nation manager of remarketing services.**

Cleveland-based **KeyCorp**. also knows about low conversion rates. **Michael A. Butler**, the bank's newly appointed president of the consumer finance unit, said less-than-expected conversion rates played a major role in the company's decision to leave the leasing market in 2000.

While most lenders neither reveal their conversion rates nor break them out from their overall loss tallies, they are one factor that is used to formulate residual value rates, or the rates at which leased vehicles depreciate over time. Whereas previously, automakers and lenders would have set their conversion rates high, some are more conservative now to ensure they are not punished for setting their sites too high.

For example, previously **Nissan Motor Co**., like many automakers, would set conversion rates at between 85% and 95%, which was what they were accustomed to reaching. Today, though, according to a source at the company who declined to be named, the carmaker sets its conversion rate at 40%. While the company has seen its conversion rate fall this year, it has never dipped as far as 40%. But by setting a conservative estimate, which the source said other manufacturers are

Continued on page 9

DIM OUTLOOK FOR '03

continued from page 1

also doing this year, the company is assured it will not be punished by investors for low conversion rates, but in fact rewarded for besting its forecast.

Meanwhile, although none of the lenders or manufacturers interviewed would admit what prices they are settling for at auction, Adesa's Kontos said he is seeing many more sellers, more often, accept $200, $300, and even up to $1,000 less per vehicle at auction.

"Manufactures are starting to accept the low pricing situation and trying to unload vehicles they would have previously held for 'No-Sale'," said Kontos. "It's the melting piece of ice scenario. The vehicles are losing value every month, so it is forcing some lenders to make some difficult decisions."

Kontos said the situation could be worse, should conversion rates have actually been lower in 2002 than the current estimates, or if more than the projected 9.5 million vehicles are brought to auction this year. And few think January 2003 will look anything like January 2002. Experts are not expecting used-car prices to rebound this January as they did last year as the initial thrill of low interest financing wore off.

"We've been struggling with lower conversion rates at auction this year as well," said **C.W. Thaxton**, president of **Hyundai Motor Finance Co**. "Unfortunately, because used car pricing is so soft, tied directly to the popularity of 0% financing, I don't think this January is going to be anywhere near the terrific experience we had last January."

Therefore, there exists a lot of uncertainty about where conversion rates will be next year.

Peter Klopchic, vice president of vehicle remarketing for **CitiCapital Fleet**, **CitiGroup Inc**.'s Carrolton, Texas-based fleet business, said while his conversion rates rose back to 85% in November, the auction market is still on a "wild toboggan ride.

"There are still so many factors involved, including everything from a war with Iraq, to further manufacturer incentives and unemployment," said Klopchic. "I'm generally optimistic, and I think we hit rock bottom with conversion rates this year, but it's still too early to tell."

AMERICREDIT.COM HITS 360K USERS

Of the over 1 million borrowers **AmeriCredit Corp**. currently has, approximately 360,000 manage their loan accounts online through the Ft. Worth, Texas, lender's website.

In November alone, the site logged more than 4 million hits, and has been averaging 14% growth per month in customer registration this year, and over 200% growth since it was launch midway through 2001, said a spokesman for AmeriCredit.

To make the site more user-friendly, AmeriCredit recently unveiled so-called "one-click" navigation, designed to make it easier for customers to research loan criteria, auto values, submit an online loan application, and manage their accounts.

TOYOTA FINANCING ARM BULKING UP E-SERVICES

Toyota Financial Services is in the midst of rolling out a string of applications designed to improve the efficiency of both its consumer and dealer websites.

This year, the captive financing arm of **Toyota Motor Corp**. aims to electronically extend — via its websites — more lending-related services to its borrowers, said **Christine Conard**, the national e-business manager at Toyota Financial.

Toyota is among the many automotive manufacturers and lenders offering more sophisticated web-based features to help augment sales efforts and accommodate users who would prefer to manage their loan accounts online.

Most recently, on Nov. 7, Toyota Financial began offering a feature on its website that enables customers to go in and change their own contact information.

"It doesn't sound like a big feature, but since Nov. 7, we've experienced a 22% reduction in emails each month," said Conard, pointing out that the financier initially launched the site in April of last year. "That's 3,921 fewer emails our customer-service representatives have to answer, freeing them up for other things."

Toyota Financial, said Conard, is now working on a series of enhancements for release early next year, including a function that displays the financing specials it offers by region; another feature that details end-of-term options for customers coming to the end of their leases; a "What Can I Afford" calculator for consumers uncertain what vehicles and programs they can manage; and an addition to the site's estimator that will add in insurance information, in addition to the various other elements the estimator already considers [interest rate, sticker price, fees, income, etc.] when calculating a customer's monthly payment.

But, the biggest project this year — implemented in three successive phases through the Western/Mountain, Central, and Eastern portions of the nation — was launched July 18, and involved offering consumers a web-based means to submit credit applications. That project was also recently completed and, according to Conard, has a high usage and growth rate.

Also recently, on Sept. 27, Toyota Financial rolled out electronic bill-payment capability. While Conard would not divulge usage numbers, she said 72% of Toyota Financial customers who use the site to access their account information have expressed in a survey that they do use electronic bill payment features on other sites. Already, 16% of Toyota Financial's online customers have signed up for electronic bill payment.

On the dealer level, Toyota Financial is pushing to have 100% of the credit applications sent in by Toyota and Lexus dealers submitted electronically via the company's Dealer Daily extranet by March next year. An extranet is an electronic network that belongs to an organization, and is accessible only by the organization's members, employees, and select outsiders, with authorization. With over 85% usage already, Conard said Toyota Financial was only pulling in 10% of dealers' credit applications at the beginning of 2002.

There are currently 1,204 Toyota dealers and 202 Lexus dealers nationwide.

Meanwhile, Toyota Financial is busy outfitting a portal which will enable all Lexus dealers to allow consumers to submit credit applications electronically through the dealers' individual websites. This project is slated to be completed by the spring next year, said Conard.

Toyota dealers, however, are not expected to get similar functionality for their individual sites. Customers will be able to submit credit applications electronically via the various Toyota Dealer Association websites, which are umbrella sites that cover all dealers in a particular metropolitan area.

Dealer Systems

NISSAN PLANNING TO SIGN WITH DEALERTRACK, ROUTEONE

As part of a multi-year technology project to revamp the way it transacts with its dealers, **Nissan Motor Acceptance Corp**. plans to use both **DealerTrack.com Inc**. and **RouteOne LLC** to electronically process loan applications.

"There will be a lot of attention here on technology next year, particularly online credit applications and e-contracting," said **Jeffrey Edwards**, NMAC's vice president of operations, in an interview with *Auto Finance News*.

While thousands of dealers currently link to their lending sources via systems such as DealerTrack — which was launched in January 2001 by **J.P. Morgan Chase & Co**., **AmeriCredit Corp**., and **Wells Fargo & Co**. — RouteOne is expected by industry experts to quickly gain ground when it is launched early next year. That is because RouteOne is owned by **DaimlerChrysler Services**, **Ford Motor Credit Co**., and **General Motors Acceptance Corp**. — a group that was later expanded to include **Toyota Financial Services.**

> "You can't dictate what system your dealers are going to want to use."
>
> Jeffrey Edwards, vice president of operations and remarketing, Nissan Motor Acceptance

Automated credit application systems are designed to free auto dealers from the onerous process of manually entering and exchanging loan application data, enabling them to electronically transmit applications to multiple lending sources, often simultaneously.

NMAC currently lends to between 35,000 and 42,000 car-buyers each month through 1,100 Nissan dealerships nationwide, as well as 150 Infiniti dealers. Nissan owns Infinti.

Currently, NMAC only offers the credit application system from **Credit Online Inc**., Annapolis Junction, Md. And, while the captive financier has yet to make a formal announcement, Edwards said it will sign with DealerTrack either later this month, or in early 2003. It is not cost prohibitive for NMAC to operate all of the credit application systems simultaneously, and even preferred, as it will allow the company to access a larger number of dealers.

"This automation is becoming increasingly important to ensuring you keep your dealers' business," said Edwards, "but you can't dictate which system they're going to want to use."

As compared to Credit Online, which offers the 1,000 dealers that use the system access to 30 lending sources, DealerTrack has signed up more than 17,000 dealers to link to more than 20 lenders. Most recently, DealerTrack signed up **Bank of America Corp.**, **Bank One Corp**., and **Long Beach Acceptance Corp**.

NMAC will also soon sign on with RouteOne sometime early next year, said Edwards. But NMAC is not the only major auto lender to have signed recently with both vendors. Bank of America also signed up with RouteOne this quarter as a lending source. RouteOne plans to pilot a version of its system early next year, and put it into general release during the second quarter.

Slated to run through 2005, NMAC's technology initiative will automate all aspects of the lender's operations, including loan acquisition, funding, customer service, collections, and lease maturity management. The lender has retained the consultancy services of **IBM Corp**. to assist in the various legs of its technology rollout.

Meanwhile, NMAC is also mulling adding e-contracting capabilities — the next step in the evolution of electronic auto finance transacting, which has yet to be achieved on a widespread level, primarily due to the legal risk involved with exchanging contracts electronically. Essentially, e-contracting entails actually finalizing contracts electronically, as opposed to having the buyer sign a paper document, and the dealer file and forward it manually.

"I'm not convinced we will get to e-contracting next year, but we will be trying," said Edwards.

Incentives

HYUNDAI EYES 0%

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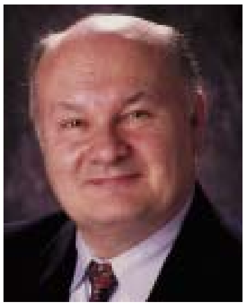


Bill Thaxton, Hyundai

the first 11 months of 2002, these sales numbers placed Hyundai 11th in overall light vehicle sales.

However, sales in the industry as a whole fell 9.3% in November to 1,205,243. Through November, sales are at 15,402,135 down 3% from last year's 15,863,425. November's downturn followed a sharp 24.5% drop-off in October from the year-ago period which was when 0% was first introduced by **General Motors Co**. to counteract the effects on the auto industry of Sept. 11 and the recession. The October/November slowdown has dashed any hopes that sales will hit 17 million in 2002. Most analysts now project light vehicle sales to hit 16.6 million.

This year, Hyundai's U.S. sales are on pace to hit 370,000, up from 346,235 in 2001, when Hyundai overtook **Mitsubishi Motors Corp**. and **Mazda Motor Corp**. (which is partially owned by **Ford Motor Co**.) to become the No. 8 automaker in the U.S. The company expects to sell 400,000 cars next year as it offers models priced lower than those of its rivals and lengthens warranties. Thaxton said aggressive incentives could level the playing field, helping Hyundai rev up its sales growth.

Hyundai's aggressive growth track, however, is contingent on the U.S. auto industry swelling to 20 million in annual sales by the end of this decade. Not everyone is as optimistic in their long-term forecasts. **J.D. Power & Associates**, the Westlake, Calif., research group, expects only 18.5 million sales by 2010.

Worldwide, Hyundai also stated it plans to increase global sales to 5 million annually, from the almost 3 million sold last year.

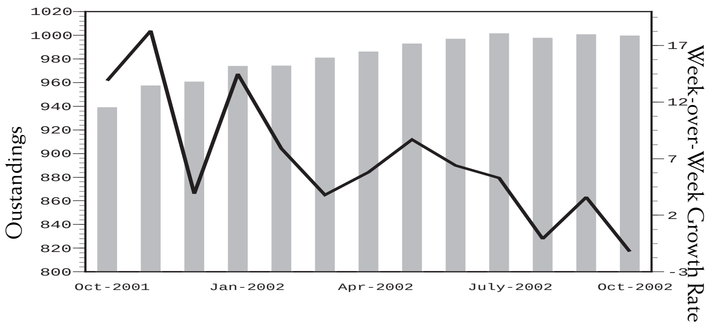
Further intensifying Hyundai's need to move vehicles, the automaker broke ground on a $1 billion automotive assembly and manufacturing plant in Montgomery, Ala., in April of this year. Slated to begin production in 2005, the plant is expected to produce over 300,000 vehicles per year.

For the most part, Hyundai has relied on limited use of low-interest and cash-rebate incentives, as well as warranty programs, to entice car buyers. The automaker offers a 60,000-mile bumper-to-bumper warranty and 10-year, 100,000-mile power train warranty coverage (engine and transmission) for autos sold in the U.S. market.

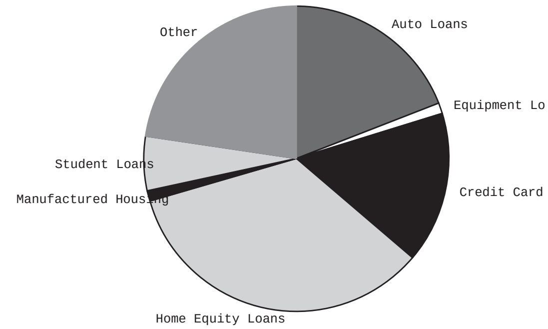
But make no mistake, Thaxton and his Hyundai colleagues are no fans of 0%.

"We could easily offer 0 APR for 60 months and no payments for 90 days, but it's a cost we don't want to bear," said Thaxton. "We were never an organization that offers these wild and crazy programs. We don't want to do it, but if the competition keeps it up, we will."

BANKS' NONREVOLVING LOAN OUT.*

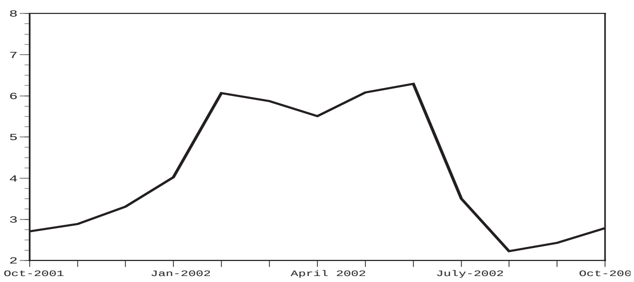


ASSET SECURITIZATION BY SECTOR

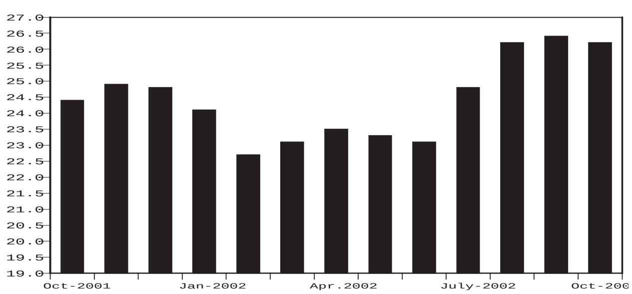


Type	'02 YTD (%)	'01 YTD (%)
Auto Loans	19.08	21.52
Equipment Loans	1.14	1.97
Credit Cards	16.05	18.86
Home Equity Loans	34.23	30.37
Manufactured Housing	1.10	1.86
Student Loans	5.77	3.46
Other	22.63	21.95

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*

May	June	July	Aug.	Sept.	Oct.
57	58.6	59.1	59.4	58.4	57.2

Average Loan-to-Value Ratio

May	June	July	Aug.	Sept.	Oct.
92	92	95	96	96	96

* in months

Source: Federal Reserve Board

SECURITIZATION SCOREBOARD

Date	Seller/Servicer	Lead Manager	Amount ($M)	Enhancement
10/15	DaimlerChrysler AG	CSFB/J.P. Morgan Securities	2,069	senior-sub
10/18	AmeriCredit Corp.	CSFB/Deutsche Bank Securities	1,700	MBIA
11/01	WFS Financial Inc.	Credit Suisse First Boston	1,350	FSA
11/01	American Honda Finance Corp.	JP Morgan/ BofA Securities	1,030	senior-sub
11/07	VW Credit Inc.	JP Morgan/Salomon Smith Barney	1,500	senior-sub
12/06	Capital One	Banc of America/JP Morgan Securities	800	MBIA
12/12	Mitsubishi Motors Credit of America	Deutsche Bank/Morgan Stanley	357.5	senior-sub

EQUITIES MONITOR

RECENT PERFORMANCE OF PUBLICLY TRADED AUTO FINANCE COMPANIES

Company	Ticker Symbol	Price 12/04	Price 12/04	% Ch.	P/E	52-Wk Hi	52-Wk Lo	Shrs.Out.*	Mkt.Cap.*	Avg Vol*
AmeriCredit Corp.	ACF	7.320	7.930	-7.7	1.9	46.930	5.900	152,900	1,119,228	2,961
Asbury Automotive	ABG	7.955	8.820	-9.8	7.0	22.450	7.110	33,800	825,692	80
AutoNation Inc.	AN	11.580	11.950	-3.1	12.4	18.730	9.050	312,800	3,622,224	1,159
CarMax Group	KMX	18.310	19.500	-6.1	21.2	34.000	12.900	103,100	1,887,761.0	1,492
Consumer Portfolio	CPSS	2.100	2.200	-4.5	52.5	3.810	1.110	20,500	43,050	11
Credit Acceptance	CACC	6.850	7.500	-8.7	9.9	14.950	6.480	42,400	290,440	26
FirstCity Financial	FCFC	1.000	1.020	-2.0	n/a	1.520	0.400	8,380	8,380	2
First Investors Fin'l	**FIFS**	**3.450**	**3.000**	**15.0**	**n/a**	**3.950**	**2.000**	**5,030**	**17,353**	**1**
Household Int.	HI	28.450	28.050	1.4	7.4	63.250	20.001	454,800	12,939,060	8,899
Nicholas Financial	NICK	3.990	4.040	-1.2	5.2	6.250	3.500	5,000	19,950	2
Onyx Acceptance	**ONYX**	**3.170**	**3.660**	**-13.4**	**9.6**	**5.250**	**2.100**	**5,090**	**16,135**	**4**
TFC Enterprises	TFCE	1.510	1.590	-5.0	5.6	1.850	0.700	11,500	17,365	8
United PanAm Fin.	UPFC	6.779	6.960	-2.6	9.6	8.000	4.560	15,800	107,108	11
WFS Financial Inc.	WFSI	20.740	20.960	-1.1	10.2	31.950	16.230	41,000	850,340	33

**in thousands. ** Greatest gainer and loser by percentage change since Dec. 4 in boldface.*

Rumblings

CHRYSLER FINANCE BUSINESS CONSOLIDATES DALLAS OFFICES

Chrysler Financial Services, the captive financing arm of No. 3 automaker **DaimlerChrysler AG**, has folded several hundred employees from one Westlake, Texas, location into another larger space it occupies several miles away.

With the lease set to expire at the end of this year on its 9 Village Circle location, Chrysler has taken 300 employees — which are mainly customer contact and remarketing staffers, as well as support professionals for Chrysler-owned **Mercedes Benz** — and relocated them into the 130,290-square-foot office building Chrysler moved into earlier this year.

The total headcount at the building at 2050 Roanoke Road, which is part of the Circle T Ranch masterplanned community and sits on 13 acres including 1,040 parking spaces and a tenant cafeteria, is now at 1,000. And, it doesn't look like they will be going anywhere soon, with nine years and four months remaining on a 10-year lease.

CONSUMER COMPLAINTS ABOUT LENDERS ON THE DECLINE

Lenders are still a popular target for complaints, according to the annual consumer compliant list compiled by the **National Association of Consumer Agency Administrators** (NACAA) for 2001.

Lending-related complaints, including auto finance, ranked fifth in NACAA's annual survey for the fourth consecutive year, although the percentage of consumer protection agencies that reported complaint totals revealed that there were fewer grievances filed for lending-related issues. In total, there were 23% more complaints filed in 2001 compared to 2000.

Consumer protection offices around the nation reported that 42% of the consumer complaints they received in 2001 dealt with lenders and lending practices, the survey revealed. While that number is down from the 50% area from the past two years, lending-related complaints ranked only behind home improvement (59%), household goods (54%), automotive sales (51%), and automotive repairs (46%).

Consumers filed complaints regarding predatory lending, as well as deceptive and abusive practices used by lenders with regards to credit card lending and personal loans, said **Nancy Sabella**, executive director for NACAA.

Overall, Sabella said the percentages dropped for most of the different categories across the board because consumers complained about a wider variety of problems.

Consumers are better educated and have an increased awareness about their rights, which led to the wider range of categories, Sabella said.

FOR SALE...CHEAP: AUTO FINANCE DOMAIN NAMES

It has been almost three years since **Bank of America Corp.** paid **Marcelo Siero**, a computer consultant from San Jose, Calif., $3 million for the rights to the loans.com domain name. Since then, prices on other loan-related domain names have slipped significantly, especially those involving auto finance buzz words. In fact, though autofinance.net can still be had for the relatively low price of $688 from **BuyDomains.com**, a Bethesda, Md.-based company that sells domain names, there are a whole range of names available for $16 per year. They include:

eautofinance.com	autofinanceweb.com
autofinance-web.com	autofinancenet.com
netautofinance.com	autofinance-net.com
webautofinance.com	autofinancenow.com
theautofinance.com	zeropercent.info.
zeropercent.net	zeropercent.org
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Momentic
Full-page
House
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