

Indirect Lending Considerations

Dealership Approval Process

Your written procedures for screening dealerships applying to participate in your indirect lending program should include:

- Review of the balance sheet and income statements of the dealership
- Review of the business profile/plan of the dealership
- Review of Consumer Affairs or Better Business Bureau Report on the dealership
- Periodically visiting the dealership and confirm state and city licenses are current
- Confirming the dealership has business insurance coverage
- Investigation and approval of after-market products offered by the dealer

We recommend incorporating the above items in your dealership screening procedures.

Dealer Agreements

You should have a written dealer agreement with the dealerships involved in your indirect lending program. Dealer agreements specify the conditions under which the indirect lending program will operate. They also clarify the dealer's responsibility for securing collateral.

A written, attorney approved, signed dealer agreement should be obtained from each dealership participating in your indirect lending program. The dealer agreement should specify the conditions under which the indirect lending program will operate. Items including:

- Credit union and dealer responsibilities;
- Dealer fee structure;
- Misrepresentation, fraud, and forgery should be clearly spelled out in the dealer agreement.

Evidence of securing the collateral showing the credit union as lienholder should also be included in the dealer agreement.

The information presented in this document is intended for informational purposes only and should not be construed as legal advice or a legal opinion and it may not reflect the most current legal developments. You should seek the advice of legal counsel of your choice before acting on any information provided in this document.

Portfolio Mix and Management Reports

The Board of Directors should have guidelines for:

- Maximum amount of Indirect Loans
- Intended tier rating mix within your Indirect Portfolio.

The board should establish the maximum amount of Indirect Loans and/or the intended tier rating mix within your Indirect Portfolio. The board or ALCO committee should receive and review monthly a computer-generated report showing the total mix of the indirect lending portfolio by tier structure. These reports allow monitoring and comparison of actual mix to intended mix for your indirect lending program.

Indirect Lending Procedures

Written procedures should be developed addressing how employees should accomplish the above loan-related functions.

Your written procedures for:

- Confirming potential borrowers qualify for membership
- Processing indirect loan applications
- Ensuring OFAC check, and fraud screening for borrowers joining through the indirect program
- Obtaining income and employment verifications
- Obtaining a copy of the credit report
- Using the approved credit scoring system
- Determining appropriate rates and terms
- Calculating the loan-to-value ratios (identify back-ends, tax, title, and license are included or excluded from calculation)
- Obtaining proper approval for policy exceptions
- Transmitting approvals and denials to the dealership
- Sending Adverse Action forms to denied loan applicants
- Obtaining missing funding documentation from dealers
- Tracking and timely perfection of security interests

The information presented in this document is intended for informational purposes only and should not be construed as legal advice or a legal opinion and it may not reflect the most current legal developments. You should seek the advice of legal counsel of your choice before acting on any information provided in this document.

- Requiring a copy of the driver's license to be retained on borrowers joining through the indirect program, in states where allowed
- Ensuring first time buyer qualifications are met including employment verification and a communication to the member to verify car and equipment
- Conducting a periodic audit of the dealer reserve account by someone who does not have the ability to post entries
- Settlement procedures to the dealer
- Collection of delinquent indirect loans

Funding Checklist

A funding checklist should be utilized to ensure the loan package contains all the necessary documentation you require before the loan is funded.

A funding checklist should be developed to ensure all of the following documents are in the loan package prior to funding:

- Completed and signed original application for credit
- Copy of notice to co-signer form (if applicable)
- Completed and signed security agreement
- Completed contract
- Copy of the new vehicle invoice, or NADA/Kelley Blue Book valuation sheet for used vehicles
- Copies of any signed warranties/insurance policies purchased by the borrower as shown on the contract (service warranty, GAP policy, etc.)
- Copy of odometer statement, and any other required motor vehicle department forms
- Current, original pay stub/tax return (if required)
- Insurance verification form
- Copy of the credit report used to establish approval, rates, and terms
- Membership application signed by the new borrowers

The information presented in this document is intended for informational purposes only and should not be construed as legal advice or a legal opinion and it may not reflect the most current legal developments. You should seek the advice of legal counsel of your choice before acting on any information provided in this document.

Post Disbursement Quality Control Review

A post disbursement quality control review should be conducted to ensure compliance with your policies and procedures.

A quality control review should be conducted within 30 days of the loan disbursement by someone not involved in the lending process. Loan files should be checked for policy compliance, accuracy, and completeness. This review should ensure:

- Purchase contract has required vehicle information including signatures of the borrower and dealer
- Interest rates and terms are in compliance with written policy
- Loan applications are signed and complete, including employment and reference information
- File contains a copy of the dealer invoice for new vehicles, or the correct month's NADA/Kelley Blue Book valuation sheet for used vehicles
- Borrower signed warranty and GAP contracts are within established dollar limits
- File contains a copy of the Due Bill (if applicable)
- Required used vehicle forms are complete, signed by the borrower, and checked for accuracy
- New vehicle registration application is signed by the borrower and checked for accuracy
- File contains an odometer disclosure statement
- File contains an agreement to furnish insurance form
- Collateral meets or exceeds written loan-to-value ratio requirements
- Title or proof of lien is in the file
- File contains the required credit report
- Any "stipulations" listed by the credit union have been fulfilled
- File contains evidence a copy of the valid driver's license was included
- File contains evidence a completed membership application was received
- Ensure OFAC checking and fraud screening is performed
- Approval was at the level required by policy
- Exceptions to policy were properly approved as required by written policy
- Exceptions to policy were explained on the approval sheet

The information presented in this document is intended for informational purposes only and should not be construed as legal advice or a legal opinion and it may not reflect the most current legal developments. You should seek the advice of legal counsel of your choice before acting on any information provided in this document.

Verification of Employment and Income

- One key document that might be helpful to avoid loan defaults (due to inflation of salaries by the applicant or dealer) is to require verification of employment and income for all loans.

Welcome Call

- You may want to conduct telephone interviews with some indirect borrowers to verify items on the funding checklist. You may want to consider a “Welcome Call” for all indirect borrowers to verify the borrower is a real person. This is a great marketing opportunity as well to cross sell other products and enhance the member relationship.

Collection Department

A significant tool to detect negative trends in the indirect loan program that is often overlooked is the value of the collection department to spot negative trends that can expose underwriting weaknesses or dealers that are submitting fraudulent information on credit applications.

A well-trained collection staff will try to determine the reason for the delinquency of the indirect loan. It's not uncommon that the reason may very well be attributable to false information provided on the borrower's credit application by the dealer.

Post Charge-off Review of Indirect Loans

Though not as pro-active or effective (because “after-the-fact”) a periodic post charge-off review of indirect loans to determine if there are any patterns present should be part of any indirect loan program. Generally, this will define commonalities in underwriting or problems with specific dealerships. Typically, this results in findings that require further analysis to determine if any corrective action is needed.

The information presented in this document is intended for informational purposes only and should not be construed as legal advice or a legal opinion and it may not reflect the most current legal developments. You should seek the advice of legal counsel of your choice before acting on any information provided in this document.