

Beat the Repo

MARY MINK



Underwriting changes and loan workouts avert some vehicle repossessions. But when CUs must take back vehicles, remarketing recoups some losses.



Blues

With unemployment at record levels and property values down, credit union members across the country every day face the unthinkable choice between a car to drive or a place to live. With some ingenuity and people-helping-people philosophy, credit unions pull some members back from that precipice.

But sometimes the car has to go, a repossession occurs, and credit unions reluctantly find themselves in the used-car business.

Lance Gartner, CEO of Repo Remarketing, Citrus Heights, Calif., says, “The biggest change this year is that credit unions are having huge losses in the disposition of repossessions. Historically, delinquencies have been tolerable. The past year-and-a-half to two years, delinquencies have risen and charge-offs have been huge. The pain is extreme. So credit unions are trying to mitigate those losses.

“With the charge-off pain increasing urgency, more credit unions are discovering industry-proven remarketing principles,” he continues. “Urgency brings change and improvement. This will help members and credit unions in the long run. Collateral equals money, and how much depends on the methods, process, and marketplace.”

Credit union consumer loan 60+-day dollar delinquencies as a percentage of total loans outstanding increased 35 basis points (bp) from December 2007 to December 2008, and net charge-offs as a percentage of average dollars outstanding increased 75 bp, according to the Credit Union National Association. (Consumer loans include unsecured credit cards, real estate loans, and leases receivable.) First-quarter 2009 numbers become available mid-May.

U.S. repossession volume reached 1.67 million units in 2008, up 12% from 2007, reports Manheim, a vehicle remarketing company in Atlanta. *continued* ►

FOCUS

- **Restructuring loans** is preferable to repossession when members have the means and the will to pay.
- **Resale values** are up—particularly on larger vehicles—since gas prices came down.
- **Board focus:** Managing auto loan delinquencies now calls for creative problem-solving.

'Many people usually ride the 30-day line on making their payments. Now they've pushed it to almost the 45- or 60-day line.'

Kay Burrell

More members are voluntarily turning in their vehicles rather than waiting for the credit union to take them. In first-quarter 2009, voluntary vehicle surrenders increased to four compared with one or fewer surrenders in first-quarter 2008 for Sun Federal Credit Union, Maumee, Ohio, with assets of \$322 million.

"We've had members bring their cars back to us, saying, 'I can't make the payment because I've lost my job,'" says Kay Burrell, director of consumer lending. They're trying to decide "What am I going to pay? Am I going to make my house payment or my car payment?"

The Toledo, Ohio, area economy, tied heavily to the

automotive industry, "is definitely feeling the effects of the recession," Burrell says. "Unemployment is near 10%. We've had some closings, and some layoffs have been extended. We've also had some shifts eliminated."

Even members with A or B credit now are turning in their vehicles or having trouble paying. "Many people usually ride the 30-day line on making their payments. Now they've pushed it to almost the 45- or 60-day line" to stretch their budgets, Burrell says.

The economy also is taking a toll on \$280 million asset City County Credit Union, Margate, Fla.

"We have about four times our normal repo amount over the past year," says Amy Beyer, collections manager. Repossessions totaled 354 in 2008 versus 88 in 2007. The 2008 figure includes a significant increase in surrenders, although the credit union doesn't track those separately.

Behind members' difficulties: job loss at one of City County's largest select employee groups, American Express, as well as reduced hours and layoffs for some city and county workers, Beyer says. "A lot of them are trying to save their homes heading for foreclosure, so they have stopped paying on their cars."

Prevention

"Collecting with empathy" is the approach City County takes with distressed members now. "The empathy is bringing us a long way because we're able to sit back, look at their situation, and be the problem-solvers," Beyer says. For example, for a temporary problem, the credit union may offer a two-month extension on the loan to avoid a surrender. There's no cost to the credit union.

In more severe situations, City County may refinance the loan and extend the term—at times cutting the monthly payment in half. "If there's still some income, whether it be unemployment or a second party in the house, a lot of members will be able to take advantage of that," Beyer explains. "They have to have the ability to pay, and I have to feel they want to pay."

Collections and underwriting staff work together to think outside the box. "We look at credit. Credit is important, but we look beyond credit now because we have to," she says. For example, normally the

▶ AVOID THESE REPO MISTAKES

"Many credit unions fail to completely understand the legal issues arising out of their repossession efforts and as a result, expose themselves to potential liability," says Charles Williams, partner in the law firm Blalack & Williams P.C., Dallas.

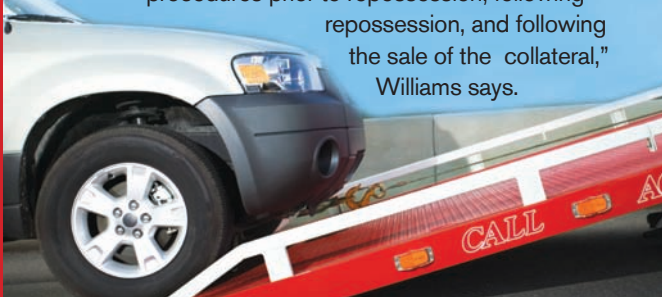
Among credit unions, the firm most commonly sees mistakes involving statutory notifications following repossessions: the postrepossession notice letter and the deficiency balance notification letter.

"Some credit unions, unaccustomed to handling repossessions, use a completely wrong notice form or use the correct form but complete it incorrectly," Williams says.

Typically, consumer lawyers will ask for these two documents first. "It's therefore critical that these statutory notices be perfect, and perfection is easily obtainable with proper procedures and training," he adds.

With debtors' lawyers increasingly challenging credit unions' repossession procedures, "it's of critical importance to have in place written policies and procedures that are specific and thoroughly address the credit union's

procedures prior to repossession, following repossession, and following the sale of the collateral," Williams says.



credit union wouldn't refinance a loan for a member with a Beacon score of 550. But now underwriting will consider whether the refinance makes sense for the credit union and the member, and whether it fixes the problem—the pending surrender or repo. If the answer is yes, it's approved.

Central Texas hasn't been hit as hard as some regions, according to Pierre Cardenas, senior vice president of retail for Amplify Federal Credit Union, Austin, with assets of \$502 million. Even so, repossession have doubled—to 55 to 60 per month in first-quarter 2009, from 30 to 35 per month in first-quarter 2008.

To get members through the difficulty, the credit union restructures loans to accommodate members who have the financial stability and ability to pay the loan, Cardenas says.

Amplify Federal's Stabilization Workout Program, an addendum to its loan policy, helps longtime members facing job loss and other financial challenges.

"Our philosophy is that's what credit unions are for—that's what we do. It goes beyond car loans. But we have so many auto loans that the worst thing we can do is take somebody out of a car, because now they really can't go to work," he says.

Major employers in Washington's Puget Sound region such as Boeing have laid off people, and lower trade activity has diminished business for the ports at Seattle and Tacoma. Tacoma-based Sound Credit Union's delinquencies nearly doubled in the past year, to 59 bp in February 2009 versus 31 bp one year earlier, says Carl Roer, vice president of lending for the \$419 million asset credit union.

"When the economy turned, we rebranded our collections department," Roer notes. "We renamed it the Member Solutions Department. We made it more than just a name but part of our philosophy. Whatever the situation, we make every possible effort to work with members because it's part of the mission of credit unions and also because it's in our interest to have them in the car or keep them in the home rather than, with such depressed prices, repossess or foreclose."

Amplify Federal looked beyond its loan and collections departments for a way to offset the effects of the down economy. In March, it hosted a job fair.

"We had headhunters and employment agencies come down to teach members how to enhance their résumés and how to use online social networking systems," Cardenas says. The event drew about 200 people and local media coverage. The credit union also offers employment-related classes such as résumé writing twice a week.

Repossessions

When all else fails, credit unions repossess vehicles—typically through contracts with companies that pick them up.

"We have a repo agency that [picks up the vehicles]. We stress to members that we don't want the vehicle," Amplify Federal's Cardenas says. "Usually once you repo it, they come in and are willing to talk."

Once vehicles are repossessed, credit unions remarket them as quickly as possible, for the maximum value and minimum hassle.

With U.S. auto dealer demand up for used vehicles, "having a few extra in the marketplace right now isn't a problem. The market has been able to absorb those," says Ricky Beggs, managing editor for Black Book®, a valuation guide publisher in Gainesville, Ga. ("Beggs on the Market," a new weekly video

'We have about four times our normal repo amount over the past year.'

Amy Beyer

series at creditunionmagazine.com, provides an overview of the auto industry and vehicle valuations to aid credit unions' auto loan decisions.)

Resale values are up, too, Beggs says, particularly on full-size trucks, sport-utility vehicles (SUV), and crossover vehicles. "Gas prices are down, and those vehicles were hit hard last summer and fall when gas prices were so high. Now people are realizing there's a bit of a bargain here. People like the functionality of the truck and full-size SUV." Supply of these vehicles is down somewhat, driving up resale values.

Remarketing

To sell repossessed vehicles, credit unions have a few choices: auctions, dealers, remarketers, and direct sales to the public from a branch parking lot or online.

"We run them through auction," says Cardenas. "If we had more time and resources, we could look at a way of moving them through some other channel. But right now with the volume, you need to run them through and get them out."

He adds, "The auction houses are pretty flexible. They want the business. They'll send people to pick up the vehicles and run them through the auction

lanes. You get bids, and they'll call and say, 'You've got three bids,' and you go for the highest bid."

Sound reports 10 to 15 repossessions per month in first-quarter 2009 versus two to three per month in first-quarter 2008. The credit union drops off its vehicles with designated people at its auto auction. "They'll inspect the vehicles and advise whether it's worth running through the auction or trying to sell on a consignment lot," says Caleb Cook, lending manager.

If the vehicle is going to a dealer, Tammie Atoigue, dealer account representative, uses the contacts she has built working with the indirect lending program to find a dealership to sell it.

"As the economy turned, we looked at the resources we had inside the credit union. Since Tammie already had relationships with the dealers and works with automobiles, we assigned her the task of disposing of the vehicles," Cook explains. When Sound sells a vehicle through a dealership, Atoigue posts it on the credit union's Web site.

"For the credit unions that can't ramp up to liquidate the volume of losses," says Repo Remarketing's Gartner, "join a remarketer with processes already in place. By marketing units with other credit unions

within the sale venue, credit unions find increased sale prices. Reduced staff time allows them to keep focused on working delinquencies."

Sun Federal goes the direct route. "In our branches, we've used some of the parking lots that are by larger roads to attract attention. And we do publicize them to all of our branches," Burrell says. "Word-of-mouth is what causes the greatest interest for us."

"Get as many eyes on that vehicle as you can," Beggs advises. "Put it on auctions' online listings if you're working with an auction. The first day you actually could advertise that vehicle, have it out there on those sites. That opens up your number of potential buyers." ®

For more advice and to view "Beggs on the Market," visit

CREDIT UNION
magazine.com

RESOURCES

- ▶ Black Book, Gainesville, Ga.:
800-554-1026 or blackbookusa.com.
- ▶ Repo Remarketing, Citrus Heights, Calif.:
916-725-2708 or www.reporemarketing.com.