June 27, 2008

Via E-Mail: regcomments@ncua.gov

Ms. Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Dear Ms. Rupp:

Re: CU Direct Corporation Comments on Proposed Rule 712, CUSO Amendments

I am writing in response to the Proposed Amendments to 12 C.F.R. Parts 712 and 741 issued by the NCUA Board of Directors on April 17, 2008, (the "CUSO Regulations") and to request that the Board add to the Proposed Amendments one additional preapproved CUSO activity under 12 C.F.R. §712.5: the purchase of vehicle-secured retail installment sales contracts from vehicle dealers.

<u>CUDL Background</u>

CU Direct Corporation (aka "CUDL") is a credit union service organization ("CUSO") and the nation's largest point-of-sale and indirect lending network for credit unions, serving 20 million credit union members nationwide. CUDL provides services that help credit unions succeed in the auto lending market place. Incorporated in 1994 to provide credit union member point-of-sale financing at the automotive dealership, CUDL's core role continues to provide credit union member access to credit union financing at the automotive dealership. CUDL provides a fully-automated credit evaluation and loan processing system as a way to improve the convenience of its members' vehicle lending experience while increasing the rate at which its members choose credit union financing over other financing options. Today, many credit unions also rely on the CUDL system to introduce automobile shoppers to the benefits of credit union membership by allowing consumers to apply for credit union membership and automobile financing all through the point-of-sale in the dealership.

CUDL now delivers its services on a web-based platform to credit unions and vehicle dealers located in 48 states. As of the end of calendar year 2007, 660 credit unions, representing 20 million credit union members, and 9,200 vehicle dealerships participate in the CUDL System. In 2007, 556,000 retail installment sales contracts ("RICs") for approximately $12 billion in credit union vehicle financing were funded through the CUDL System, making CUDL the largest credit union aggregator of point-of-sale vehicle financing in the nation.

Historically, credit unions and automobile dealers have had a reputation for poor relations. The loss of sales when members opted to leave a dealer's location to seek financing at their credit union branch, the prevalence of "one pays" where the dealer arranged financing only to lose it within days to a credit union, and a general lack of credit union-dealer communications created an environment where dealers discouraged members from seeking financing with their credit unions. The ability for

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real time credit union financing at the point-of-sale helped bridge the dealer/credit union relationship and continues to help credit unions remain competitive in the auto lending arena.

In addition to our core system, CUDL provides a range of other services that helps credit unions market auto financing directly to their members; assists their members with obtaining a good deal on an automobile through the credit union's web site; trains credit union staff on important topics; manages the lending process with reduced overhead; and provides aftermarket products such as Guaranteed Auto Protection (GAP) to their members.

How the CUDL System Works

When an automobile shopper is identified as a credit union member, the dealership uses the CUDL System to provide the member with the named credit union's current loan rates and policies. If the member wishes to obtain credit union financing, the member's credit application is entered into the CUDL System by dealership staff. The CUDL System, using the credit union's underwriting criteria, automatically either approves the member's credit request or refers the application to the credit union for manual credit review. The CUDL System facilitates communication efforts between the dealer and credit union, displaying the credit union's credit decision to the dealer. This entire process is frequently completed in less than 30 seconds. The dealership prepares the RIC between the member and the dealership as well as any other required documents according to CUDL's defined process and forwards all required documents to the credit union. Provided everything is in order, the credit union forwards the appropriate funds to the dealership in exchange for the dealership's assignment of the RIC to the credit union.

CUDL provides its services and access to the CUDL System through a series of contracts with participating credit unions and separate contracts with participating vehicle dealerships. CUDL's contracts with participating credit unions provide that the credit union will purchase the RIC from the dealership upon the credit union's approval of the loan and documentation provided by the dealership.

The financing network provided by the CUDL System makes it convenient for credit union members to purchase their vehicles at local vehicle dealerships and ultimately (upon the purchase and assignment of the RIC) finance their purchases through their credit union. Through the CUDL System, credit unions can deliver loan products to their membership 24 hours a day, seven days a week, including holidays, allowing them to capture loans that they otherwise would have lost. The long-term benefit to credit unions is that the CUDL System assists them in increasing consumer lending and minimizing the costs associated with expanded service delivery.

Challenges Under the Existing Business Model

The Credit Union Relationship Challenge

The success of credit unions, and therefore CUDL, in the point-of-sale financing industry heavily depends on the choices made by the individual staff members of thousands of vehicle dealerships across the country. For each of the 16 million new and 42 million used vehicles sold and financed each year in the United States, typically one staff member working in the vehicle dealership's Finance and Insurance Department decides who will have an opportunity to finance the purchase. Competitors in the RIC marketplace include credit unions, national and local banks, captive finance companies (e.g., GMAC, Ford Motor Credit Corporation, Daimler-Chrysler Financial, etc.), and various other private or public consumer finance companies. Thus, that staff member has many choices when it comes to picking the entity that will get the opportunity to purchase the RIC.

Typically, the staff member chooses the financing entity that he or she feels will finance the largest purchase price or finance the most "post-sale" products (e.g., GAP insurance, extended maintenance, life & disability insurance, car undercoating, etc.) in order to gain the greatest benefit to the dealership and the individual staff member. Due to the credit union industry's historically low interest rates, vehicle dealerships frequently conclude that the best deal for both the dealership and the buyer is with a credit union. However, in too many instances, even where the buyer has informed the staff member that he or she is a credit union member or is pre-approved, the staff member will still try to steer the buyer toward a different financing entity if it presents a greater benefit to the dealership or staff member to do so.

For credit unions directly and actively engaged in the automotive finance marketplace, understanding this dynamic is essential to success. The savvy and successful credit union knows that it must not only have great rates, but it must also get to know the individuals in the dealership's Finance and Insurance Department, higher level staff members, and even dealership owners, in order to "sell" the benefits of credit union financing. By developing a solid business relationship and earning the trust of the individuals involved, the credit union stands a better chance at becoming the "winner" in the competition for RICs.

For credit unions using the CUDL System, CUDL staff often fills in for or supplements the efforts of participating credit union staff to create the necessary business relationships. CUDL staff train dealership staff on the benefits of credit union financing and the particular benefits of each credit union doing business with that dealer. They create the trust that ensures participating CUDL credit unions a chance to compete for RICs and the opportunity to better serve their members.

Dealerships rely on consistency in lending practices of their lenders. This consistency is important to their ability to close sales when the buyer is ready to purchase a vehicle. Unfortunately, due to the vicissitudes of credit union operations, there are times when a credit union chooses to stop competing for RICs, such as following a change in management or a change in asset liability management policies. As a result, what used to be a "sure thing" for the dealership is no longer available, damaging the trust relationship that has been built up over time. When the trust relationship between a dealership and a credit union is broken, it has historically had a negative impact on the way the dealer perceives working with credit unions in general. This damages the position of all credit unions in the marketplace and makes it more difficult for credit union members to gain the benefits of their credit union membership.

With the authority to purchase vehicle-secured RICs, CUDL can act as a market back stop in situations where credit unions temporarily withdraw from the RIC marketplace, allowing CUDL to maintain the trust relationships it has built on behalf of its participating credit unions until such time as the credit union is ready to return to the RIC marketplace.

The CUDL Competitor Challenge

Credit unions temporarily pulling out of a market can also prove a boon for CUDL's competitors, i.e., other providers of automated loan processing systems. The largest CUDL competitor is DealerTrack, Inc., a publicly owned and traded company originally established by several large banks and which provides hundreds of bank financing options to its dealer network. The second largest CUDL competitor is Route One, LLC, which is owned by several captive finance companies, such as GMAC and Ford Motor Credit Corporation, which, besides its captive finance owners, also provides hundreds of bank financing options to its dealer network. Both DealerTrack and Route One are very well-financed and hard-driving competitors. Where CUDL is the dominant system in a particular vehicle dealership, DealerTrack and Route One anxiously await for the moment that CUDL loses favor with that dealership.

When credit unions pull out of the RIC marketplace, it is not unusual for dealerships to reconsider their reliance on CUDL and credit union financing sources. CUDL's competitors are always more than ready to step in and replace them. When the credit union that left the RIC marketplace returns, it may find that it can no longer compete at the same level as it did previously due to the dealership's shifting reliance to other RIC purchasers. With CUDL authorized to purchase vehicle-secured RICs, CUDL can fill the void left by the credit union's temporary departure and maintain the buying stability that the vehicle dealer requires.

DealerTrack and RouteOne have a significant advantage over CUDL – it is extremely rare that one of their prime RIC funding sources will decide they cannot purchase more RICs. If they do, both DealerTrack and RouteOne always have other funding sources available who may purchase RICs without any limitations such as "field of membership." CUDL does not have those full-time purchasing resources. With this grant of authority, CUDL would have the ability to compete with DealerTrack and RouteOne as a full-time funding source for its dealers and still be a credit union owned source of RICs.

Benefits that Go Beyond the Bottom Line

A Difference in Philosophy that Warrants Protection

As a CUSO, owned by 76 credit unions and 8 CUSOs and/or credit union system entities, CUDL's sole purpose is to serve credit unions. On the other hand, CUDL's primary competitors, DealerTrack and RouteOne are not CUSOs. Their primary purpose is to maximize profit and/or promote non-credit union lending sources. DealerTrack's primary product line is aimed at providing dealerships with software services. However, to attract vehicle dealers it must also connect RIC purchasing sources, such as banks, financing companies and credit unions, to its dealer software system. It has stated that its primary target market now is credit unions; it has already penetrated a major segment of the banking sources and some of the captive finance companies. With credit unions, it can add another valuable channel to its system.

Similarly, RouteOne also has unlimited full-time funding sources. RouteOne was formed in 2002 by Daimler-Chrysler Financial Services, Ford Motor Credit Company, GMAC, and Toyota Financial Services; their board continues to be exclusively comprised of executives from these funding sources. It continues to be the primary loan processing system for these captive companies. RouteOne, like DealerTrack, has decided to branch out and add more funding sources. It too has targeted credit unions as a prime source of new business.

The problem from the credit union system perspective is that DealerTrack and RouteOne do not provide any of the educational, analytical, and consultative portfolio management services to credit unions that CUDL provides. They do not contract with the dealers for the benefit of credit unions; CUDL does that. They do not help credit unions manage dealer relations, including dealer misbehavior, nor do they perform dealer performance monitoring; CUDL does that. Finally, they do not ultimately answer to NCUA as required by 12 C.F.R. §712.3(d).

Developing New Markets on Behalf of Credit Unions

In developing new markets, CUDL seeks to bring on local credit unions and dealers to facilitate the growth of credit union financing in the market. Often, however, credit unions want to see local dealers on the CUDL System prior to committing to the CUDL platform Vehicle dealerships, on the other hand, want to first know which credit unions are on the CUDL System in order to be assured that there is a ready and able buyer for their RICs. This creates a classic "chicken or egg" quandary. With the authority to purchase vehicle-secured RICs, CUDL can act as a market creator. CUDL can contract with and purchase RICs from dealers in advance of local credit unions joining the network. In this way, CUDL can lay the foundation and begin creating the trust relationship with the dealerships on behalf of credit unions. When individual credit unions are ready to join, CUDL backs out of the purchasing and acts as the support system for the credit unions.

Point-of-Sale Financing Expertise

Like mortgage, student, member business, and credit card lending, point-of-sale vehicle lending requires certain levels of expertise in areas that are not traditionally within the purview of credit unions. For example, managing dealer relations, buy rate financing, and automotive remarketing are all topics that are unique to the automotive lending space. CUDL, through its "CUDL University" program provides credit unions with over 200 educational and training programs aimed exclusively at credit unions.

Pervasiveness of Dealer Financing

Credit unions understand that the vehicle lending market has changed and point-of-sale lending, to both existing and new members, is critical for credit unions to remain a viable player in the auto lending marketplace. According to JD Power and Associates, 90% of automotive financing is now arranged at the dealership.

For credit unions that are unable to directly participate in point-of-sale lending as a result of staffing or financial constraints, the ability of CUDL to purchase RICs will provide these "shut out" credit unions with the opportunity to indirectly engage in point-of-sale lending. With CUDL acting as an originator of vehicle-secured RICs, these credit unions can use loan participations to get the benefit of point-of-sale lending.

The New Aggregator Marketplace

While the CUDL System and CUDL dealer network has greatly assisted point-of-sale lending for credit unions, there is now another fundamental shift taking place in how consumers shop for automobiles. Purchasers are now using the Internet as the first step in the automobile shopping process. Today, 75% of vehicle consumers conduct online research as part of their automobile shopping strategy and often make financing and purchase decisions online as well. The Internet introduces a new dynamic to automobile shopping and automobile financing. It is dominated by websites with a large national presence (e.g., Cars.com, Autotrader.com, Edmunds.com, CarsDirect.com, Costco, etc.). Most of these sites also promote financing through relationships with bank lenders, and many national banks and finance companies are already leveraging these sites to promote their financing.

Because of credit unions' limited fields of memberships, individual credit unions are unable to compete in this business model at the same level as those who can serve an unlimited market. And they will be shut out completely unless a model is developed where one entity can make loans on a national basis and then distribute them to local credit unions. Enabling CUSOs, such as CUDL, to serve in this role enables credit unions to serve their members who are shopping on national automobile research web sites.

Only a CUSO with broad RIC purchasing power and a solid commitment to the credit union philosophy can help credit unions compete to ensure that these loans are not lost to banks and captive finance companies. CUDL is well-equipped to work with national automobile shopping sites to promote and facilitate credit union lending. This would require a single interface with consistent lending standards for all visitors to the partner site. Once loans are made, they can easily be passed on to individual credit unions with appropriate fields of membership and underwriting criteria.

More importantly, however, it would allow credit unions to effectively compete and survive in the new automobile lending market as this Internet model grows. At the same time, credit union members would benefit from increased access to credit union lending and its more favorable terms, rather than being limited to the more readily available bank financing options when making significant car purchase decisions.

For the various reasons discussed above, CUDL respectfully requests that NCUA amend its Proposed Amendments to grant the authority to CUSOs to purchase vehicle-secured RICs in order to allow credit unions to more effectively compete in an evolving automobile finance marketplace and to continue to provide superior and innovate member service.

Sincerely,

Tony Boutelle
President & CEO

cc: Mr. James Jordan, Board Chair, CU Direct Corporation
Mr. Thomas Wolfe, Legal Counsel to CU Direct Corporation