

June 30, 2008

Via E-Mail: [regcomments@ncua.gov](mailto:regcomments@ncua.gov)

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

***Re: SAFE Credit Union comments on Proposed Rule 712, CUSO Amendments***

Dear Ms. Rupp,

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.

**SAFE Credit Union and CUDL**

SAFE Credit Union began indirect lending in 1992 when Golden 1 Credit Union opened their indirect lending program to other Sacramento Area Credit Unions. We later became one of the first investors when CU Direct Corporation was founded. 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. We believe that SAFE Credit Union could not compete in the auto lending marketplace without CUDL. Prior to CUDL our members had a two step auto buying experience. First they bought the car at the dealership and then they came back to the credit union for financing. That process has long since changed. About 90% of all car loans are now made at the dealership. Without indirect lending, credit union members would not finance their autos with a credit union. Credit Unions depend on auto loans for 40% of their total loan portfolios.

Incorporated in 1994 to provide credit union members point-of-sale financing at the automotive dealership, CUDL's core role is to continue to serve this need. . 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. About half of all indirect loans made by SAFE are made to consumers who sign up for membership at the dealership. CUDL is our largest single source of new members.

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.

Historically, credit unions and automobile dealers have had 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 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.

Credit Unions have experienced slow growth during the last five years. Much of that is because credit unions are struggling to become relevant to their members. If indirect lending had not been adopted by credit unions they would have lost their share of the auto lending business. The problem is that indirect lending is a high volume business. Dealers typically use only about half a dozen lenders for most of their loans. Indirect lending at the credit union requires a well controlled process to meet dealer deadlines, member needs and at the same time control credit quality to minimize loan losses. Most credit unions are too small to operate an effective indirect lending process. Most credit unions will never become one of the half dozen preferred lenders at their local auto dealers. And auto dealers are consolidating and becoming larger operations so there will be fewer dealers.

Credit Unions must do what it takes to keep their share of the auto lending market. CUDL can help credit unions by forming an acceptance corporation. An acceptance corporation has a number of advantages that will keep member loans within the credit union system. From the dealers point of view an acceptance corporation provides the following advantages;

- Dealers want to work with a few high volume lenders to ensure they receive consistent decisions and excellent service. An acceptance corporation can make loans for many credit unions while viewed as one high volume lender by the dealers.
- Dealers want a lender that is in the market at all times buying all the loans that meet the criteria set by the lender. Individual credit unions often enter and exit the indirect lending market. The acceptance corporation will always be in the market buying loans.
- Dealers want to deal with a lender that has the means to respond to the dealers needs seven days a week and during the hours the dealership is open (often until 10 p.m.).

The acceptance corporation can provide a call center to support dealer operations and answer dealer questions. An acceptance corporation can offer field staff to meet with dealers right at the dealership.

- Dealers want to work with a professional lender that understands the auto business and can help them sell more cars. Most credit unions do not specialize in auto lending and don't have dedicated staff who are experts in the auto business. An acceptance corporation will focus on auto lending and will have the required expertise.

From the credit union's point of view an acceptance corporation offers the following advantages;

- An acceptance corporation has the economy of scale to keep costs low and allow the credit union to stay in the auto lending business despite the low margins in auto lending.
- An acceptance corporation will provide high quality loans. An acceptance corporation can hire experts and develop loan processes that assure a higher credit quality.
- An acceptance corporation will allow the credit union to buy loans when they need the loans and to enter and exit the market as needed.
- An acceptance corporation can provide members with better service by having staff available during the dealer's extended operating hours.
- An acceptance corporation will allow the credit unions to compete on an equal basis with all of the other lenders including banks and captives.
- An acceptance corporation can serve dealers in areas not served by credit unions and therefore extend the credit union advantage to more people and help the credit union system grow.

I strongly urge that NCUA amend the Proposed Amendment to 12 C.F.R. Parts 712 and 741 to grant authority to CUSOs to purchase vehicle secured retail installment contracts (RICs) in order to maintain and hopefully grow the credit union's auto lending market share and provide members with convenient credit union financing at more dealerships. An acceptance corporation will meet many of the NCUA's objectives including the following;

- An acceptance corporation will increase the quality of credit union vehicle loan portfolios. An acceptance corporation will have loan experts and will focus on vehicle lending. Most credit unions do not have such expertise.
- CUDL has a proven track record of more than 14 years. NCUA is rightly concerned about other third party lenders such as Centrix. However a credit union owned and operated CUSO has stronger controls and more transparency than non-credit union owned third parties.
- An acceptance corporation will keep operating costs lower and therefore improve credit union net income and help keep capital levels high. Higher quality underwriting will also lower loan losses which will also improve net income and help keep capital levels high.
- The most important lending service that credit unions offer is vehicle lending. An acceptance corporation will help assure that credit unions retain their share of the market.

I am aware that the NCUA considers members signed up at dealerships to be less likely to become fully participating members. We believe that this isn't necessarily the case. At SAFE we have found that members who join through our CUDL indirect lending channel and who live within a three mile radius of our branches are very likely to obtain additional credit union services. The key is that the credit union needs to call these members and explain the benefits of its services. The other key is that the members have to qualify for additional services and that means they have to have a prime credit score. Credit Union member growth is a key component of safety and soundness. A credit union that is not growing its membership will probably have earnings problems which can eventually lead to a safety and soundness issue. Indirect lending can be a great source of new members. Making the indirect member a participating member can be done. But like anything else it requires work and the credit union's products and service must provide benefit to the new member(s). Indirect members have all of the attributes to become great members (if the indirect lending program is making loans to the right borrowers). The problem in most cases is that the credit union isn't relevant to these new members other than to make them a low cost auto loan. I am confident we can fix that problem and that an acceptance corporation can be part of the solution because it assures good credit quality loans and it provides better member service.

I urge NCUA to help credit unions remain relevant to their members and to the changing vehicle lending market place.

Sincerely,

*Henry Wirz*

President/ CEO  
SAFE Credit Union