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## Department of Banking and Finance

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Sonny Perdue  
Governor

David G. Sorrell  
Commissioner

July 22, 2004

Mr. Ralph Jones  
Georgia Credit Union Affiliates  
6705 Sugarloaf Parkway  
Suite 200  
Duluth, GA 30097

Dear Mr. Jones,

The Department is in receipt of your letter dated July 12, 2004, providing additional clarification regarding several questions raised regarding your proposed CUSO, tentatively named "The Credit Union Loan Store" (CULS). The Department has reviewed this information, the other documentation provided regarding this proposed CUSO and we have reviewed the financial position and background of the Aimbridge Group, the third party with whom CULS would be doing business in setting up this program. The program has been structured so that credit unions would be buying loan participations from a "financial institution" which is a current statutory requirement of State law.

After reviewing these materials, the Department does not take any exception to this program as proposed, subject to the following conditions:

1. The CULS, as proposed would be capitalized by Delta Employees Credit Union, Atlanta Postal Credit Union, Georgia Telco Credit Union and Associated Credit Union. All of these credit unions shall apply in writing with the Department to seek approval for their investment in this CUSO in accordance with Rule 80-2-9(7) of the Department.
2. The program as proposed provides for a limited volume of loan participations with BEACON or FICO scores that are below prime and would probably be categorized as "B" or "C" paper. We will interpose no objections to the expected limitation and distribution outlined in your letter of July 12, 2004. Based on the information in this letter, we do not expect this program to be used to funds loans with a BEACON or FICO score below a "C" Grade, with a general floor of a BEACON score of 600. The Department should be informed if the business plan of CULS changes materially in this area and substantial volumes of "C" or "D" indirect lending are sold to Georgia state chartered credit unions. As discussed at our meeting, the Department has had direct experience with deep subprime indirect automobile lending. **We have had financial institutions at risk of failure due to losses related to subprime indirect auto paper.** While many credit unions have traditionally lent to certain members with below prime credit scores, these are individuals within the credit union's field of membership, with whom the credit union has a history and typically are subject to payroll deduction. The performance of subprime indirect automobile paper has historically been more cyclical, particularly during periods of downturn in the economy.
3. Credit unions who buy loan participations should be aware of the risks of buying indirect loans, albeit within the underwriting criteria currently outlined under your program. There should be full disclosures of the potential risk to investment in these loans and credit union management needs to be directed to perform

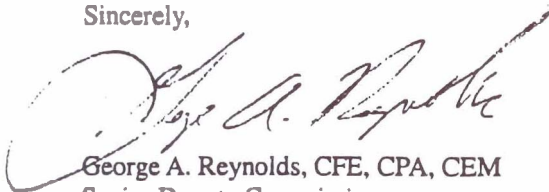
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adequate due diligence on the program to make certain that the program characteristics are consistent with the underwriting standards, loan policies, and credit philosophy of the credit union. This responsibility for underwriting cannot be delegated to another party.

4. As discussed above, the Department has performed some analysis of the Aimbridge Group who will be involved with CULS in signing up dealerships, training credit union personnel, and administering the application and approval process within the underwriting standards established by CULS. Given the vital role provided by this third party, any change in this arrangement, such as replacement with another party could change the risk characteristics of this program and would constitute a significant change to the business plan of CULS. The Department should be informed in the event of such a significant change in the business plan and risk profile of CULS.
5. It should be understood that by virtue of ownership interest of state chartered credit unions in CULS and the fact that CULS is involved in the origination of indirect loans being held on the balance sheets of Georgia state chartered credit unions, that the Department of Banking and Finance shall have the authority to request records and information from CULS and to conduct any visitations or examinations that it determines to be necessary to provide for the safety and soundness of Georgia state chartered credit unions.
6. It was indicated during our meeting that there are plans to provide for management information systems and monitoring and control procedures to provide for the on-going management of loans originated and sold through CULS, including review of past due and non-performing loans, breakdown of nonperforming loans by pools, by dealership and other management reports to control program risks. These procedures need to be established in writing and need to be made available to the credit unions that are participating in this program of purchasing indirect loans.
7. State chartered credit unions that purchase participations through this program should be aware that such purchases should be made in compliance with Rule 80-2-4-.03 of the Department.

I trust that the forgoing is responsive to your request for the Department to review this program and provide written feedback. If the Department can be of additional service or if you have additional questions, please contact me at (770) 986-1629.

Sincerely,



George A. Reynolds, CFE, CPA, CEM  
Senior Deputy Commissioner