

wheelchoice
cut the cost. share the value.

CONCEPT DOCUMENT



TEAM MEMBERS

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THE OPPORTUNITY

Car ownership can be a wonderful thing. For the member, the car provides an often necessary and convenient method of transportation. For credit unions, there is net interest income derived from issuing car loans. Unfortunately, car ownership can also be daunting. According to the latest figures from AAA, consumers are paying close to an average of \$10,000 each year to own and operate their vehicles. When a member defaults on a car loan, it becomes a lose-lose situation for both the member and the credit union. The member has lost access to his vehicle and the credit union has to incur associated costs to repossess and dispose of the vehicle — and for many credit unions, the incurred loss also results in losing a member. For the credit union, the deficiency loan balance charge-off is about \$6,000 per vehicle and for a typical credit union with \$500 million in assets and 150 repossessed vehicles per year, that's an expense of \$900,000 per year! Faced with compressed interest margins, the need to tackle the charge-off expenses is monumental.

There is opportunity to reduce these charge-offs in a financially significant fashion for credit unions whilst improving the situation for its member base. WheelChoice flips this situation into a win-win opportunity by offering these repossessed vehicles an alternative disposition method with lower costs. Plus, WheelChoice breathes new life into these vehicles by placing them into a car sharing program that would be available to all credit union members.

THE SOLUTION

Most credit unions' collections departments have two disposition options for repossessed vehicles: (1) send them to an auction; or (2) sell them on the credit union's parking lot or another retail lot. By challenging these two extremes, we have developed a mid-range solution — WheelChoice.

WheelChoice is a service that recognizes an untapped potential of a two-sided vehicle market: one for credit unions and one for its members. It offers credit unions a financially viable option for disposing repossessed cars while creating a new car sharing service for members.

WheelChoice is about creating a national network for credit unions, their members and dealers. WheelChoice has three distinct but complementary components:

1. Repossessed vehicles can be sold directly to dealers;
2. A dealer consignment relationship can be arranged; and
3. A car sharing program would include repossessed vehicles for its entire membership base to share on short term basis.

Imagine a triage process for repossession that categorizes by car type, geography, shared value and sales value. For instance, a 2007 Mitsubishi Eclipse with 100,000 miles would go straight to auction (an existing channel available to credit unions today), while a low-mileage BMW in good condition would be listed for sale on WheelChoice (see Appendix 1 for a detailed process flow for selling the car) and a Chevy Pickup would be placed as a shared vehicle on WheelChoice (see Appendix 2 for a detailed process flow for the car sharing activities). WheelChoice creates a credit union-owned solution for repossessions while expanding the scope of how vehicles can be used in a member friendly fashion to generate revenue.

WheelChoice aims to reduce charge-off costs by up to 20% per year for credit unions and to share that value with credit union members through a collaborative, affordable car sharing program, maximizing the utility of all vehicles in the program.

TARGET MARKET

Designed with two markets in mind, WheelChoice has two target markets.

Credit Unions

While WheelChoice is designed to help credit unions of any size reduce their repossession losses, the larger the credit union and the larger their pool of repossessed vehicles, the more WheelChoice can help. A profile of a typical credit union that would greatly benefit from WheelChoice would be one that has:

- greater than \$500 million in assets
- more than 150 repossessed cars annually
- yearly auto loan charge-offs in excess of \$900,000

Consumers

More and more, consumers are thinking twice about “owning stuff”. Whether it is the Millennial who sees the benefits of shared consumption (e.g. hacker spaces) or Gen X and Baby Boomers who have seen their savings and investments depleted, today, consumers see the reality of limited resources and the need to consume in a responsible and price conscious manner. WheelChoice is aimed at consumers who want the convenience of a car for the few hours a day when they need it, without the burden of paying for a car when it’s not in use. It allows credit union members to share in the common ownership of one vehicle or rent one of the credit union’s cars when the need arises.

CREDIT UNION BENEFITS

Credit unions typically sell repossessed vehicles for 60% of the NADA retail value. The resulting \$6,000 typical deficiency balance results in higher costs for credit unions and higher loan rates for members. WheelChoice will reduce charge-off expenses up to 20% and provide a “commercially viable sales” option for the disposition of vehicle repossessions. WheelChoice helps credit unions leverage their inventory of repossessed cars by renting them out to members who many need one. It maximizes marginal utility across the credit union’s membership.

CONSUMER BENEFITS

Increasingly, research has shown that younger consumers’ desire to own an automobile is waning. A 2013 study commissioned by Zipcar revealed that 18 to 34 year olds would feel a greater negative impact if they lost their mobile phone than if they didn’t own a car. WheelChoice car sharing delivers benefits to this consumer segment along with other groups by addressing the needs of temporary car use in a way that only credit unions can offer:

- WheelChoice car sharing is a more affordable option than owning a car by giving consumers the option to pay only for what they use
- Public transport is not always convenient, particularly when consumers need access to a vehicle to run errands (e.g. to Ikea or Home Depot)
- Demonstrates the co-operative spirit of credit unions and applies it to shared ownership of vehicles and leverages the growing popularity of the co-operative consumption model

PILOT RESULTS

WheelChoice: Car Sales

Alabama Credit Union's current process for the disposition of repossessions served as one pilot of the program. Alabama CU aggressively triages its vehicles to get the most out of the remaining value. Their work results in an average deficiency balance of \$1,800, compared to \$6,000 for the average credit union.

During the test cycle, Fort Knox Knox Federal Credit Union set up new relations for wholesaling vehicles through a consignment model at a dealership in Elizabethtown, KY. Via an Ally Financial run site called SmartAuction, access to an online network of 4,000 auto dealers was provided. Both models provide better sales returns on the disposition of repossessions than physical auctions that are currently used 90% of the time by the Fort Knox FCU.

WheelChoice: Car Sharing

A pilot in the form of credit union member surveys was conducted. Credit union members from four credit unions (Alabama Credit Union, Fort Knox Federal Credit Union, Schools First Federal Credit Union and Coast Capital Savings) were surveyed to gather reactions to the WheelChoice car sharing idea.

Interest in the car sharing program is stronger with Gen Y members with an average of 40% of those younger members in the two urban areas of LA and Vancouver expressing the greatest interest because WheelChoice was seen to simplify and share resources, would help the environmental and traffic issues, and save them money. Interest went up by another 37% on average when members were told WheelChoice would be offered by their credit unions. Much of this interest was due to the inherent value credit unions bring to their members today and the trust and belief the credit unions would keep the members in mind with this new service. (Key survey results can be found in Appendix 4.)

OPERATIONAL AND OTHER CONSIDERATIONS

The top three most pressing considerations for WheelChoice are:

1. Compliance with state and provincial laws.

Most US states and Canadian provinces require a "commercially reasonable" method of disposition and all mandate some level of transparency and disclosure to the borrower. These requirements can be satisfied with the credit union uploading photos, location and specifications of the vehicle, and receives documented online bids from one or more business partners who have been vetted for reputable participation. (See Appendix 3)

1. It's a scale business.

A national network that can leverage repossessed vehicles across large regions as well as be compliant to laws would be preferred. Two possible options include:

- A CUSO that will likely be the compliant mechanism for transferring the vehicle from the credit union's balance sheet while satisfying consumer laws regarding timely sales and notifications to the borrower. Instead of forming a single CU-owned CUSO, we encourage similar credit unions (e.g. by geograpy, similar member demographics etc.) to co-own a CUSO. The economies of scale can further reduce the credit union's costs for vehicle disposition.

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- An existing wholesale car auction, such as SmartAuction (operated by Ally) can be another efficient disposition option. The sales prices are better and the costs are much lower than physical auctions. Credit unions can collectively partner with Ally to get better access and pricing and also create a national network of repossessed vehicles with a large group of members to purchase these vehicles. WheelChoice would facilitate this process and generate better sales prices, provide lower costs and significantly reduce auto loan charge off rates in credit unions.

2. Realization that not all cars are created equally.

- WheelChoice users have access to two new channels that supplement the traditional methods of disposition. For some vehicles, WheelChoice won't be a suitable method of disposition. Rather, vehicles in market-friendly condition, reliable and even somewhat fashionable would be preferred. So, credit unions must still rely on auctions or sales lots to dispose of the less desirable vehicles.

FINANCIAL PRO-FORMA/ROI

For Participating Credit Unions

WheelChoice has multiple avenues for a credit union to reduce the deficiency balance on a vehicle they have repossessed, resulting in charge-offs between 10% and 20% lower than traditional auction. On an average outstanding car loan balance of \$15,000, the typical credit union will receive 60% of NADA retail when the repossessed vehicle is sold at auction. Net of approximately \$500 in auction expenses, the credit union receives \$8,500 through auction leaving a deficiency balance of \$6,500.

Credit unions can reduce the deficiency balance using one of the two WheelChoice options, WheelChoice Car Sales or WheelChoice Car Sharing. Each option provides credit unions with a greater sales price as a percent of NADA retail compared to traditional auction. Taking into consideration the anticipated disposition mix of repossessed vehicle along with a reasonable \$250 WheelChoice fee per deal, the typical \$500 million credit union will realize annual savings of approximately \$172,500. (Further details are available in Appendix 4.)

WheelChoice: The Entity

WheelChoice earns rental revenue from cars that become a part of the car sharing service. Based on industry averages, a vehicle in the car sharing system for an average of five months will generate approximately \$9,700 in rental revenue. After deducting direct expenses including depreciation, insurance, gas, and maintenance, each WheelChoice car sharing vehicle will generate approximately \$600 in net income. With 50 credit unions participating, WheelChoice's annual net income would be \$400,000 prior to overhead expenses.

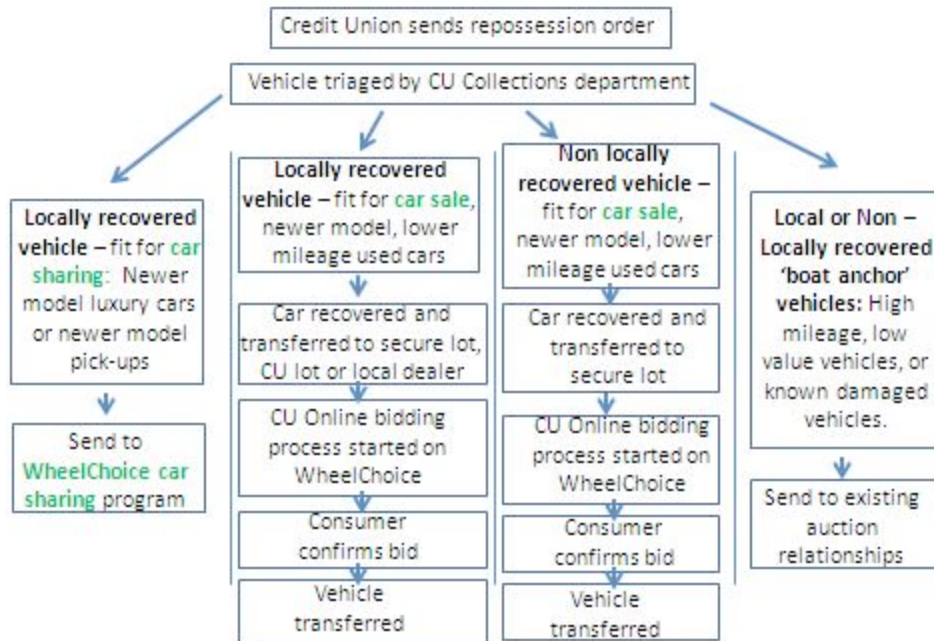
GETTING STARTED

1. Identify and secure a national wholesale car partner (e.g. Enterprise, SmartAuction)
2. Identify and secure a national car sharing partner (e.g. Enterprise, RelayRides)
3. Complete review of all state and provincial disposition laws
4. Contact us if interested at innovation@filene.org

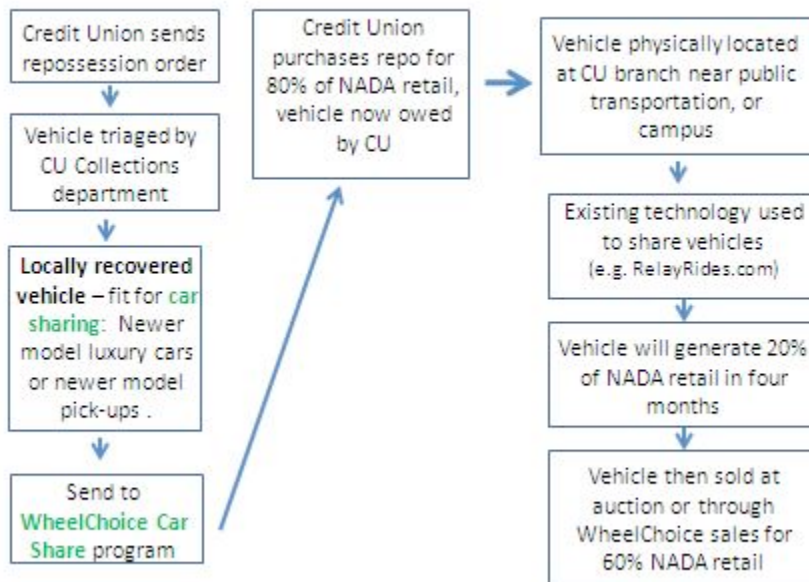
APPENDICES

- Appendix 1 & 2: WheelChoice Car Sale and Car Sharing Process Flow
- Appendix 3: Summary of Disposition Laws from Key US States and Canadian Provinces
- Appendix 4: Key Member Survey Results
- Appendix 5: Pro Forma Detailed Table
- Appendix 6: Sample of the WheelChoice Expense Reduction Calculator
- Appendix 7: Sample of the WheelChoice Website

WheelChoice – Car Sale (Appendix 1)



WheelChoice – Car Share (Appendix 2)



Appendix 3

Disposition of Collateral Repossession Laws by Select States and Provinces		
State/Province	Repo Law - Overview	Notes
Alberta	favorable to the lender	Personal Property Security Act (AB) : Section 58.2: Vehicle as be disposed of by private sale,(b) by public sale, including public auction or closed tender, (c) as a whole or in commercial units or parts, and if the security agreement provides, by lease. Section 58.5: 20 days before disposition, notice must be made to debtor including: description of vehicle, amount required to satisfy obligation, sums in arrears. NOTE: If debtor has already paid 2/3 of outstanding debt, vehicle not be seized; creditor would have to sue
Alabama	favorable to the lender	Section 7-9A-610 Disposition of collateral after default - Law states that after default, a secured party may sell, lease, license, or otherwise dispose of any or all of the collateral in its present condition or following any commercially reasonable preparation or processing.
British Columbia	favorable to the lender	Personal Property Security Act (BC): Section 59.3: Vehicle as be disposed of by private sale,(b) by public sale, including public auction or closed tender, (c) as a whole or in commercial units or parts, and if the security agreement provides, by lease. Section 59.6: 20 days before disposition, notice must be made to debtor and any other creditor with details including: description of vehicle, date and time of the auction. NOTE: If debtor has already paid 2/3 of outstanding debt, vehicle not be seized; creditor would have to sue
California	favorable to the lender	California Civil Code Sec. 2983.2 No specific mention on how a repossessed vehicle must be sold
Delaware	favorable to the lender	Chapter 349, Section 9-306 - Vehicle must be sold in a commercially reasonable method. A standard of commercial reasonableness is Delaware is a sales price of 50% of the fair market value of the vehicle.
Hawaii	Appears to be favorable to the lender	No specific reference to disposition of repossessed collateral noted in Hawaii Revised Statutes; however UCC (incorporated into HRS) Section 9-610 specifies that a "secured party may sell, lease, license, or otherwise dispose of any or all of the collateral in its present condition or following any commercially reasonable preparation or processing."
Kentucky	favorable to the lender	Section 286.10-275 Repossession -- Sale of repossessed property: the title pledge lender shall have a period of sixty (60) days in which to sell, in a commercially reasonable manner, the titled personal property.
Maryland	Favorable to the borrower	Section 12-1021 - Repossession - Credit grantor shall sell property at a public auction or in a private sale. In private sales a full accounting shall be made to the borrower in writing and the seller shall retain a copy of this accounting for at last 24 months. The Commissioner of Financial Regulation may make a determination concerning any private sale that the sale was not accomplished in commercially reasonable manner.
New Jersey	favorable to the lender	Vehicle must be sold in a commercially reasonable manner. There is no requirement in New Jersey to send a car to auction. The owner of the vehicle must be given 10 to 14 days notice of a sale.
Nevada	Favorable to the lender	482.5163 Sale of repossessed vehicle in commercially reasonable manner; application of proceeds; injunctive relief; damages. Every repossessed vehicle shall be sold in a commercially reasonable manner. The fact that a better price could have been obtained by a sale at a different time or in a different method from that selected by the secured party is not of itself sufficient to establish that the sale was not made in a commercially reasonable manner. If the secured party either sells the vehicle in the usual manner in any recognized market for such a vehicle or if the secured party sells at the price current in such market at the time of his or her sale or has otherwise sold in conformity with reasonable commercial practices among dealers in the type of vehicle sold the secured party has sold in a commercially reasonable manner.
New York	favorable to the lender	Section 425 - If borrower has paid 60% of loan from lender, than vehicle must be sold within 90 days. If less than 60% of vehicle loan paid, then lender has no requirement to sell.
Ontario	favorable to the lender	Personal Property Security Act (ON) : Section 62.2 Collateral may be disposed of in whole or in part, and any such disposition may be by public sale, private sale, lease or otherwise and, subject to subsection (4), may be made at any time and place and on any terms so long as every aspect of the disposition is commercially reasonable Section 63.6: Notice not required when (c) collateral is of a type customarily sold on a recognized market; (f)(f) after default, every person entitled to receive a notice of disposition under subsection (4) consents in writing to the immediate disposition of the collateral; or (g) a receiver and manager disposes of collateral in the course of the debtor's business.
Texas	Favorable to the lender	§ 9.610. DISPOSITION OF COLLATERAL AFTER DEFAULT. (a) After default, a secured party may sell, lease, license, or otherwise dispose of any or all of the collateral in its present condition or following any commercially reasonable preparation or processing. (b) Every aspect of a disposition of collateral, including the method, manner, time, place, and other terms, must be commercially reasonable. If commercially reasonable, a secured party may dispose of collateral by public or private proceedings, by one or more contracts, as a unit or in parcels, and at any time and place and on any terms.
Virginia	favorable to the lender	Section 6.2-2217 -- No specific mention on how a repossessed vehicle must be sold
Vermont	favorable to the lender	9A, Article 4 - Vehicle must be sold in commercially reasonable manner. Borrower can only redeem by curing the loan.
Wisconsin	Favorable to the lender	409.610 Disposition of collateral after default. (1) Disposition after default. After default, a secured party may sell, lease, license, or otherwise dispose of any or all of the collateral in its present condition or following any commercially reasonable preparation or processing. (2) Commercially reasonable disposition. Every aspect of a disposition of collateral, including the method, manner, time, place, and other terms, must be commercially reasonable. If commercially reasonable, a secured party may dispose of collateral by public or private proceedings, by one or more contracts, as a unit or in parcels, and at any time and place and on any terms.

Appendix 4

Key Member Survey Results

Credit union members from Alabama Credit Union, Fort Knox Federal Credit Union, Schools First Federal Credit Union and Coast Capital Savings were surveyed to better understand their transportation usage and needs, and to gather reactions to the WheelChoice car sharing idea. Based on a total of 1,104 responses, the key results were:

- Interest in the WheelChoice car sharing program was highest with Schools First FCU members (top 3 box out of 10 interested: 42%), followed by Alabama CU (19%), Fort Knox FCU (12%) and CCS (9%). Interest in the car sharing program is stronger with Gen Y members with an average of 40% of those younger members in the two urban areas of LA and Vancouver expressing the greatest interest.
 - Key reasons for interest in WheelChoice included: *way to simplify and share resources, would help the environmental and traffic issues, would help on gas sharing and saving money, good when a car is not needed for a whole day, convenience of having a car for a short duration of time, good alternative to renting a car*
 - Reasons for lack of interest in WheelChoice included: *have/own vehicle already, high cost of such services, like freedom of having my own car, preference of my own vehicle and not sharing with someone else, preference of bus, live in rural area, car is a 24hr necessity, part of a car pool*
- When asked whether their interest level would change if their credit union offered the car sharing services, on average the interest level went up by 37% because of the inherent value credit unions bring to their members today and the trust that it would be extended to WheelChoice: *Trust my credit union (to be fair), know credit union would be competitive and make decisions with my needs in mind, credit union feels more secure than a large chain, appreciate the excellent customer services provided by my credit union*
- In terms of pricing, the majority of members interested in car sharing felt an annual membership fee of up to \$30 was reasonable. As for per usage, the price plan most favored was pay by the hour only (excluding mileage) at \$10 per hour and coming a close second: pay by the day (mileage not included) at \$40 per day.

Detailed survey findings are available upon request.

Appendix 5


Pro Forma Detailed Table

On an average outstanding auto loan balance of \$15,000 the typical credit union will receive 60% of NADA retail when the repossessed vehicle is sold at auction. Net of approximately \$500 in auction expenses, the credit union receives \$8,500 through auction leaving a deficiency balance of \$6,500.

Credit unions can reduce the deficiency balance using one of two WheelChoice options or by selling vehicles on their branch lot:

WheelChoice option	WheelChoice Car Sales	WheelChoice Car Sharing	Branch Lot Sales
Sales price as % of NADA retail	75% of NADA retail less \$250 dealer fee and \$250 WheelChoice fee	80% of NADA retail less \$250 WheelChoice fee	80% of NADA retail less employee time and overhead costs of \$500
Remaining deficiency balance per car	\$4,250	\$3,250	\$3,500
Savings per car vs. auction	\$2,250	\$3,250	\$3,000
Assumed mix of disposition options	30%	10%	5%
Annual savings vs. auction for 150 repos/year	\$101,250	\$48,750	\$22,500
Total annual credit union savings with WheelChoice	\$172,500		

Appendix 6



Credit Union Expense Reduction Calculator

COLLATERAL INFORMATION

Make	Ford	Model	Fusion	State where repossession will take place	California
Year	2011	Mileage	37,000	<i>Note: Although WheelChoice operates in the state of California, participating credit unions should consult with their own legal counsel to determine the appropriateness of this service for each individual repossession. Savings displayed are an estimate only.</i>	
NADA retail value	\$15,000				
Outstanding loan balance	\$20,000				

TRADITIONAL AUCTION FINANCIALS		WHEELCHOICE FINANCIALS - FOR CREDIT UNIONS	
Recapture rate (% of NADA Retail)	60%	Sales price to WheelChoice (% of NADA Retail)	80%
Auction/sale administrative costs	\$500	WheelChoice base fee	\$250
Total collateral value recaptured	\$8,500	Total collateral value recaptured	\$11,750
Remaining deficiency balance through traditional auction or sale	\$11,500	Remaining deficiency balance through WheelChoice	\$8,250
		WheelChoice savings to credit union	\$3,250

Appendix 7

