

# CREDIT UNION TIMES

## Credit Unions Are Warming Up to Auto Starter-Interruption Devices

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The bills are piling up. You pay the cable bill. You pay your cell phone bill. But you let your auto loan payment slide.

You're late for work. You get into your car. It doesn't start. What do you do?

You make sure you pay your auto loan on time.

At least that's the philosophy behind a starter-interruption device that has been developed over the past decade. The devices, designed to encourage consumers to stay on top of their auto loan payments, will stop consumers' vehicles from starting if they are late on their loan payment.

"The cell phone is one of the highest on the list of bills that people pay first and cell phone companies have a very high success rate of getting people to pay their bill. Why? Because if they don't pay the bill then the phone gets shut off," said Don Lavoie, president/CEO of Sekurus Asset Protection and Management. Sekurus, based in Murrieta, Calif., started producing one of these devices, called the ON TIME Payment Protection Device, nine years ago.

PassTime USA, based in Littleton, Colo., started offering starter-interruption devices in 1997. Executive Vice President Jake Frank said that the device allows financial institutions to reach the subprime of the auto lending industry. PassTime has approximately 25 credit union clients, and Frank said interest in the product has grown among credit unions in the past few years.

"The device allows people to get a car they normally couldn't. It's just about overcoming the stigma."

In the past, credit unions have been hesitant about using these types of devices due to philosophical concerns. Currently, credit unions that are getting hit with high delinquency rates and repossessions have reconsidered.

David Sailors, vice president of direct sales at Sekurus, said he's been knocking on the doors of credit unions for the past two years. Just in the past six to 12 months, he said, he's seen credit unions flip-flop and start to embrace the technology. The company now has 20 credit union clients that use the device.

"The resistance among credit unions is partly due to a lack of education on our part on what the device does. A common misconception is that the device will just shut off the member's car as they're driving. It doesn't shut off the car; it just prevents it from starting," Sailors said.

Frank said that a big distinction between his credit union clients and other clients is that credit unions offer the device usually as an option, whereas other clients have it as a requirement.

Frank cited three examples of how credit unions typically use the device. The first is at the point of redemption to offer the member the option of installing the device and getting a second chance or the credit union repossessing the car. The second instance, Frank said, is when a member comes in with a credit score the credit union typically would not approve a loan for. The credit union will offer the member the loan only if they have the device on the vehicle. The third option, Frank said, is when the credit union will offer a lower interest rate but requires that the device be installed on the car.

DOCO Regional Federal Credit Union in Albany, Ga., has been using PassTime's basic version of the device since 2006. According to Assistant Vice President of Lending Daryl Salter, as of May 31, the credit union held \$1.9 million in auto loans on the books and a delinquency rate of 0.6%.

DOCO started to look into the devices when they realized they were taking losses from members with lower credit scores. The credit union puts the device in the vehicle of any member with a credit score lower than 600.

"We wanted to find a way to help members get vehicles but still protect ourselves. Our delinquency rate on this type of lending has much improved since before we started using them," Salter said.

Each month, when the member makes a payment on the loan, he or she gets a code. The member punches the code into the device to notify it that the payment has been made. When the member is close to the due date for the payment the device notifies with a beep. The beep gets louder as the due date approaches. If the member is delinquent on the loan and needs the car for an emergency purpose there is a special code that can be punched in to get the car to start.

"We've had some resistance from members about the device, but the majority of units we've installed, the member understands why. They don't necessarily like it, but they understand the approach and appreciate that we're giving them a chance to get a vehicle."

The strain the economy has put on consumers has caused DOCO to start seeing delinquencies on members with credit scores higher than 600 as well, Salter said. The credit union is considering increasing the number of devices it puts on vehicles to help bring those delinquencies down.

Hank Hubbard, CEO of Communicating Arts Credit Union in Detroit, said that he is still skeptical about the device.

CACU serves the consumers that these devices target. The credit union's membership is made up of low-income consumers living in a city that is no stranger to high unemployment levels and economic hardships.

"We've considered these devices casually, but I haven't really believed that they're the right thing to do for our members," Hubbard said.

Kim Vermander, the vice president of lending at CACU, said that the majority of loans the credit union does are D and E paper. "We'd have a regular side business if we used them," she said.

Vermander said the credit union chose to focus on the relationship with members and attempt to be like family to them to do everything possible to prevent repossession.

"I don't agree with it, but that's not to say that we wouldn't consider using them somewhere down the road. There's a few that I wish I had done it on because there are people driving around with cars that we can't find."

The devices that both PassTime and Sekurus offer have built in payment notification, which both Frank and Sailors explained is different than GPS locator devices some lenders also use.

GPS devices allow lenders to find out where a car is located when they are trying to repossess it. Frank and Sailors said that their devices are designed to prevent things from getting that far.

"With GPS, it just tells you where the car is to take it and remarket it and sell it, but that's not benefiting the credit union or the member," Sailors said.

Frank said the devices work to get members actively calling the credit union before they're late on their payments instead of the credit union having to track the member down.

Mike Hendren, assistant vice president of collections at Deseret First Credit Union in Salt Lake City, said that the credit union's repossessions have jumped from typically five a month to 18 a month in the current economy. He said the credit union used to remarket repossessed cars on its own but has since passed the cars on to two local dealerships to sell.

"I've heard of these devices, but I don't know much about them or anyone that uses them. Usually if we're that worried about a car, we're going to repossess it."