San Fernando Valley State College

THE MARKETABILITY OF AUTOMOBILE DEALER SALES CONTRACTS

A thesis submitted in partial satisfaction of the requirements for the degree of Master of Science in Business Administration

by

Allen Clark Patterson, Jr.

May, 1967
The thesis of Allen Clark Patterson, Jr. is approved:

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Committee Chairman

San Fernando Valley State College

May, 1967
DEDICATION

To the Patterson Family,
whose patience and encouragement throughout the years contributed greatly, this rather unemotional work is lovingly dedicated.
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ABSTRACT

THE MARKETABILITY OF AUTOMOBILE DEALER
SALES CONTRACTS

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This study examines the various methods automobile dealers from the Los Angeles area use for converting their automobile conditional sales contracts into working capital. As a foundation for this discussion, an example of a conditional sales contract and credit application is explained in detail with emphasis on dispelling confusion often surrounding installment financing.

Personal interviews with banking and lending institutions revealed programs offered to automobile dealers for discounting the sales contracts. Interviews with automobile dealers from the Los Angeles area then determined what programs were chosen and why the dealer used it.

The study shows that the dealer strives to use a method of discounting sales contracts which is the least expensive and which relieves the dealer of the
responsibility for the customer making the payments. A compromise plan is in use today, whereby the dealer and lending institution share in the responsibility of the sales contract's unpaid balance, resulting in less expense to the dealer than if the lending institution were to accept full responsibility for the customer.
SECTION I
THE SALES CONTRACT AND
CREDIT APPLICATION

Introduction

Fundamental to understanding the financing procedure of buying an automobile is understanding the meaning and the terms of the sales contract. The automobile sales contract form used today is fairly standard throughout the country. A typical form of sales contract is used in this report as an example.

Legally speaking, the automobile sales contract is a certificate of agreement showing the customer having bought an automobile from a stated dealer in exchange for stated financial arrangements or cash.\(^1\) The sales contract is also referred to in financial circles as "commercial paper," something existing as an instrument of sale which can be bought, sold or traded. There are many companies which specialize in buying and selling the "commercial paper." Many of the larger finance companies and banks

\(^1\)Based on an interview with Mr. A. Rich, Business Manager for Canoga Park Motors, Canoga Park, California, December 2, 1966.
may have one department devoted mainly to the trading and handling of "commercial paper," such as, The Automotive Department of the Bank of America, which deals with automobile dealers directly.

The sales contract chosen as an example here is the form used by a San Fernando Valley automobile dealer. A visit with the Business Manager revealed that different forms have been used through the years. Each improvement made in the contract form as to wording and structure has been made to provide simplicity and more detailed information. Thus, protection is provided for the dealer and clarity is provided for the customer. The form presented in the Appendix entitled "Motor Vehicle Agreement," has been in use by the dealer for three years and is praised by the personnel as being simple, yet comprehensive.

**Legality of Sales Contracts**

The automobile sales contract is simply a promise, or set of promises, creating a legal duty of performance by the parties involved. In order to be legal, a contract must state this promise in writing and must contain four essential elements: (1) parties with contractual capacity, (2) manifestation of mutual assent, (3) sufficient consideration, and (4) legally valid transaction.² A brief

explanation of these will provide foundation for the following discussion of an automobile sales transaction.

**Contractual Capacity**

The parties to a contract must have contractual capacity. A contract signed by one who has not reached the legal voting age specified by the state within which he lives may not be a legally valid contract. The exceptions here are laws which provide lower ages at which people may enter into a contract of marriage, enlist in military service, or execute wills. The "infant" may be legally capable of entering into a contract, but because of his lack of experience in bargaining as compared with adults, an infant's contracts are voidable at his election. In the sale of an automobile, the dealer must know or have proof of legal age of the customer for the dealer's protection. Should the dealer sell an automobile to a minor by mistake or oversight, the minor could drive the automobile off of the premise, damage it, return it to the dealer and avoid or disaffirm the contract. The dealer must then refund the amount paid by the customer less any depreciation or damage. The dealer then has recourse against the minor for damages suffered by the dealer in "tort" or civil wrong action. It is important to determine the customer's age, and if the customer is not of legal age, the dealer can demand
a "co-signer" before the dealer allows the individual to take the automobile. The "co-signer" is a person of legal age who agrees to guarantee the minor. The "co-signer" may be the one responsible for making the payments or seeing to it that the young person makes them. Once signing on the sales contract, the "co-signer" is legally responsible and relieves the dealership of having a voidable contract.

The legally insane do not have contractual capacity. The same applies to persons under the influence of alcohol. The dealer must face these situations as they arise. There is no clear-cut line in determining the degree of intoxication. In most cases, the general rule states that should these people come into the dealership without a "co-signer," the sale should not be made or at least postponed until further investigation can be made on the individual.

**Mutual Assent**

In order for a contract to be valid, there must be a manifestation of mutual assent. This simply means that both parties to the contract must agree to a transaction, and such an agreement must be manifested through what is called "offer" and "acceptance." An "offer" may be defined as a promise proposed in exchange for "an act, forbearance, or return promise." It can refer to either
the buyer or seller. For example, the automobile dealer promises to sell his merchandise in exchange for some value, whether cash or monthly payments.

"Acceptance" is merely a manifestation of assent to an offer. The offer is accepted on the terms mutually agreed upon. Compliance with the terms should follow.

**Sufficient Consideration**

"Sufficient consideration" must also be present in a legally enforceable contract. The money taken in compliance with the promise to sell is called the "consideration." The customer's agreement to pay an amount on time to the seller is this "consideration." Courts have added the word sufficient to "consideration," meaning the "consideration" must have some value. The promise or agreement between the parties decides just how sufficient the "consideration" is.

**Legally Valid Transaction**

The fourth and last requirement of a valid contract is that the agreement must be a legally valid transaction. An illegal agreement is void, generally, because it creates no legal obligation to perform in the State of California. Should the statutes of the state outlaw gambling, a contract providing for the payment of a gambling debt would be void in court; that is, it would
not be legally enforceable. The automobile dealer who has had a reputation of good service to customers will rarely run into problems in this area. However, a situation could easily evolve where the auto dealer purchased an automobile from another dealer or private party, and, unbeknown to the purchasing dealer, the auto had been stolen. If the dealer sold the unit to a third party, the contract between the dealer and this customer would be void if the discovery were made. The dealer, then, is the victim here because he must return the money to the customer, and the customer must turn over the automobile to the rightful owner. The dealer handling expenses and trouble caused by the situation may only be rectified through civil action against the private party or dealer from whom the car was purchased. Whether or not the dealer recovers from the action would depend a great deal upon the "intent" involved on the part of those concerned. The dealer could recover if there is proof that the party sold the car while knowing it to be stolen. Most automobile dealers have insurance protecting them from such occurrences since the dealer is in such a vulnerable position in this case. Careful investigation and verification of rightful owners in cases of trade-ins and outright purchases by the dealer still remains the best means of protection for the dealer.
It is evident now that "caveat emptor" applies to the dealer as well as to the customer.

The Automobile Sales Transaction

The whole automobile business evolves around the sales contract. The customer purchases the automobile with the sales contract. Most contracts involve financing on time. Here, the dealer cannot wait for small monthly payments to come in because he has payrolls and other expenses to meet. It would be better if he could get the whole amount as soon as possible in order to insure an even cash flow. Thus, he sells the contract to the finance company, bank or other source.

To whom the dealer will sell the automobile sales contract depends entirely upon the material presented in (1) the sales contract and (2) the credit application. This section, therefore, explaining the details of the material on these forms, is the foundation on which the rest of the thesis will build.

Both the credit application and the sales contract examples in the Appendix are authentic; only the names and places have been changed. The figures remain the same to show where the dealer makes his profit and to show a typical example of automotive installment buying.

Many transactions were considered for this report. One
was chosen which was thought to be representative of an average customer. There are peculiar problems, however, that the dealer faces in handling this particular customer as will be shown.

**The Credit Application**

Once the customer decides on the automobile he wants, the paperwork begins. Filling out the credit application is the first step in the process and is completed before the sales contract is filled out. Almost any item purchased on time today requires a credit form of some sort. The automobile is no exception. First, it provides the dealer selling the automobile a means of checking customer credit. This qualifies the customer as to his ability to purchase. Secondly, it provides a means of checking the customer's financial solidarity for the agency or financial institution eventually purchasing the contract.

The "Application for Credit" form presented in the Appendix is broken down into eight parts. Beginning with the first section, we find information pertaining to Mr. Doe's domestic obligations. Mr. Doe, age 54, has a wife, Doris, and a 14 year old dependent. Throughout the application, the credit officer of the automobile dealer, who happens to be the business manager and the sales manager in this case, must constantly be aware of
"red flag" information of the credit application, or some type of warning to the dealer. A large number of outstanding financial obligations may indicate he is already overly burdened with monthly payments. Being unable to keep up the monthly payments could result in the customer having to give up his automobile. Should the credit application show that there are 12 dependents, there may be cause for concern if the family income is low. The present address and previous address with the length of stay in each place may be a good indicator of just how long the person will be around in the future.

The "Employment" part of the application can be considered the most important in that it lists the employer, length of employment, kind of work, take-home pay, and previous employer. Mr. Doe, in this case, is a retired Design Engineer and worked for a space and rocket development company in San Diego for five years prior to his retirement. At present he makes his money from stocks. This fact may be a "red flag" if his marginal buying is heavy and the market is in a period of decline. At $12,000 per year take-home pay, he seems to be fairly "solid," but we cannot stop the analysis here.

Going to the next section or the Real Estate section, we find Mr. Doe renting an apartment for $195 per month. With the great influx of new residents into
the San Fernando area, apartment living has become very popular. Formerly, apartment living was indicative of a very mobile individual, but now such living accommodations are not necessarily indicators of instability. Looking for good solid customers, ones who will be around awhile to make those all important monthly payments, is the goal of the dealership. Homeowners are preferred, of course, to people renting or leasing. The "Real Estate" section is, then, another means of checking a small part of the overall picture of the customer's liquidity.

The customer's ability to pay is further verified in the "Banking and other Information" section. Here banking is mentioned with the type of account, branch and address. A quick call to the bank will verify these facts and the amount in his account. The nearest relative and personal reference serve the dealer in case the customer should disappear, die, or should other unforeseen circumstances arise. Oftentimes, the relative or personal reference will provide clues and additional information relating to the whereabouts of a "missing" customer who is delinquent in his payments. Sometimes these references will give little information to inquiring persons regarding the customer. Sometimes the friends and relatives remain faithful to the "missing customer" and do not
reveal the location of the car or the person. Should the customer disappear with the automobile, he may eventually return to a close friend or relative listed on the credit application. The friend or relative's residence may be watched for signs of his return.

The "Debt" section shows the amount of financial obligations outstanding. Should a person be too heavily burdened with debt, the extra monthly payments for his new automobile could be that "last straw." This credit application only shows a few debts. This could be from the lack of thoroughness in filling out the form or in this case only a few were felt necessary by the credit department. The form does not show whether a divorce has occurred. Today, with a little less than a 50% divorce rate (one out of two marriages in the Los Angeles County), this should be an important consideration. Alimony payments or even mention of whether a divorce has or has not occurred would be a valuable credit consideration.

The section marked "Auto" shows the year, make of his present automobile, and to whom payments are being made. If he had made all his payments and the car is

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3Letter to County Clerk's Office in San Fernando, California, dated February 10, 1967, entitled "Supreme Court Statistics."
paid for, the car is deemed "free and clear."

In the section entitled "Information," the applicant's driver's license number is taken along with repossession and bankruptcy information. This information is extremely important in that past history of repossession or bankruptcy could be a warning to expect more of the same in the future.

The applicant is usually asked whether he wishes "Credit Life Insurance." This coverage will guarantee, upon his death or disability, a continuation of payments, subject to restrictions stated in the policy. If he desires the insurance, the appropriate box is checked as a reminder to include the insurance on the sales contract in the space provided.

The small print toward the bottom of the credit application states that the applicant swears to the foregone statements. It also serves as a reminder to the applicant that if he becomes insolvent, has executed against him writ of attachment, or other such things, the stated financial obligations on the sales contract become due and payable immediately without demand or notice.

The Sales Contract of Mr. Doe

After the customer fills out the credit application, the sales contract which, in this case, is entitled
"Motor Vehicle Agreement" is completely filled out in the presence of the customer. (See the Appendix for Mr. Doe's contract.) Generally, this form legally binds customer and seller to the stated terms, mutually agreed upon. It describes the automobile purchased, the one traded in, insurance customer may decide to purchase from the dealer, and the terms of payment.

Following the first section in which Mr. Doe's name and address are contained, we find a description of the automobile purchased. This particular model was a 1967 Mustang Hardtop with radio, heater, automatic transmission, tinted glass, vinyl roof and other items mentioned.

On line one the purchase price of $3,195.19 is stated. Added to this figure is the 4% sales tax, or $127.81, and a standard registration and license fee of $22. The dealer does not keep or realize as income the sales tax or registration and license fee. These two items are property of the state. The dealer is doing a service to the state by handling the book work for the registration of the customer's new automobile. The figures on line one are then totalled to the right on the space provided.

The price of the "vehicle and accessories" may be the stated factory retail price, or it may be a price
placed on the unit as a result of a seasonal clearance sale authorized by the factory. In any event, the price is mutually agreed upon by the dealer and customer.

The next section beginning with line number two pertains to the automobile taken in trade. Before the customer and manager begin filling out the sales contract, the customer's car is appraised by the used car department. The condition of the car is noted: external repairs needed, condition of interior, engine, et cetera. The price guide for the used car department in most automobile dealerships is the well known "Blue Book" which is revised and brought up to date periodically by the company publishing it.

The Blue Book used by the dealer is published every few months. The figures contained are the result of surveying many dealerships, used car departments, and wholesalers. The average prices these groups pay for their used inventory are then compiled and published in the Book. Market conditions are also taken into consideration. On the average, the used units decline in market value about 5% every two or three months.4

Should the trade-in be in excellent condition,

4From an interview with Mr. A. Patterson, President of Canoga Park Motors, Canoga Park, California, December 18, 1966.
the appraiser may be willing to give more than the Blue Book for it. The amount over the Book figure is referred to as an "over-allowance."

The appraiser's figure of $2,250 goes on line number two. This value is actually a $125 over-allowance. The customer then states how much he still owes on his present automobile and enters the figure in the space entitled "Less payoff" - $1,950. Often this figure is only a guess on the customer's part because he may not be able to confirm exactly what he owes if he cannot phone the finance company during the evening or on weekends. Not until Monday morning, or during the regular working days when the finance company can be called, does the dealer know the validity of this figure.

Our Mr. John Doe came in on a Saturday and mistakenly estimated the amount he owed to be $1,950 when he actually owed $2,065.25, or $115.25 in error. In the automotive world, this is considered a "high payoff" situation; it will be explained further as the report progresses.

The net trade-in credit is then $300 (trade-in allowance less the amount he owes on his present 1966 Ford sedan). Included in this section is a description of the trade-in and the bank or finance company with which Mr. Doe is presently financing. The dealer will
make a check out to the Bank of America for $1,950 plus the $115.25 difference about which the customer was in error. Thereby, the dealer obtains title to the automobile and may sell it as part of the used car inventory or wholesale it depending on the condition of the unit and its salability. In essence, the dealer is purchasing the trade-in from the customer's finance company and giving the customer credit for his equity, thus reducing the price of the new car.

Mr. Doe withdrew $150 cash from his savings account to put down on the new Mustang. This amount is shown below the trade-in data on the contract and is added to the $300 credit on the trade-in for a total of $450 credit toward the new unit. This total is entered on the right side of the form and subtracted from the selling price above (as shown on the contract):

\[
\begin{array}{c}
\text{\$3,345 purchase price} \\
\text{\$450 credit} \\
\text{\$2,895 amount unpaid on cash price}
\end{array}
\]

The "Statement of Insurance" section is a service to the customer. It includes the coverages listed. The dealer, in order to sell insurance, must have someone qualified with an insurance agent's license; this person usually handles the insurance discussion with the customer. Mr. Doe decided that he had sufficient insurance coverage, so he transferred his present policy over to his new car.
With no insurance purchased from the dealer, the section remains blank.

In red, there is a warning in the "Statement of Insurance" section stating that unless there is specific mention of insurance purchased in this section, the sales contract itself does not provide insurance coverage. Most lending companies or banks that will be purchasing auto contracts from the dealer will protect themselves by making the requirement that each customer must have collision and comprehensive insurance before the unit is bought. Ford Motor Credit Company requires these two coverages from the customer before Ford Credit will accept a contract from the dealer.\(^5\) Proof of insurance is required and may come in the form of the customer's insurance policy or a quick call to his insurance company. The required insurance protects the finance institution in case of an accident, since the institution will own the car (have title to it) until the unit is fully paid for. Section 5604 of the Vehicle Code simply states that the dealer must tell the customer at the time of purchase about the required insurance.\(^6\) The dealer must make sure

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\(^6\) Interview with Department of Motor Vehicles, Canoga Park, California, January 15, 1967.
the customer has insurance for the dealer's protection. The dealer is liable as long as the dealer holds the title—immediately after the sale and before title passes to the financial institution. The customer acknowledges by his signature that he has the insurance required.

The State of California does not have a compulsory insurance law at the time of purchase or transfer of an automobile. But, if you have an accident, then you are required to show "financial responsibility." Its purpose is to protect you and everyone from financially irresponsible owners and drivers of motor vehicles in California. The Vehicle Code states that "Financial Responsibility" can be shown in three ways. First, the purchaser can have an automobile liability insurance policy covering his automobile at the time of the accident. Secondly, he may post cash or a Corporate Surety Bond with the state. The cash deposit may be set at any amount up to $25,000 for any one accident. The cash not used in paying damages is returned to the individual putting up the cash. Thirdly, the driver may file evidence with the Department of his having been released from liability.

by the injured or damaged persons. Thus, the customer is not compelled by the state to have insurance at the time of the sale—only at the time of the accident must he show "financial responsibility!" However, as was mentioned, the customer must have certain insurance coverage at the time of the sale to meet dealership and finance company requirements.

Since line five of the sales contract does not include a charge for insurance, the amount shown here is the amount carried from above, or $2,895. To this total is added the "amount of finance charge" shown on line six.

The finance charge naturally varies with the length of time the customer wishes to pay and the amount of the monthly payment desired. Should he decide to pay the car off in a year's time, the monthly principal payments would be larger (finance charge being smaller here), than if he decided to stretch the payments over a period of three years. The customer and the dealer's representative discuss the amount of monthly payment the customer can conveniently handle. Then, from the dealer's rate schedule, considering the amount needed to be financed, and the length of time desired, the finance charge is determined. The finance charge here is $435 or 5% of $2,895 for three years. Totalling the principal
and the finance charge on line seven we get $3,330. Spreading this amount over 36 months, Mr. Doe's monthly payments come to $92.50 beginning November 15, 1966.

The paragraph immediately below line nine refers to the date an ordered car is expected from the factory in the event the dealer does not have the car desired in stock. The expected delivery date is stated in the space provided. When the customer signs the contract, he is entitled to the car at that price. However, if the price of accessories he wanted increased in price at the factory or freight rates or taxes increased, the contract may be voided by the dealer. A new contract could be made out if the customer still wanted the vehicle with its slightly increased price.

The money a customer places with an order (deposit) is put into a "Trust Account" at the bank which the dealer may not touch. This procedure is mandatory and so named as a result of the Tucker Automobile Scandal. Around 1946, some people decided to produce a new automobile, the Tucker. Dealerships were established around the country. Orders were taken from customers along with a substantial deposit for each ordered car. The Tucker, however, never rolled off the assembly line, nor did the waiting customers ever see their deposits again. Thus, the "Trust Account" is for
the customer's protection.

The "Notice to Buyer" section toward the bottom of the contract simply warns the customer to read and to leave no blank spaces before signing. It also states that the customer may pay off, in advance, the full amount due with partial refund of the finance charge. In the event of payment default, the customer is liable and subject to repossession.

In the bottom right hand corner of the contract there is a small paragraph referring to the vehicle traded-in. In line two of the contract, the customer estimates (if his finance company is closed at the time he fills the contract out) the amount owed on his present car. The amount Mr. Doe estimated was $1,950 when it should have been $2,065.25. The excess is $115.25 and is to be paid to the dealer upon the dealer's demand. Little trouble is encountered in the collection of this difference.

Understanding the Small Print of the Sales Contract

On the reverse side of the Sales Agreement, the small print begins. A brief definition of several terms may eliminate some of the confusion and bring the legal language within understanding (see Appendix).

Warranty. Should the vehicle being purchased be
a used vehicle, the seller or dealer assumes only the repair warranty obligations stated in the front side of the sales contract. The vehicle is not warranted if there is no mention on the front side. There may be a separate written agreement with the buyer stating a warranty for their used vehicles.

Agreements and Terms.

1. The buyer is obligated to the seller for the amount of the purchase, regardless of whether the buyer damages or loses the vehicle. The seller or dealer may sell or assign the sales contract to someone else, such as a finance company. The customer then is obligated to the finance company in the same manner. The customer may not leave the state permanently without advising the finance company of his future address. The vehicle, as long as it is owned by the finance company, may not be used by the customer's creditors in settlement of debts. Any money paid by the dealer (seller) or finance company in payment of taxes, liens, et cetera, against the customer are secured by this sales contract.

2. If no charge is made for insurance coverage
on the sales contract, evidence of the customer having insurance may be requested when the dealer desires. If the customer refuses to show such evidence, the seller or dealer may, at his option, purchase insurance for the buyer, and the buyer will be obligated for premiums paid in addition to sales contract obligations. Proceeds from insurance, in the event of damage or loss, shall be paid to the seller (dealer) and applied to replacement or repair of the vehicle insured (at the seller's option).

3. If the buyer defaults in payments of contract, the total amount owed may become due and payable. Seller may sue buyer for this amount, plus reasonable attorney fees. The vehicle may be repossessed without warning upon such default, including any equipment and accessories. The amount due and payable is within 5 days in state and within 10 days out of state, upon notification by mail of the seller's intent to sell the repossessed item. The dealer or financial institution may sell the repossessed unit at his option.

4. Acceptance of a late payment by the seller
after the time the total amount becomes due and payable, does not change the rights of the seller regarding defaulted payments.

5. Buyer must notify seller within 30 days of an address change.

6. If the buyer fails to make payments, account may be turned over to collection agency, fees being paid for by the buyer. A defaulted payment not corrected within 10 days from due date, shall have a delinquent charge of 5% of the amount due added to it.

7. The buyer warrants the status of the vehicle he trades in. If the amount owed on the trade-in is overstated by the customer, the seller may credit the excess to a payment or payments. If it is understated, the seller may demand the difference from the customer.

8. Should any part of this contract (sentence or paragraph) be declared invalid or legally unenforceable, this part will not affect the rest of the contract. Should more than one person sign as buyer, the obligation of each shall be "joint and several."

Assignment and Guaranty. Should the dealer
assign or transfer this sales contract to a bank or finance company and guarantee the contract himself, this section would be completed as it is here. In essence, the dealer is selling the contract to the bank, but the dealer is guaranteeing payment by the customer. This is called selling the contract on a "recourse" basis. There is recourse to the dealer should customer default on payment. The dealer must make good the payments to the bank upon default of payment by the customer or else the car is returned to the dealer. Needless to say, the dealer makes a special effort to screen the customer's financial condition before the dealer guarantees him. Since the dealer is guaranteeing this contract, the bank charge to the dealer in the sale of the contract is less than it would be if the bank had to guarantee the sales contract.

**Seller's Assignment and Warranty of Title.** If the bank ends up guaranteeing the contract, the situation is called "nonrecourse" or "without recourse." There is no recourse to the dealer should there be defaults on payments. Here the bank is responsible for the customer's payments. Should the customer default in his payments, the bank may repossess the car, sell or auction it for as much as possible, and hopefully recover its money. The charge to the dealer for
"nonrecourse" transactions is therefore more than it would be for a "recourse" deal.

The finance company or bank charge for "recourse" and "nonrecourse" is stated as a per cent. The charge for "recourse" while dealing with Silver Safe Western Bank has been 4-1/2% while the charge for "nonrecourse" has been 5%. These rates may vary from time to time, depending upon market conditions and the dealer's financial standing. The rates may vary also according to how the bank or finance company classifies the customer as a credit risk. The system used in classifying the customer will be taken up in Section II of this report.

After the credit application and sales contract were filled out and approved, Mr. Doe picked up the receipt for his down payment and headed toward the freeway—a proud owner of a new Mustang. For the dealer, the paperwork has just begun.

Mr. Doe's credit application was approved and evaluated as a good credit risk. The dealer decided to guarantee him, or to sell the contract on a "recourse" basis to take advantage of the lower rate of interest charge to the dealer by the bank. Having established a working relationship with Silver Safe Western Bank, the local bank, the dealer calls the bank, giving the information contained on the credit application and sales
contract. Hopefully, within a few hours, the bank will call back, confirming Mr. Doe as a good credit risk. The bank said it would purchase the contract on a "recourse" basis at a charge of 4-1/2%. The dealer now is responsible for the contract. Should the customer default on payments there is recourse to the dealer. The car will be returned to the dealer; the dealer must suffer the loss.

The sale to the bank is made. The dealer receives the total contract amount less the discount rate or "recourse" rate of 4-1/2% of the total. The sale to the bank is figured below:

\[
\begin{align*}
\text{\$2,895} & \times \frac{5\%}{5\%} = \text{\$435} \\
\text{\$2,895.00} & \times 4-1/2\% = \text{\$390.82} \\
\text{\$435.00} & - \text{\$390.82} = \text{\$44.18}
\end{align*}
\]

5% finance charge per annum to customer on Sales Contract (actually \$434.25--rounded to next highest figure).

4-1/2\% discount rate to dealer by bank.

the amount dealer makes on financing the contract 1/2\% or \$44.18.

This \$44.18 is then held by the bank in a receivables account called Finance Reserve. In case the customer should default, the money held in the Finance Reserve account may be put toward payment of unpaid balance of contract along with the money recovered from
the sale of the repossessed car. In the case where the contract is sold on a "nonrecourse" basis, the Finance Reserve income is paid to the dealer on a monthly basis. Where contracts are sold on a "recourse" basis, the bank will hold back an amount equal to 2-3% of the total outstanding unpaid contracts (contingent liability) and return to the dealer anything over that. This amount is thus held in the event of unusually large repossession losses.

Basically, the average sales contract is handled in the above manner, although the contracts may vary as to recourse and nonrecourse. The customer buys the automobile from the dealer through the sales contract. The dealer then sells the sales contract or discounts the contract to the bank at the agreed upon interest rate, as soon as possible in order to insure a steady cash flow through the dealership. Determining the amount of cash flow on Mr. Doe's sales contract is the next consideration.

**Accounting for Dealer's Profit**

Considerable detail is involved with the necessary accounting entries for the automobile sales transaction. A less involved presentation of the expenses and income
for the John Doe transaction\textsuperscript{8} can illustrate the method, however.

\begin{center}
\textbf{Doe Transaction Income Record}
\end{center}

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Net Price customer pays for car</td>
<td>$3,195.19</td>
</tr>
<tr>
<td>Dealer's cost from factory</td>
<td>(-2,745.92)</td>
</tr>
<tr>
<td>Less: Over-allowance on trade-in (amount over Blue Book)</td>
<td>$125.00</td>
</tr>
<tr>
<td>Less: Salesman's commissions (25% \times ($324.27 - $55.00))</td>
<td>$67.32</td>
</tr>
<tr>
<td>- Contract Manager or Closer's commission (7% \times $324.27)</td>
<td>$22.70</td>
</tr>
<tr>
<td>- Contract Manager's commission on finance income (10% \times $44.18)</td>
<td>$4.42</td>
</tr>
<tr>
<td>Add: Finance reserve income</td>
<td>$229.83</td>
</tr>
<tr>
<td>Net Profit on Sales Contract</td>
<td>$274.01</td>
</tr>
</tbody>
</table>

Since \$125 over Blue Book value was allowed on Mr. Doe's trade-in, the amount is subtracted above. Had the automobile been in poor shape and less than Blue Book had been allowed, the difference would have been added and called an "Under-allowance."

As was mentioned regarding the trade-in, Mr. Doe estimated that he owed \$1,950 on his present car. The

\textsuperscript{8}Auto Unit Records from the files of Canoga Park Motors, Canoga Park, California, October 2, 1966.
dealer allowed $2,250 for the trade, less $1,950 unpaid balance or $300 credit for the trade. But in fact, Mr. Doe really owed $2,065.25 or $115.25 more than he estimated, thus giving him $115.25 more credit than he should have had. At the bottom of the sales contract, there is a paragraph protecting the dealer from this type of occurrence. In this case, Mr. Doe apologized for his mistake and happily gave the dealer the $115.25.

**Conclusion**

The Credit Application and Sales Contract are then the chief consideration in automotive installment buying. Each contract stands apart from the others in that there are unique circumstances to handle arising from the differences in the character and the credit rating of the purchasers.

Equally scrupulous are the methods and procedures used by the finance companies and banks for purchasing or accepting the sales contract from the automobile dealer.
SECTION II

METHODS FINANCIAL INSTITUTIONS HAVE FOR PURCHASING CONDITIONAL SALES CONTRACTS

Introduction

Today, most banking and finance organizations provide the necessary outlets for the automobile dealer's conditional sales contracts. With the popularity of the automobile and installment buying, plus the potential profit involved from both, the financial institutions compete vigorously for automobile dealer accounts.

It has not always been easy, however, for the dealer to sell the sales contract arising from the sale of cars. History shows that in the early 1920's, the banks would not accept installment paper as collateral. This paper was acceptable only to the extent of the selling dealer's personal assets; the dealer guaranteed each transaction.¹ When the outstanding balances on the automobile contracts sold to a bank reached an amount equal to the dealer's net worth, the bank would not

accept any more contracts from him. During the 1920's, sales finance companies came into being and began serving the credit needs of the automobile dealers. At this point in time, the automobile industry began to come into its own. By the end of the 1920's, the annual volume of automobile and truck production reached over five million units. This reflects a tremendous jump within a few years from the 11,235 units produced in 1903. Detroit, now the automotive capital, could boast of only 800 cars in 1903. Thus installment sales financing has helped considerably to stimulate the automobile industry.

As was mentioned earlier, the average dealer depends on the cash flow arising from discounting (also called assigning) sales contracts to financial outlets. Paying for the inventory of automobiles (usually within five days of the sale of the unit to the customer), is only one of the dealer's immediate cash needs. He may need the cash flow to build up his working capital for expansion purposes. In order to take advantage of additional sources of profit, such as leasing of cars, trucks, and campers to fleet users, he frequently finds it necessary to get further financial assistance. In all these situations, the finance industry renders assistance by making available the funds to satisfy the needs of the automobile dealer.

Basically, there are two ways in which a
financial institution (meaning bank and finance company, both referred to herein as lender) discounts the sales contract of an automobile dealer. There is the "recourse" method where the dealer guarantees the contract to the lender. The discount rate here is fairly low because there is more liability for the dealer involved in case of payment default than there is for the lender. Secondly, there is the "non-recourse or without recourse" plan where the lender guarantees the sales contract instead of the dealer guaranteeing it; thus, there is little or no recourse to the dealer. There is more liability here for the lender than there is for the dealer; thus a higher discount rate is charged by the lender.

It is with the variations of these two plans with which this section deals. Special emphasis will be given to the variations of the plans used within the California area. First, the different "recourse" plans will be presented.

Recourse Purchasing Methods

Unconditional Guarantee

Under this plan, the dealer fully guarantees the sales contract for the life of the contract. The lender will advance to the dealer the dollar amount equal to invoice (dealer's cost), plus tax and license, less the discount rate. For banks, this discount rate runs
roughly 4-1/4% and is dictated by the prime rate for the banking system existing at the time. Finance company discount rates run about 1/2-1/4% higher than the bank rates, simply because the finance company generally must borrow its money from the banking system.

The difference between what the dealer charges the customer for financing and the amount the dealer must discount to the bank for is called the Reserve and is put into the Reserve Account. This account grows larger and larger with Reserve being added from each new contract coming into the bank. The lender will usually hold back a certain amount of the finance Reserve Account (average is from 2-5% of the total unpaid balances outstanding) in case the customer pays his contract off early. Such an early payment is known as a "prepayment." The customer is charged only an amount of interest commensurate with the time he financed the unit. Therefore, in the case of a "prepayment," the company will charge the dealer for the amount of finance charge that is lost by early payment from the customer.

If the customer should default on his payments and his financial problems could not be worked out, the car may be repossessed. In the case of an overdue payment, the lender under the unconditional guarantee plan will notify the dealer of this fact. The dealer then attempts to contact the customer and convince him of his financial
obligations resulting from the sales contract. If not successful the dealer may hire an outside repossession agency to take the car or even authorize the bank to repossess it. The dealer, guaranteeing the contract, is now responsible for the balance due on the contract which the customer has left unpaid. The dealer may recondition the unit and sell it in order to make up the difference. Also, depending on the agreement with the lender, the dealer may ask the lender to sell or auction the unit for the best price possible, dealer taking whatever loss results. As an example of the lender disposing of the unit, take the case where the customer buys the car in Los Angeles and suddenly moves to New York without continuing his payments. The customer must notify the dealer and the bank of any address changes. It could be more advantageous to arrange for the auctioning of the unit in New York than to incur the expenses of having it brought back to Los Angeles. (This is also known as the Where and When clause.)

This plan, then, by its very nature, does not give the dealer much protection in the event of repossession. The dealer, as we shall see, will use this plan only in unusual circumstances. Such a case would be

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2Interview with Mr. Larry Brown, Western Regional Director, Commercial Credit Corporation, Santa Ana, California, March 28, 1967.
where the dealer is unable to convince the lender of the customer's credibility, and the institution will not purchase the contract. The dealer may be forced to guarantee it himself under this plan in order to turn the contract into cash. There are some instances in which the potential profit involved in the sales is great enough to make the acceptance of the risk worthwhile for the dealer. Most of the time, however, the risk is too great for the dealer to guarantee it himself.

90 Day Repurchase Plan

This plan is the most widely used plan today, especially in California. The dealers on this plan find it best suited to their operations. Here the liability is shared with the lender, rather than the dealer being fully responsible.

Under this plan, the dealer agrees to guarantee the contract for 90 days past the oldest delinquent payment. After the 90 days, the bank guarantees the contract. The transaction is the same as for the "unconditional guarantee" plan. The lender credits the reserve to the Reserve Account with a holdback of from 3-5% (currently 3% of total contingent liability in the Los Angeles area) for "prepayments" and other charges. The discount rate for this plan is roughly 4-1/2% from the banks and 4-3/4% from the finance companies. The dealer
agrees to repurchase the unit, if it is repossessed and returned to him by the lender within the specified 90 day period. Expenses of searching and repossessing the automobile are paid for by the bank. The dealer is only responsible for the unpaid balance. After 90 days, the lender is responsible for the unpaid balance, not the dealer and also for any expenses incurred.

The main reason for the development of the Repurchase Plan is that no financial institution has the facilities or the personnel to handle the resale of repossessed automobiles and trucks in an efficient or economical manner. The dealer, however, is in the business of reconditioning and selling both cars and trucks. He can recover all or a large part of the unpaid balance due as well as the reconditioning expenses of the car. Financial institutions feel that if a customer defaults, the car can be found and returned to the dealer within the 90 day period after the oldest delinquent payment.

Under the Repurchase Plan, the dealer has what is commonly known as "3-C Protection." The first "C" is Collision. Should there be damage to the car as a result of collision and the insurance company would not cover the damage (due to a cancellation, et cetera), the

3Interview with Mr. Tony Novacek, Manager, Canoga Park Branch, Security First National Bank, March 3, 1967.
purchase price of the car (contract) to the dealer would be adjusted. The second "C" is Conversion. Should the customer suddenly leave the area with the car without continuing his payments, after the 90 day period, if the car has not been returned to the dealer, the lender is liable regardless of what the customer does with the car. Finally, the third "C" or Confiscation refers to the impounding of the vehicle by government authorities. Such a situation would arise if the driver were involved in a robbery, narcotics, bootlegging, or other illegal activity. Even association with persons suspected of the above is grounds for impounding the unit. For example, Mr. A is driving along in his newly purchased (financed) automobile and decides to pick up hitch-hiker Mr. B. Unknown to Mr. A, Mr. B is a narcotic suspect and has been under surveillance for some time. The police pull Mr. A over and arrest Mr. B. Mr. A is questioned and his new car is impounded. The unit can be held for the length of the investigation unless some working relationship exists between the financial institution and the police department.\(^4\) Mr. A would still be responsible for making his payments. If Mr. A had been involved in the felony, \(^4\) Interview with Mr. Schweer, Supervisor, Van Nuys Branch, General Motors Acceptance Corporation, March 16, 1967.
the vehicle would have been kept from the lending institution even longer, thus preventing the lender from attempting to recover the unpaid balance through sale or auction of the unit.

A variation of the 90 Day Repurchase Plan is the Limited Liability to Reserve Plan. Under the 90 Day Repurchase arrangement, the dealer is liable (within the 90 day period) for an amount equal to the total of all the unpaid balances (contingent liability) in his account. Under the Limited Liability to Reserve Plan, however, should the car or cars come back to the dealer within the 90 day period, the dealer is limited to only the amount of Holdback (3% of the total contingent liability) kept in the Reserve Account. For example, if there were 500 contracts outstanding, each with an average unpaid balance of $2,000, there would be a total contingent liability of $1,000,000. The Finance Reserve income from each contract is credited to the Reserve Account of the lending institution. The account is increased to $30,000 (3% of the contingent liability) and held there. The dealer is paid anything over the $30,000. The dealer is not entitled to the $30,000 until the contracts are paid off; however, with the addition of new contracts and the paying off of the old, the dealer never actually receives the $30,000. If the dealer stops dealing with
the lending institution, the amount of Holdback is paid to him once the contracts discounted to this lending institution are all paid off. The amount of Holdback is the only liability the dealer has if units are repossessed and returned to the dealer within the 90 day period. The lender debits this Holdback amount for the unpaid balance of the vehicle coming back to the dealer. With a substantial volume of sales contracts being assigned to one particular lender, the Holdback on the Reserve Account could become quite large. Thus, the lender will feel safer with a large amount of Holdback capital on hand to meet any repossession coming back.

The Limited Liability Plan is used when the dealer desires a tight control over his finances, knowing specifically the extent of his liability. He knows he cannot be held liable for more than the Holdback on the Reserve Account.

The Limited Liability Plan offers several advantages. First, the dealer knows exactly the extent of his liability. In a dealership development program where the manufacturer sets up a dealership in a particular location and provides about 75% of the initial working capital, with the dealer putting up 25%, the Limited Liability Plan is popular. The manufacturer protects its investment in the operation by knowing the extent of
liability and the dealer is better able to regulate his finances.

Secondly, the plan offers more credit flexibility since the lending institution enjoys the loss protection afforded by the amount of the Holdback.

Another variation of the 90 Day Repurchase Plan is the Limited Repurchase Agreement. Under this plan, the dealer simply agrees to guarantee the first "X" number of payments, the first six payments. After the first six payments are paid, the dealer has no liability for the unpaid balance should the unit be repossessed. The banking institutions interviewed for this report did not have this plan. Mainly, the finance companies compete in this area. The difference is that there is less legal control over the lending companies than over the banks. The lending companies seem to offer more variety of plans, but these plans are special and are usually more expensive than the variety of plans offered by banks. The discount rate for the Limited Repurchase arrangement runs between 4-3/4 and 5%.

Somewhat similar to the Limited Liability Plan is the Special Limited Liability Plan or what is commonly

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5Interview with Mr. Jim Reno, Van Nuys Branch Manager, Associates Discount Corporation, Van Nuys, California, March 8, 1967.
known as the "Share of the Loss Plan."\textsuperscript{6}

Here the contract is discounted to the lending institution and the Finance Reserve is credited to the dealer's Reserve Account. Only 1/2% is held back from the Reserve Account for "prepayments" (customer paying contract off earlier than was figured), the amount over this per cent of the Account is paid to the dealer on a monthly basis. Should the automobile be repossessed, the dealer is only liable for 10% of the remaining unpaid balance. As an example, let us take the customer who defaults when there is $3,000 left to pay. If the car is repossessed the dealer is only liable for 10% of $3,000 or $300. Flexibility exists here in that the dealer can send $300 to the lender and take possession of the vehicle. He may also send the $300 and have the lender keep the unit for auction. This plan is yet another way of limiting the dealer's liability. For the lender it is yet another method offered in hopes of capturing some of the automobile sales contract market. There is little protection for the lending institution under this arrangement with only 1/2% Holdback on the Reserve Account. Should the dealer become insolvent, the lending institution

\textsuperscript{6}Interview with Mr. Gordon Smith, Installment Sales Department Supervisor, Encino Branch, Union Bank, Encino, California, March 15, 1967.
the customer may keep the car if he complies with the terms of the contract. But, in this case, there was a misrepresentation of credit, and the customer's contract becomes invalid. The dealer, in this case, would like to have the unit remain sold because there was fairly good profit involved, and so he appeals once again to the bank to purchase the contract.

The bank then may tell the dealer that it will purchase the contract under the Unconditional Guarantee Plan where the dealer fully guarantees the contract. But the bank will do so only at the 90 Day Repurchase Rate (4-1/2%) rather than at the 4-1/4% for the Unconditional Guarantee.

Problems of this type arise from time to time. Satisfactory solution of the problems can be arrived at through satisfactory dealer-lending institution relations. There is a great deal of "give and take" on both sides arising out of the necessity of dealing with a dynamic public. Much of the lending institution's attitude toward the dealer and its willingness to help the dealer depends upon the dealer's reputation, not only with the lending institution but also with the public.

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7Interview with Mr. Bob Shehan, Assistant Vice President, Los Angeles Home Office, Security First National Bank, Los Angeles, California, March 31, 1967.
Salesmen's high pressure dealing, false advertising and poor quality merchandise can do much to mar the reputation of the dealer and the lending source. Dealers who intend to remain in business for any length of time realize the hazards in such practices and exert control over their operations to insure a favorable image.8

Summary of Recourse Plans

Under the plans mentioned above where there is recourse to the dealer, the dealer is responsible in varying degrees. He may be responsible for the total amount of outstanding contracts as in the case under the Unconditional Guarantee Plan. On the other hand, he may desire to share the risk, becoming liable for only a portion of the total amount in outstanding contracts. The lending institution accepts part of the risk but at a higher discount than it would if the dealer accepted all the risk.

Recourse plans help to control the extent of liability for the dealer, as well as to insure cash flow to the dealer once the contract is sold instead of having

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8 Interview with Mr. Pete Reese, Beverly Hills Branch Manager and Mr. Jerry Davis, Automobile Dealer Accounts, Beverly Hills National Bank, Beverly Hills, California, March 8, 1967.
to wait for the 12, 24, or 36 monthly payments from the customer.

Under other situations, the dealer may desire to have very little or no liability whatsoever, giving rise to the "non-recourse" method of purchasing automobile sales contracts.

**Non-Recourse Purchasing Methods**

In certain areas of the United States, such as in the Mid-West and East Coast, the Non-Recourse Plan is used much more extensively than here in California. Basically, there is little or no recourse to the dealer once the contract is sold to the lender. Under this plan, the lending institution must merchandise units that are repossessed and must absorb all losses that result from the sale of these units. The only recovery of loss the lender can make is usually a return of the Reserve that had been paid to the dealer. ⁹

The dealer guarantees that the contract is legally enforceable and becomes liable for the full amount of unpaid balance. For example, should the dealer misrepresent the customer's age, showing him to

⁹Interview with Mr. Gorden Lee, Automobile Dealer Accounts, San Fernando Valley District, Pacific Finance Corporation, March 31, 1967.
be an adult when, in fact, he is a minor, the dealer agrees that he will repurchase the contract at the time the demand is made for the unpaid balance.

The dealer guarantees that he received the down payment shown on the contract, either cash or a trade-in, or both, and that the dealer has not taken a note from the customer in lieu of the down payment shown. Generally, the lending companies dislike the side loan arrangement (customer taking out a loan from another company to pay the down payment) because of the added burden in addition to the monthly car payments. Banks, working on a wider margin than lending companies, usually accept the "side loan" idea provided the customer shows the ability to handle both obligations. In some cases, the "side loan" is ruled out and if the dealer represents the down payment as cash when in essence it was a note from the customer promising to pay the dealer the down payment upon obtainment of the side loan, the dealer agrees that he will repurchase the contract back upon demand.

Needless to say, with the lender taking the risk here for the sales contract, a careful credit check on the customer is made by the lender's credit department.

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10 Interview with Mr. Ed Johnson, District Manager, Universal C. I. T., Van Nuys, California, March 30, 1967.
The Credit Evaluation

There are various methods companies have for evaluating a customer's credit. Generally, except on weekends, before the customer is allowed to drive the new car from the dealer's lot, his credit statement is phoned into the lending institution with which the dealer does business. The lender then evaluates the credit on a worksheet (see Appendix for "Consumer Credit Worksheet"). The lender verifies the credit through a credit exchange, such as the Los Angeles Credit Exchange or the Commercial Credit Corporation. If the credit meets the lender's standards, the dealer is called back and notified that the contract will be purchased. The dealer then gives the customer full possession of the vehicle.

If the customer meets most of the categories on the worksheet in the section entitled "Applicant" under the "Summary and Check-List" heading, the lending institution would generally accept the contract.

As can be seen, the customer must have fairly good credit before the lending institution would accept the contract on a full Non-Recourse basis where all liability rests with the lending organization. The lending institution will take this risk at a higher discount rate than under the Recourse programs. The Non-Recourse program usually runs 5-1/2% for banks and
around 6 to 6-1/4% for lending companies, or roughly 1% higher than each of their Recourse program rates.

In California, the Non-Recourse program is offered by very few organizations. Most banks have their standards for credit set so high that with the high degree of mobility, divorce rates, et cetera, among the citizens here in California, few people meet the bank's standards. Banks simply feel that there is too much risk on the life of the sales contract.

The finance companies (very few) are the main sources of Non-Recourse purchasing of sales contracts in California. Few of these companies presently offer such a program, however. Most of the lending companies and banks in California restrict themselves to purchasing automobile sales contracts on a Recourse basis.

In the Mid-West and the East, people are less mobile. The farmer remains on his farm; people seem to be, on the whole, more stable economically. Under these conditions, more people meet the high credit standards, giving the lending institutions more of a feeling of security in guaranteeing the contracts.

The question arises, if the customer has such excellent credit, then why does the dealer not Unconditionally Guarantee the contract himself at a rate of discount around 4-1/4%, rather than at the higher
Non-Recourse rate of 5 to 5-1/2%? The answer is that he does guarantee the good contracts. Ideally, as will be shown in Section III of this report, the dealer would like to sell all the good credit risk contracts on the Recourse programs to take advantage of the lower discount rate and sell all the marginal and below average credit contracts on a Non-Recourse basis to eliminate the risk.

In most instances, the latter cannot easily be done because in order to sell marginal or below average credit contracts, there must be a substantial amount of good to excellent credit risks already in the Account before the financing institution would accept them under any plan of purchase.

Examples of three Non-Recourse programs follow.

**Straight Non-Recourse**

Once the lender accepts or purchases the contract from the dealer under this plan, the lender accepts full responsibility for any repossessions. Only a minimum is held back in the dealer's Reserve Account which would cover any prepayments. The full Reserve, less this token amount, is given to the dealer.\(^\text{11}\)

\(^{11}\)Interview with Mr. Schmidt, Canoga Park Branch Manager, AABCO, Canoga Park, California, March 14, 1967.
Guarantee Reserve--No Holdback Plan

This plan offered under the Non-Recourse arrangement holds the dealer responsible only if the first payment is not made. Here the contract is purchased by Davis Associates, Inc. (the form in Appendix) with the dealer guaranteeing that the customer will make the first payment. If the dealer charges the customer 6% financing on a new car, the lending company will discount the contract for 5-1/4%, plus $10.12 The 1/2% difference is the Reserve and is paid to the dealer without any Holdbacks. This Reserve (called Bonus on the example form) is paid to the dealer immediately after the contract is purchased. If the customer does not make his first payment, then the dealer agrees to return the Reserve to Davis Associates, Inc., the lending company in this case.

Special Non-Recourse Plan

This plan works the same as the Straight Non-Recourse Plan, but the dealer here is liable for pre-payments and any losses the lending institution may incur upon the sale or auction of the repossessed unit. A Holdback of 3% of the contingent liability is retained in the Reserve account for this purpose. Anything over that amount is given to the dealer. As in the Straight

Non-Recourse Plan, the lending institution is responsible for the unpaid balance. If the auctioning or selling of the unit does not come to the unpaid balance due, plus expenses involved with repossessing the unit, the difference is the loss, which is then charged against the dealer's 3% Holdback amount.

Summary

Once the sales contract is sold to the lending institution on the Non-Recourse Plan, the dealer enjoys the least responsibility for the customer and his newly purchased automobile.

The dealer is also protected under this plan from adverse conditions existing within the economy. During recessions and national catastrophies the dealer will be protected. However, during hard times, the lending institutions may stop purchasing the contracts on the Non-Recourse basis because of the increased potential failure rate. Contracts purchased on this basis prior to such economic conditions will still be honored and the lending institution remains liable throughout the life of the contract.

The Automobile Dealer Agreement

Before sales contracts are sold or assigned to the lending institution, an agreement in the form of a
contract is signed by the automobile dealer and the lending institution. The form is entitled the "Automobile Dealer Agreement" and is presented in the Appendix. The form defines the financial responsibility of the dealer and of the lending institution, which in this case happens to be the Security First National Bank.

In section number one, entitled "General," it states that the bank, in this case, will buy the contracts from the dealer at the agreed upon interest rate. The vehicle of each contract accepted by the bank must have the required collision and comprehensive insurance coverage. The dealer warrants that each contract is legally enforceable; that the dealer will handle the registration of the vehicle with the state; and that the credit information presented is as accurate as possible.

Under section number two, "Purchase of Contracts," the bank states that the purchase price of the sales contract will be the unpaid balance on the contract less the agreed upon discount rate. The purchase price will then be credited to the dealer's account at the time of the purchase with title to the vehicle passing to the bank.

13 Interview with Mr. Tony Novacek, Manager, Canoga Park Branch, Security First National Bank, Canoga Park, California, March 3, 1967.
The dealer's Reserve Account (called "Dealer Differential Account") will be credited with the difference between the interest charged to the customer by the dealer and the discount rate to the bank. A space is provided for the percentage of Holdback for losses and prepayments. Should the dealer become insolvent or discontinue business, the bank need not give the excess above the 3% Holdback figure to the dealer. It is retained by the bank for security on the dealer's obligations to the bank.

In the next section, "Waiver of Dealer's Liability," it states that the dealer will be liable for the contract if the unit is repossessed and returned to the dealer within 90 days after the oldest past due payment; thereafter, the bank will become liable. The search and repossession charges may be paid by the bank or the dealer and shared by both, depending on the agreement reached between the parties. Secondly, where the unit is returned within the 90 day period and a collision or damage to the unit has occurred, the bank will be responsible for the loss resulting when the cost of repairs plus the unpaid balance exceeds the retail value of the unit at the time of such repairs.

Section 4, "Conditions" states that the dealer must exercise good business practices. The dealer must
back up his warranties, obtain merchandise legally, and not make any side agreements concerning the financing of the unit other than that stated on the contract without obtaining the bank's consent.

The "Limitation of Liability" covers the Non-Recourse conditions. Should the dealer decide and the bank agree to a Non-Recourse arrangement, it says that the dealer is not liable for the unpaid balance in the event of a repossession once the bank purchases the contract. The bank is under no obligation to return the car.

The bank states in number six, "Non-Conforming Contracts," that if a substandard contract is offered by the dealer to the bank, the bank may pay an amount less than the unpaid balance to the dealer for it. The dealer may be paid this difference, however, when the contract is finally paid off in full at the contract life's end, or when the wholesale value of the vehicle in the contract equals the unpaid balance of the contract remaining.

Secondly, if the contract does not meet the bank's standards, the bank may hold the dealer responsible for a certain amount of the original unpaid balance. As the contract is paid off, the amount the dealer was liable for is reduced proportionately.

The concluding section simply states that the
agreement may be terminated by either party at any time. Termination will not affect the rights of the bank on contracts prior to the termination.

Summary

This "Automobile Dealer Agreement" thus states the various Recourse and Non-Recourse plans available. The dealer and bank agree on the plan to be used, then sign at the bottom of the agreement. As a blanket type contract, all dealers selling contracts to the bank, regardless of the plan they are on, sign the bank's dealer agreement, thus simplifying the paperwork with only one comprehensive copy to sign.

Collection Service Offered by the Financial Institution, An Important Consideration

In Section III of this report, an analysis of the dealers' choice of lending institutions will be made. As part of this analysis, the overall services of the lending institution to the dealer will be considered. A major consideration for the dealer will be discussed here, i.e., the collection policy of the lending institution.

This factor is of great importance to the dealer for two reasons. If the lending institution is unable to collect the money which it has invested in an
automobile contract, and the contract was purchased on the Non-Recourse Plan, then the lending company suffers a loss in most instances when the repossessed car is sold. The profit made will determine whether or not the lending institution will continue to purchase the installment paper created by a dealer. If losses are too great because of poor collection service, the dealer will find it necessary to select another lending organization. Where the dealer is operating under a Repurchase Plan (Recourse), poor collection service will create an abnormal number of repossessions which must be paid off by the dealer and taken back into his inventory.14

As part of the program for maintaining good customer relations, the officers of the lending institution who handle delinquent accounts usually receive special training. Delinquent accounts are viewed as customers who need, and are entitled to, help from an account representative.15 The representative must turn each seemingly routine collection call into an effective sales call—to straighten out any misunderstandings and


to keep the customer satisfied. This means repeat business for the dealer as well as for the lender.

From the experience of the Ford Motor Credit Corporation, a subsidiary of the Ford Motor Company, it is shown that about 92% of customers pay within three days after the due date. The rest are handled by a two-stage collection program: automatic past-due notices from the data processing center, and branch collection activity by telephone or personal letter. Should these methods fail to get the customer's attention, the account representative in the customer's area schedules a personal contact.

In most cases, shortly after the first overdue payment, a written reminder is sent. The customer's automobile is certainly not repossessed immediately after he misses one payment! There may be certain financial difficulties which can be taken care of if the customer simply lets the lending organization know of them. If the customer does not contact the company he is sending the payments to, he is missing the chance to negotiate his problems. Illness and unemployment may be temporary stumbling blocks to the customer's monthly debt payments. An extension of payments may be granted, depending on the sincerity of the customer to settle his payment. One small lending company interviewed has the policy of
customer—when he intends to make the payment.

4. One day after the tentative date agreed upon by both bank and customer, another call is made with rather stern overtones, reminding the customer of the importance of a good credit rating, reputation, et cetera. Another date is demanded for settlement of the payment.

5. After 30 days from the overdue date, a representative of the bank is sent to contact the customer personally. At this time if the customer is still unwilling to cooperate, the unit is taken. Anywhere along the line, the bank would be willing to extend payments or possibly negotiate another loan if the customer made an attempt to explain his problems.

Summary

Thus, tactful handling of the customer, giving him a reasonable chance to settle his financial obligations on the sales contract, keeps the customer in the car and eliminates the potential loss to the finance company or to the dealer. The dealer is in business to sell cars, not to buy them. He recognizes that he will find it necessary to buy back some repossessions that are due to unforeseen circumstances such as instances of
customer illness or unemployment. He does not, however, want to be penalized by a lending connection that has neither the will nor the ability to help him keep his merchandise sold through good sound collection methods.

In seeking a financial outlet for his sales contracts, the automobile dealer considers a number of factors. The various purchase plans offered with their respective discount rates do not differ significantly from institution to institution. Most banks have the same plans with the same discount rates. Most lending companies have the same plans and rates with a little more variety offered here at higher discount rates. It is often the service given to the dealer which differentiates lending institutions and determines his choice of financial outlets as will be shown in Section III of this report to follow.
SECTION III

METHODS AND INSTITUTIONS AUTOMOBILE DEALERS USE IN DISCOUNTING THEIR AUTOMOBILE SALES CONTRACTS

Introduction

In determining what program the dealer uses in discounting his automobile sales contracts, interviews were arranged with various dealers from the Los Angeles area. The majority of dealers interviewed were from the San Fernando Valley. The type of product carried by dealers varied from Ford and General Motors units to foreign imports and American Motors units. The dealers' size varied considerably and ranged from one of the world's largest Ford dealers, selling around 6,500 new units per year to a small American Motors dealer, selling approximately 250 new units per year. A list of the dealers is included in the Bibliography of this report. Since much of the information taken was common to other dealers, pinpointing one dealer as a source would be unfair. A few of the dealers wished to remain anonymous, so there will be no specific reference made to any particular dealer as a footnote or otherwise.
The Type Of Plans Used By The Dealers

All of the dealers interviewed discounted the majority of their automobile sales contracts (80-90%) on a Recourse basis. The 90 day Repurchase Plan was the most common type of plan. As was previously mentioned, the dealer and financial institution agree to a discount rate, which is determined by the prime rate of the institution with which the dealer is doing business. In April and May of 1967, the rate of 4-1/2-4-3/4% was the going discount rate for the 90 Day Repurchase Plan. The rates of most banking institutions were 4-1/2%. Finance companies which are subsidiaries of a larger organization also may have rates of 4-1/2%, provided there is a bank within the complex of the organization somewhere from which it can get its money. Finance companies without such connections have rates at the present time of about 4-3/4% for this Repurchase Program.

After the car is sold under this program, the financing institution buys the contract or discounts it at the going rate. The dealer is then responsible for the customer's payments up until the 90th day past the first overdue payment. If the car is not returned to the dealer within the 90 day period, the bank or finance company becomes responsible for any losses incurred.

At the present time, there are very few
Non-Recourse programs available. The few that exist are expensive and the majority of the dealers would rather be more selective in choosing their customers and share the liability with the financing institution at the lower rates. Thus, the Recourse type of program is all that is presently available, leaving little choice to the dealers. With the recent tightening of money in the financial world accompanying a general slump in the economy, financial institutions handling automotive accounts have been more selective in accepting the sales contracts. They consider more carefully the quality of the customer's credit before accepting the sales contract from the dealer, also making the dealer more critical in his evaluation of the customer.

**How The Finance Reserve Is Handled**

Handling of the Finance Reserve Account, the amount of difference between the dealer's finance charge and the financing institution's discount rate, depends mainly on the reputation of the dealer. If a dealer has dealt with the financing institution for a number of years, as one dealer had for 10 years, the institution pays the dealer all the reserve monthly. Only a token amount would be held in the Account for Prepayments. Practically everything in the dealer's Reserve Account is paid to him and there is no Holdback. The financing
institution recognizes the dealer's good reputation and financial soundness, thus little is held in the Reserve Account for protection from the dealer suddenly going out of business or his having a large number of repossessions.

The new dealer or one who has not had a chance to establish a close relationship with a financing institution may have more of his Reserve withheld or a Holdback of anywhere from 3-5% of the total contingent liability. An amount is accumulated in the Reserve Account equal to from 3-5% of the total outstanding unpaid balances (contingent liability). Anything over that amount is then paid to the dealer. The Holdback is considered insurance against the dealer's going out of business or having a large number of repossessions. As this dealer becomes financially stable with improved working capital position and establishes a favorable reputation in selecting customers with good credit, the amount of Holdback is reduced to below 3% and may even be non-existent.

There is a trend for the larger volume dealers to have less Holdback than the smaller volume dealers, given that both have been in business the same length of time. This is mainly due to the fact that with a larger volume dealer, there is usually always enough money in the Reserve Account between monthly payments to the
dealer from this Account to cover any losses from repossessions or other charges such as an early payoff by a customer (Prepayment).

Is There a Preference Over One Form of Financial Institution?

Banking institutions, being the primary lender in the country, have a leading edge over the finance companies who must borrow their money from the banks. Some finance companies will have bank rates in the case where it is part of a larger organization with financial connections, such as a bank within the organization. About 50% of the companies interviewed send between 70-90% of their sales contracts to banks, the remainder goes to finance companies, either public finance companies or factory subsidiary finance companies.

A number of reasons were given when dealers were asked why they preferred banks to finance companies. The chief reason given was that bank rates were the lowest overall. Placing most of the contracts with a bank over a number of years by one dealer has carried over to the present. Establishing a good reputation over the years with one financing organization would help whenever additional capital should be desired for expansion or for personal loans. The financing organization would be better acquainted with the needs of the company after
having done business with them over the years.

The dealer may do business mainly with one bank and have other banks on a standby basis. This is done in case a customer comes in and desires to do business with a particular bank. Since there are more people dealing with banks than with finance companies due to the numerous branch locations of banks, the bank may be the customer's first choice.

Choosing a finance company over a bank, dealers again stated that they had been dealing with a particular finance company for a long time and saw no reason for change. In most cases the rates offered to dealers by the finance companies were within 1/2% of the bank rates. The discount rates seemed secondary to the service offered to the dealer by the company. Dealers using banks also stated that service was excellent. The dealer may be forced to deal with some fly by night finance company at very expensive discount rates if a bank is unwilling to handle a particular dealer for reasons of poor reputation.

A few dealers stated that finance companies in dealing with delinquent accounts have more experience and ability in collecting them. The customer is made to believe that the car payments take preference over the other payments. These are opinions of only a few dealers
and should not exclude the possibility that the banking collection policies could be equally as efficient.

Banking institutions have only recently, within the last 10 years, entered the business of installment loans, especially auto loans. Finance companies, on the average, have dealt longer in the installment loan area than have banking institutions, giving the finance companies an edge in experience.

Preference of manufacturers finance companies, such as G.M.A.C., were strong among the General Motors dealers interviewed. Dealing through this channel has the advantage of the company being familiar with problems that are common to G.M. dealers. The location of the company seemed to be a factor in their preference of finance companies. G.M.A.C. has been centrally located in the Valley (Van Nuys) for a number of years, serving the dealers in this area.

Ford Motor Credit Company has just recently moved into the Valley. Before, it had been located in Los Angeles, not readily accessible to the Valley dealers. A few of the Ford dealers have gone with F.M.C.C. in the Valley. It is too early to tell whether there will be as strong a tie here as there is with the General Motors dealers and G.M.A.C.
Few Dealers Are On The Recourse Program Entitled Unconditional Guarantee

Under the Unconditional Guarantee (U.G.) Plan, the dealer takes the sole responsibility for the sales contract. The dealer guarantees the contract to the bank and agrees that if the bank or financing institution will take the contract, the dealer will cover any losses in the event of repossession. The discount rate here is lower (4-1/4%) than the 4-1/2% rate for the 90 Day Repurchase since the finance institution assumes no responsibility or liability in the U.G. agreement.

Most of the dealers interviewed stated that they seldom, if ever, used the U.G. Only in cases where the customer is known personally by the dealer or the customer has close to 50% down on the car and has exceptional credit, does the dealer ever consider guaranteeing the contract. Most dealers feel that the difference in the lower rate of the U.G. compared to the 90 Day Repurchase is not enough to justify the added responsibility.

On the average, the dealer would rather share the responsibility with the financing institution in case of a general recession in the economy when delinquent accounts start rising.

The main idea in any program the dealer chooses is to screen his customers with the idea in mind to minimize any possibility of repossession. Credit is a
very subjective area, especially in drawing a line between good, marginal, and bad customers. One dealer stated that the finance company he dealt with made a study to show what credit items were identified with repossessions. He stated that age was the most common factor associated with repossessions. More cases of repossessions occurred when the individual was 25 years old or under. The next most common category to repossessions was lack of equity. The down payment on the car was low. Monthly wages were not high enough to justify the addition of car payments. The third category was domestic relations. A divorce with resulting alimony payments often adds considerable burden to an individual's financial position. The fourth item was the shortness of residence in one area. The last was high employment turnover.

In a clear case of good or bad credit, there is little trouble in classifying a customer. However, if the customer is marginal, the dealer and the financing institution negotiate on how the contract is to be handled. If the bank decides that the customer is a poor credit risk and will not accept the contract on the 90 Day Repurchase basis, the dealer can either try and get the customer to increase his down payment or try and get the car back. The dealer may decide to take a chance and discount the contract on the U.G. basis, guaranteeing
it fully. This is just one example where the dealer and
bank must negotiate in cases when buyers have questionable
credit.

The Non-Recourse Program

None of the dealers interviewed preferred to use
a Non-Recourse outlet for their contracts. Under this
program, the financing institution accepts full responsi-
bility for the sales contract once the contract is dis-
counted from the dealer. The discount rate is higher
for this privilege, but it frees the dealer from being
responsible for the contract. The high cost of dis-
counting under this method seems to be the main reason
dealers are not presently using it. Few institutions
offer this program presently because of the tight money
situation. There seem to be more delinquent accounts
in such times, therefore financial institutions are
steering away from financing programs where they are
fully responsible for the contracts.

Two dealers interviewed have a special arrangement
open to them at any time whereby the financing institution
turns all the Recourse contracts into Non-Recourse
at the election of the dealer. The dealer simply agrees
to give the company an amount equal to 3% of all out-
standing contingent liability. The financing institution
then accepts the responsibility for this contingent liability. With $1,000,000 outstanding contingent liability, the dealer can give the lending institution 3% or $30,000, and the institution will then become liable on the $1,000,000 outstanding.

Few dealers would want to give up the $30,000 in exercising the option to go Non-Recourse. This program is useful when a dealer decides to go out of business and does not want any responsibility for contracts sold under the recourse arrangement.

Internal Financing

When a dealer wishes to act as a financing institution as well as a dealer, internal financing comes into play. Under this program, instead of the dealer discounting the contract to a financing institution, he keeps the contract himself. The customer's monthly payments are sent to the dealer.

The terms of the contract do not change. Interest charged to the customer is accrued monthly as interest income to the dealer, thus the dealer benefits by being able to realize all the finance charge as income instead of discounting the contract to the financing institution and receiving only the difference between the discount rate and the rate charged to the customer by the dealer.
In order to act as his own lender, the dealer must have considerable capital on hand. If he sells 10 cars and decides to "carry" the contracts himself, he must pay for the cars he sells immediately. For example, if each of the ten cars cost the dealer $2,000, then the dealer must pay the factory (or the company flooring the cars for the dealer) $20,000. One financing institution figured that accepting 100 contracts per month, each averaging $2,500 in cost, it would take 28 months before the amount of monthly payments coming in from the customers would equal the amount going out to pay for the cars. The 28th month is called the "roll over point." Needless to say, the dealer must have considerable capital with which to begin.

Once the dealer has say 50 contracts on his accounts receivable, he can go to a financing institution and pledge them as collateral for additional capital for his financing program.

Under internal financing, the dealer accepts full responsibility for the customer making his monthly payments. The dealer will take people on this program who show outstanding credit; he certainly does not want any repossessions if he is responsible for the unpaid balance on the automobile. He carefully checks and verifies the credit, title, and insurance of the customer. The
accounting department is set up to accept and post the monthly payments and lets the dealer know of any delinquent accounts. The dealer or his collection department must handle the delinquent accounts as any finance company would have to.

Very few dealers handle their own sales contracts simply because they do not have the capital to start such a program. It was suggested by one dealer that in order to begin handling your own contracts, there should be at least $20,000 to $50,000 cash with which to start. There is also added expense in setting up the accounting and collection program. One small import dealer interviewed said that he had sufficient capital and began such an operation, handling 60-70% of the contracts himself. He stated that his imports did not draw the same clientele that the larger car dealers draw. Most people here are looking for a second car and usually have the ability to pay. The repossession rate was very low. He mentioned that his particular imports were not the racing or hot variety, thus steering clear of the "wild set."

Another problem pointed out by a General Motors Dealer was that when the dealer handles the financing, the customer-dealer relations may be too close. If the customer was having service problems with his car due
to factory error or defect, the customer may rationalize that he will not make any more monthly car payments to the dealer until the car is fixed. This was only one problem pointed out. On the other hand, a close relationship with the customer could promote understanding and confidence on both parts. There are many pros and cons concerning the internal financing program, the main stumbling block being the initial cost of the program.

Summary

The Recourse program is in use today more than any other program. In periods of general recession, it is usually the only program available from lending institutions for handling automobile sales contracts. There are very few Non-Recourse Plans available because the institutions realize that in periods of tight money there are more chances of customers becoming delinquent than in periods of easy money. Dealers also recognize the higher costs associated with Non-Recourse programs as well as internal financing arrangements.

With the discount rates of finance companies and banks becoming so competitive, dealers prefer one over the other for a variety of reasons other than their rates. The dealer may have dealt with one bank or a finance company over a period of years, being satisfied with one
or the other, thus seeing no reason for change. The closeness of the financing institution's location to the dealer may determine the dealer's choice of a bank over a finance company or visa versa. It seems a matter of personal preference of the dealer as to whether a bank or a finance institution gets his business.
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BIBLIOGRAPHY

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Canoga Park Ford, Canoga Park, California, Mr. A. C. Patterson, Sr., May 10, 1967.

Clem Rhu Chevrolet, Canoga Park, California, Mr. Rhu, April 23, 1967.

Dick Steel Rambler, Reseda, California, Mr. Steel, May 3, 1967.

Lehr Cadillac, Reseda, California, Mr. Neill Lehr, May 4, 1967.

Omar Arnesen Imports, Canoga Park, California, Mr. Arnesen, April 26, 1967.

Ralph Williams Ford, Encino, California, Mr. Ralph Williams, May 5, 1967.

Santa Monica Ford, Santa Monica, California, Mr. Wayne Harding, April 25, 1967.

Wray Brothers, Van Nuys, California, Mr. L. Grandi, April 25, 1967.
APPENDIX

80
Bank and Finance Company Questionnaire

1. How is your size determined and what would it be?

2. Number of dealers presently doing business with.

3. Methods available for discounting dealer's sales contracts
   a. Recourse - name of program
      - "going" discount rate
      - how Reserve is handled
   b. Non-Recourse - same as above

4. How is customer's credit evaluated?

5. What collection techniques are used?

6. What major problems do you have with dealers?

7. What methods for discounting existed in the past that are not used today?

8. Could you recommend other banks or finance companies that have unique programs of discounting?
Dealer Questionnaire

1. Size of the dealer
   a. monthly sales of new cars, trucks, and used.
   b. yearly volume

2. Number of banks and finance companies, which ones.

3. Methods of selling or discounting paper
   a. Recourse Plans - how reserve handled, Holdbacks
      - how customer is handled on weekends when credit cannot
      be checked.
   b. Non-Recourse - same questions as above
      - how does dealer discriminate
      between Recourse and Non-Recourse customers.

4. Does dealer have any internal financing arrangements?
   a. how does his plan work, how set up
   b. how would one work if the dealer himself is
      not set up for it
   c. what advantages and disadvantages exist under
      this arrangement?

5. What problems if any do dealers have with banks
   and finance companies?

6. Could dealer recommend other dealers for me to
   interview?
APPLICATION FOR CREDIT

To: Silver State Western Bank, Los Angeles

APPLICANT

NAME: John C. Doe

HOME ADDRESS: 729 ELM, L.A. 66, California

PREVIOUS HOME ADDRESS: 4291 Tampa Ave, Riverside, California

EMPLOYED BY: Stock Market

KIND OF BUSINESS: DESIGN ENGINEER

OTHER INCOME: $5

EMPREYMENT:

PREVIOUS EMPLOYER: MAJOR AIRCRAFT ASTRO INC., SAN DIEGO

SPouse EMPLOYED BY: N/A

REAL ESTATE

ADDRESS OF REAL ESTATE OWNED: N/A

MORTGAGE HELD BY: N/A

BANK WHERE ACCOUNT IS CARRIED: N/A

U.S. CITIZEN: N/A

NEAREST RELATIVE OF APPLICANT

RELATIONSHIP: WIFE

ADDRESS: 1712 CAROLINE, CHICAGO, I11

BANKING AND OTHER INFORMATION

NEAREST RELATIVE OF SPOUSE

NAME: Doris C. Doe

ADDRESS: N/A

OTHER PERSONAL REFERENCE

NAME: George Knowler

ADDRESS: 1712 CAROLINE, CHICAGO, I11

DATE: 10-2-66

BRANCH: N/A

DEALER: N/A

(NO.)

APPLICANT PRINT FULL NAME: John C. Doe

HOME ADDRESS (No., Street, City, and Zip Code): 729 ELM, L.A. 66, California

PREVIOUS HOME ADDRESS (No., Street, City, and Zip Code): 4291 Tampa Ave, Riverside, California

EMPLOYED BY (If self-employed, name of business): Stock Market

KIND OF BUSINESS: DESIGN ENGINEER

OTHER INCOME: $5

EMPEEYMENT:

PREVIOUS EMPLOYER (Name and address): MAJOR AIRCRAFT ASTRO INC., SAN DIEGO

SPouse EMPLOYED BY (Name and address): N/A

 REAL ESTATE

ADDRESS OF REAL ESTATE OWNED: N/A

MORTGAGE HELD BY: N/A

BANK WHERE ACCOUNT IS CARRIED: N/A

U.S. CITIZEN: N/A

NEAREST RELATIVE OF APPLICANT

RELATIONSHIP: WIFE

ADDRESS: 1712 CAROLINE, CHICAGO, I11

BANKING AND OTHER INFORMATION

NEAREST RELATIVE OF SPOUSE

NAME: Doris C. Doe

ADDRESS: N/A

OTHER PERSONAL REFERENCE

NAME: George Knowler

ADDRESS: 1712 CAROLINE, CHICAGO, I11

DATE: 10-2-66

BRANCH: N/A

DEALER: N/A

(NO.)
Application for Credit (continued)

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If less than three debts, list two additional credit references.

YEAR AND MAKE

AUTO 1966 FORD

INFORMATION

DRIVER'S LICENSE NO. M 74 24771

HAS APPLICANT OR SPOUSE EVER HAD AN AUTO, FURNITURE, OR OTHER CHATTEL REPOSESSED? YES/ NO

HAS APPLICANT OR SPOUSE EVER FILED BANKRUPTCY? YES/ NO

CREDIT LIFE INSURANCE

IS GROUP CREDITOR'S LIFE INSURANCE DESIRED? YES/ NO

DEBT TOTALS $ 0.00

This statement is furnished for the purpose of procuring credit and is to be regarded as continuous until another shall be substituted for it. If the undersigned, or any endorser or guarantor of any obligations of the undersigned, at any time becomes insolvent, or commits an act of bankruptcy, or dies, or if any writ of attachment, garnishment, execution or other legal process be issued against property of the undersigned, or if any assessment for taxes against the undersigned, other than on real property, is made by the Federal or State government, or any department thereof, or if any of the representations made above prove to be untrue, or if the undersigned fail to notify you of any material change in financial condition as given above, then and in either such case, all of the obligations of the undersigned to or held by you, either as borrower or guarantor, shall immediately become due and payable without demand or notice. I hereby certify that I have carefully read this application, and that it is complete, true, and correct, to the best of my knowledge and belief. It shall be and remain your property whether or not the loan is granted. You are hereby authorized to pay the proceeds to any of the undersigned.

SIGNATURE OF APPLICANT

(1)

NOTE: ONLY THE APPLICANT SIGNING THE CONTRACT ON LINE ONE WILL BE COVERED UNDER ANY GROUP CREDITOR'S LIFE INSURANCE POLICY.

BANK COPY
MOTOR VEHICLE AGREEMENT

☐ SECURITY AGREEMENT
(Purchase Money)

☐ CASH SALE

THE UNDERSIGNED SELLER HEREBY SELLS AND THE UNDERSIGNED PURCHASER HEREBY PURCHASES SUBJECT TO THE AGREEMENTS AND TERMS SET FORTH HEREUNDER AND ON THE REVERSE SIDE HEREOF THE FOLLOWING DESCRIBED PROPERTY TOGETHER WITH THOSE ACCESSORIES CHECKED, TO WIT:

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Air Conditioning ☑ Automatic Transmission ☑
Heater ☑ Over Drive ☑ Padded Instrument Panel ☑
Porcelain ☑ Power Brakes ☑ Power Seats ☑ Power Steering ☑
Power Windows ☑ Radio ☑ Rear Speaker ☑
Tinted Windows ☑ Under Coating ☑ White Wall Tires ☑
Windshield Washer ☑ Bucket Seats ☑ Aluminum Brakes ☑
Color Blue ☑ Trim Black ☑

1 CASH PRICE: $3,195.47 $1,275.00 $2,220.47 TOTAL $3,695.00

TRADE-IN ALLOWANCE $2,220.47 LESS PAYOFF ($143.23) NET TRADE-IN CREDIT: $2,077.24

PAYOFF GOOD UNTIL YEAR MAKE CYL. BODY STYLE MODEL ENGINE NO.
PAYOFF VERIFIED BY: 66 Ford 6c 6c 6c 3XH49323

ADDRESS: Bank of America, Local Branch
CITY:

CASH RECEIVED BY SELLER ON OR BEFORE THIS DATE

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TOTAL DOWN PAYMENT TO SELLER — CASH AND/OR TRADE-IN

AMOUNT UNPAID ON CASH PRICE (Item 1 less item 2)

3 AMOUNT UNPAID ON CASH PRICE ($3,695.00)

$2,875.00
Motor Vehicle Agreement (continued)

**STATEMENT OF INSURANCE**

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**TOTAL INSURANCE PREMIUMS included in agreement balance**

$ ---

**AMOUNT OF UNPAID BALANCE TO BE FINANCED**, including insurance (Sum of items 3 and 4)

$ 2,245.00

**AMOUNT OF FINANCE CHARGE**

$ 2,35.00

**AMOUNT OF AGREEMENT BALANCE** (Sum of items 5 and 6)

$ 2,125.00

73 equal successive monthly installments of $ 35.62 beginning **Nov. 1** 19 -- which purchaser promises to pay to seller, together with a delinquency charge on each installment in default for ten days or more amounting to 5% of the amount of each delinquent installment, together with all such other sums as are hereinafter provided for, payable at the office of Seller or if this agreement is assigned, then payable at the office of assignee of Seller.

9 The names and address of all persons liable on this contract to whom notice of intent to sell said vehicle will be sent prior to any sale in the event of repossession:

**Name**

[Signature]

**Address**

7,294 Elm, LaGrange, Ind.
Motor Vehicle Agreement (continued)

Delivery of the vehicle is hereby acknowledged unless agreed to be made on the date following: __ __ 19 __ or as soon thereafter as possible. It is agreed, however, that neither Seller nor the manufacturer shall be liable for failure to effect delivery on such date. Furthermore in case of a cash sale, if before the vehicle is delivered to Purchaser, the price of the vehicle or accessories should be increased by the manufacturer, or if the freight for delivery of the vehicle to Seller should be raised, or if the taxes imposed upon the vehicle or accessories and/or upon the sale or delivery thereof should be increased, then this agreement shall be voidable at the option of Seller.

NOTICE TO BUYER: (1) Do not sign this agreement before you read it or if it contains any blank spaces to be filled in. (2) You are entitled to a completely filled-in copy of this agreement. (3) Under the law you have the right to pay off in advance the full amount due and under certain conditions to obtain a partial refund of the finance charge. (4) If you default in the performance of your obligations under this agreement, the vehicle may be repossessed and you may be subject to suit and liability for the unpaid indebtedness evidenced by this agreement.

Purchaser acknowledges receipt of a true copy of this agreement which was completely filled in prior to Purchaser’s execution thereof, which contains all the agreements between the parties.

Executed on __ __ 19 __ at __ DEPARTMENT __, Calif.

Seller

TOWN MOTORS, INC.

Town Motors

By: ____________________________ (SEAL) PHONE: ____________

MUST BE SIGNED BY AN AUTHORIZED REPRESENTATIVE OF SELLER.

Salesman

NO. 725 - LAW PTG. CO., LOS ANGELES, BURLINGAME

Purchaser warrants the unpaid balance on his trade in and agrees that in the event such payoff is in excess of $ __ __ __ __ $, to pay such excess to the seller on demand. This agreement subject to credit approval.

(X) ____________________________

PURCHASER SIGN HERE

(Seal)

(X) ____________________________

SALESMAN SIGN HERE
Reverse Side of Motor Vehicle Agreement

WARRANTY

In the event the vehicle sold hereunder is a used vehicle any statement as to year and model is for identification only and is not a warranty or representation. As to a used vehicle sold hereunder, Seller assumes only such warranty obligations as are set forth on the reverse side hereof, or in a separate written instrument, if any. No warranties, express or implied, representations, promises or statements have been made by seller unless endorsed hereon in writing.

AGREEMENTS AND TERMS

1. Purchaser conveys and transfers to Seller a security interest in the motor vehicle as security for Purchaser's obligations hereunder. No loss, injury or destruction of vehicle shall release Purchaser from his obligation hereunder, Seller may assign this agreement and any assignee of Seller shall be entitled to all the rights of Seller. Upon compliance with section 29835 of the California Civil Code (if this agreement is made in California), all rights of action or defenses which the purchaser may have against Seller shall be cut off as to such Assignee. Purchaser shall keep vehicle free of all taxes, liens and encumbrances; shall not use same illegally, improperly, or for hire, shall not remove same from the state without permission of the holder of this agreement; shall not transfer any interest in this agreement or vehicle and shall not commence or permit the continuance of a proceeding in bankruptcy or receivership, or make any assignment for the benefit of creditors. Any sum of money paid by Seller in payment or discharge of taxes, liens and encumbrances on said property shall be secured by and under this agreement.

2. In the event that the total price payable hereunder does not include a charge for insurance to be procured by Seller (or if insurance so procured or insurance provided by the Purchaser expires or is cancelled before the agreement shall have been paid in full, Purchaser shall furnish to Seller upon request satisfactory evidence of such insurance as Seller may require. Upon failure of Purchaser to do so, Seller may, at Seller's option, procure such insurance, and in that event Purchaser shall pay the premium therefor upon demand, as an additional part of the obligation hereunder. Proceeds of any insurance, whether paid by reason of loss, injury, return premium or otherwise, are hereby assigned to Seller and shall be applied toward the replacement of the property or payment of this obligation, at the option of Seller. The provisions of this paragraph apply to insurance other than life insurance on the Purchaser's life.

3. Time is of the essence of this agreement and in the event Purchaser defaults in the performance of any of his obligations under this agreement all sums payable hereunder at option of Seller, shall be immediately due and payable and Seller may thereupon sue Purchaser for the same and Purchaser will also pay a reasonable attorney fee. Further, upon such default, Seller or any officer of the law may take immediate possession of vehicle without demand including any equipment or accessories thereto, and for this purpose Seller may enter upon the premises where said property may be and remove same. Such repossession shall terminate Purchaser's rights hereunder unless he shall pay the entire indebtedness evidenced by this agreement within five (5) days after Seller gives notice by mail or otherwise of its intention to sell the vehicle, or within ten (10) days of said notice if the same is given by mail and the place of deposit of said notice in the mail or place of address of the Purchaser is outside the State of California and Seller may retain said property and all payments made prior thereto by Purchaser hereunder as rent and compensation for the use of said property by Purchaser. Seller may, but shall not be required so to do, resell said property, to retenant, at public or private sale without demand for performance with or without having vehicle at place of sale, and upon terms and in such manner as Seller may determine. Seller may bid at any such sale. From proceeds of any such sale Seller shall deduct all expenses for retaking, storing, repairing and selling vehicle including a reasonable attorney fee. The balance thereof shall be applied to amount due hereunder, any surplus shall be paid over to Purchaser and Purchaser shall pay any deficiency to Seller on demand.

4. Seller's acceptance of any installment or payment after it or the full amount may have become due and payable hereunder shall not be deemed to alter or affect Purchaser's obligation and/or Seller's rights hereunder with respect to any subsequent payments or default therein.

5. Should Purchaser fail to make any payment or perform any obligation herein required when due, Seller may refer the matter to any person or collection agency or to the Collection Department of the Seller for collection and if the same be so referred, Purchaser shall pay to Seller a reasonable charge for collection costs and fees. In addition, if the default by Purchaser is not corrected in ten days, or loss, from the due date thereof, he shall pay a delinquency charge amounting to 5% of the amount of each delinquent installment. The aforesaid collection costs and fee and said delinquency charge shall be paid concurrently with the payment and the said defaulted payment.

6. Purchaser shall give written notice of any change of his address to Seller or to the assignee of Seller's interest in this agreement within thirty (30) days from the date of such change.
Reverse Side of Motor Vehicle Agreement (continued)

7. Purchaser warrants that he is the registered and/or legal owner of the vehicle traded in and that it is free of all encumbrances, or if encumbered that the unpaid balance is as specified in item number two on the reverse side hereof. If the amount thereof is overstated, Seller shall credit the excess to the final payment or payments due hereunder. If the unpaid balance exceeds the amount shown in item number two on the reverse side, Purchaser shall pay such difference upon demand.

8. Notwithstanding the fact that any words, sentences or paragraphs of this agreement shall be declared invalid or unenforceable, such holding shall not affect the validity or enforceability of the remainder hereof. All terms and designations herein contained shall be deemed to have the number, gender and entity applicable to the parties who execute this agreement; and in the event that more than one person signs as purchaser the obligation of each shall be joint and several.

SELLER
(Must be signed by authorized representative of Seller)

Purchaser (x)
(Sign Here)

BY:

ASSIGNMENT AND GUARANTY

FOR VALUE RECEIVED, the undersigned does hereby sell, assign and transfer to its or their right, title and interest in and to the within agreement, the property therein described and all monies to become due thereunder. In consideration of the purchase of the within agreement, the undersigned guarantees payment of the unpaid balance, if the purchaser defaults in the performance of the agreement or any of the warranties are found untrue. The undersigned warrants that the title of the aforesaid property rests in the undersigned, that undersigned has the right to make this assignment and that the aforesaid property is free from any liens or encumbrances. The undersigned hereby consents that the assignee above named, or its successor or assigns may without notice extend the time for payments under said agreement, waive the performance of such terms and conditions as it, or they, may determine, and make any reasonable settlement thereunder, without affecting or limiting the undersigned's liability as guarantor.

For the purpose of inducing the above named assignee to purchase said agreement, the undersigned submits the accompanying purchaser's statement which the undersigned believes to be substantially true, and states that the said agreement arose from the bona fide sale of the property described in said agreement, and that said property has been delivered into the possession of the purchaser therein named. In further consideration of the purchase of this agreement the undersigned agrees that if the property therein described is returned by or repossessed from the purchaser, the assignee, its successors or assigns, may recover from the undersigned the balance due on said agreement or may sell said property, apply the proceeds to such balance due and recover any deficiency thereof from the undersigned; in either of such events recovering also a reasonable attorney fee and cost of suit. In the event of suit against said purchaser the undersigned also guarantees the payment of costs and a reasonable attorney fee to said assignee, its successors and/or assigns.

DATED AT

BY: _______________ TITLE ____________________

(Dated at-------------------)
SELLER'S ASSIGNMENT AND WARRANTY OF TITLE

FOR VALUE RECEIVED, the undersigned does hereby sell, assign and transfer WITHOUT RECOUSE to, its, or their right, his, title and interest in and to the within agreement, the property described and all monies to become due thereunder. The undersigned warrants that the aforesaid property vests in the undersigned; that the undersigned has a right to make this assignment; and that the aforesaid property is free from liens and/or encumbrances.

The undersigned represents that the within agreement arose from the bona fide sale of the property according to terms described therein and that said property has actually been delivered into the possession of the purchaser therein named.

DATED AT ___________________________ 19________

(Seller Sign Here)

BY: ___________________________ TITLE ___________________________
CONSUMER CREDIT WORKSHEET

DISCOUNTING AND DISBURSEMENT

Selling Price (Including Tax & Lic.) $___________

Less Down Payment $___________

Unpaid Cash Price $___________

Add Ins. Premium $___________

Add Other Costs $___________

Amount Disbursed $___________

Add Holdback $___________

Add Withhold, (%) $___________

Deferred Balance $___________

Add Gross Charges (Incl. Cr. Life $___________) $___________

Gross Loan $___________

Insurance Exp. Date

Dealer Cost, New $___________

Wholesale, Used $___________

Adjustments (Include Tax, Lic., Ins., Pick-up)

Loan Value (Adj. Book Value) $___________

Over Book $___________

Bank Discount $___________

Dealer Reserve $___________

Note/Contract Date

No. Payments @ $___________

First Payment Date

Standard Ind. Code/C.R.

Classification Code

Insurance Code

Credit Rating

Write Rate

Credit Invest. Code

Buy Rate

Check/Deposit to:

Account No. $___________

$___________

$___________

$___________

COLLATERAL

<table>
<thead>
<tr>
<th>Year</th>
<th>New or Used</th>
<th>Make</th>
<th>No. Cyls.</th>
<th>Standard, Custom Special, Super, etc.</th>
<th>Type of Body</th>
<th>Model, Letter or Number</th>
<th>I.D. Number</th>
<th>License No.</th>
</tr>
</thead>
</table>

☐ Automatic Transmission ☐ Overdrive ☐ Radio ☐ Heater ☐ Power Steering ☐ Power Brakes ☐ Power Windows ☐ Power Seats ☐ Air Conditioning ☐ Other (Describe)

LEGAL DESCRIPTION OF REAL ESTATE:

EQUITY (% to Value $___________) $___________
**SUMMARY AND CHECK-LIST**

<table>
<thead>
<tr>
<th>APPLICANT</th>
<th>Yes</th>
<th>No</th>
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</thead>
<tbody>
<tr>
<td>Debt to income ratio less than 40%</td>
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<td></td>
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<tr>
<td>On present job at least 6 months</td>
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<td></td>
</tr>
<tr>
<td>Not more than 2 jobs in past 18 months</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In area at least 2 years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Is married (number of dependents)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal ability to borrow</td>
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<td></td>
</tr>
<tr>
<td>Previous credit up to this amount (anywhere)</td>
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<td></td>
</tr>
<tr>
<td>Application signed</td>
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<td></td>
</tr>
<tr>
<td>Note or contract signed and reviewed</td>
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<table>
<thead>
<tr>
<th>PROPERTY</th>
<th>Yes</th>
<th>No</th>
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</thead>
<tbody>
<tr>
<td>Builder's Contract or cost estimates obtained</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deed of Trust taken (Title I only)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assignment of Rents taken</td>
<td></td>
<td></td>
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<tr>
<td>Completion Certificate signed and received</td>
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<td></td>
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<tr>
<td>Beneficiary's Statement obtained</td>
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<td></td>
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<tr>
<td>Title 1 Report to Center</td>
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<td></td>
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<tr>
<td>Property inspected (by)</td>
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<tr>
<td>Title Co. Lot Book Report ordered</td>
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<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>MISCELLANEOUS</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Resolution obtained</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fees (recording, etc.) obtained</td>
<td></td>
<td></td>
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<tr>
<td>Payments audited</td>
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<td></td>
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<tr>
<td>Security Agreement—Flooring No.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**APPROVAL CONDITIONS AND COMMENTS**

Rejected By __________________________ Reason __________________________ Reject Card Filed? __________________

Qualification for Approval:
- [ ] Buy
- [ ] Buy With U.G. Agreement, Form 5419 (ILD 3215)
- [ ] Buy with O/A Letter, Form 6168 (ILD 3408) $________
- [ ] Buy with Ins. Loss Agreement, Form 5989 (ILD 3391) $________

Approved By __________________________ No. _______ Bank Minimum $ __________ Dealer Minimum $ __________

Dealer Advised ________________________ Dealer ________________________ No. _______ Address ________________________

3093 ILD 3045 11-84* 90 P.S.
We would like to take this opportunity to welcome you as a participating dealer under our NCB program.

This confirms our agreement to pay you the following bonus participation:

**NEW & CURRENT MODEL:**

<table>
<thead>
<tr>
<th>RATE PER ANNUM</th>
<th>DISCOUNT RATE TO DEALER PER ANNUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>5% - no reserve</td>
</tr>
<tr>
<td>5½%</td>
<td>5½% plus $10.00 per contract</td>
</tr>
<tr>
<td>→ 6%</td>
<td>5½% plus $10.00 per contract</td>
</tr>
<tr>
<td>6½% &amp; over</td>
<td>5½% plus $10.00 per contract</td>
</tr>
</tbody>
</table>

**USED MODELS:**
RATE PER ANNUM

7%
7½%
8%
8½% & over

DISCOUNT RATE TO DEALER PER ANNUM

7% - no reserve
7½% plus $10.00 per contract
8% plus $10.00 per contract
8½% plus $10.00 per contract

The bonus participation will be paid to you monthly on the twentieth of the month following the purchase of the contract by our participating bank. The bonus participation paid to you is earned in full by you. However, in the event the borrower fails to make the first payment, no bonus will be due you. If the bonus has already been paid to you, you agree to promptly refund this participation.

Accepted By:

DAVIS ASSOCIATES, INC.

by: Authorized Officer

Dealer Name

Date

by: Authorized Officer
AUTOMOBILE DEALER AGREEMENT

AGREEMENT between the undersigned automobile dealer ("Dealer") and SECURITY FIRST NATIONAL BANK ("Bank").

1. GENERAL

Bank will purchase such conditional sale contracts from Dealer covering the sale of motor vehicles as are acceptable to Bank at agreed rates of discount. Each contract shall be assigned and guaranteed by Dealer in form satisfactory to Bank which shall govern the rights of Bank against Dealer except as such rights may be modified hereby.

Each contract must be accompanied by a policy or other evidence of insurance acceptable to Bank insuring the motor vehicle against fire and theft (or risks listed in the comprehensive form) and collision, unless collision insurance is waived in writing by Bank. In the event such insurance is not in force at the time a contract is acquired by Bank, Dealer, upon demand by Bank, will repurchase the contract for the amount paid by Bank less payments received from the purchaser.

Dealer warrants as to each contract sold to Bank that (i) Dealer has not violated any lawful regulation governing sales on credit in connection with the sale evidenced by the contract; (ii) Dealer will promptly and adequately effect registration of the motor vehicle in accordance with the laws of California and/or any other state involved; (iii) Dealer has good title to the contract and property; (iv) Dealer has received the cash down-payment and/or trade-in which are fully, truly and fairly shown in the contract; and (v) any credit information transmitted through Dealer is true to the best of Dealer's knowledge and belief.

2. PURCHASE OF CONTRACTS

The purchase price of each contract purchased by Bank hereunder shall be the unpaid balance thereof, less time price differential, except in the case of certain non-conforming contracts where the purchase price shall be an agreed lesser sum. The purchase price shall be paid to Dealer or credited to his account when the contract is purchased and thereupon full title to the contract shall pass to Bank. If an amount in excess of the original unpaid balance of the contract, less time price differential, plus a discount computed according to an agreed discount rate is realized by Bank on such contract, such excess, if not prepaid, after satisfying any past due indebtedness of Dealer to Bank arising under his guaranties, this agreement, or otherwise, shall be paid to Dealer.

A bookkeeping entry representing the potential interest of Dealer shall be credited to Dealer Differential Account at the time of purchase of each contract. Bank will advance to Dealer monthly at his request any balance of Dealer Differential Account above ______ percent of the unpaid balance on contracts then outstanding, provided, however, that if Dealer in the opinion of Bank becomes insolvent, or discontinues business, or if arrangements between Bank and Dealer are terminated, Bank need not make such advances to Dealer and earned excesses may be retained by Bank as security for Dealer's obligations to Bank then or thereafter existing, direct, or contingent, until such obligations are satisfied.

3. WAIVER OF DEALER'S LIABILITY

CONFISCATION — CONVERSION — COLLISION

Subject to the conditions herein contained:

(a) Bank will waive Dealer's liability under his guaranty of a particular contract unless Bank repossesses and returns the motor vehicle covered thereby to Dealer at the place from which said motor vehicle was sold within 90 days from the oldest past due installment; such waiver shall apply even though Bank's failure to repossess and return the motor vehicle may be the result of confiscation or conversion thereof.

(b) Where a motor vehicle has been repossessed and is delivered within the 90-day period and has been damaged prior to such delivery by reason of one accidental upset or collision and Bank receives proceeds of insurance by reason thereof, and the total of the cost of repairs and unpaid balance of the contract, exclusive of such insurance proceeds, is in excess of the retail value of the automobile when repaired, Bank will waive the liability of the Dealer to the extent of such excess if any, but in no event in an amount in excess of the cost to Dealer of such repairs.
Automobile Dealer Agreement (continued)

4. CONDITIONS
The provisions of Section 3 shall apply so long as Dealer remains actively engaged in the automobile business and is solvent in the opinion of Bank and provided that (i) none of the warranties of Dealer have been violated or proven to be untrue; (ii) possession of the motor vehicle was not obtained by any fraudulent scheme, pretense, trick or device on the part of the purchaser; and (iii) Dealer has not made any settlement with the purchaser and has not agreed to the sale, mortgage, or transfer of equity of the purchaser without Bank's consent.

5. LIMITATION OF LIABILITY
In cases where Dealer's liability to Bank would be waived except for Bank's repossession and return of the motor vehicle within 90 days from the oldest past due instalment, Dealer's liability to Bank shall be limited to forthwith repurchase the applicable contract without recourse or warranty for the unpaid balance thereof, less unearned discount. In all other cases, Dealer's liability shall be according to the terms of the guaranty in connection with the applicable contract and Bank shall be under no obligation to Dealer to repossess and return the motor vehicle. In all cases Dealer shall be credited with any unpaid additional consideration if the contract was non-conforming and purchased at an agreed lesser sum.

6. NON-CONFORMING CONTRACTS
Where Dealer offers to Bank a contract which does not meet Bank's standards, Bank may:

(a) Purchase such contract for an agreed lesser sum than the unpaid balance thereof, less time price differential, in which case Bank agrees upon the earlier happening of (i) or (ii) to pay to Dealer as additional consideration for such contract an amount equal to the difference between such agreed lesser sum and the original unpaid balance of the contract less time price differential:

(i) Upon payment in full of the contract by the purchaser;

(ii) When the wholesale value of the motor vehicle covered by such contract equals the unpaid balance thereof, and the purchaser is not in default under the contract; or

(b) Notify Dealer upon purchase of the contract of a dollar amount which shall represent a portion of the contract balance for which Dealer is to be liable to Bank upon purchaser's default if Bank fails to repossess and return the motor vehicle to Dealer within the 90-day period in cases where such failure waives Dealer's liability; such dollar amount will be reduced in the proportion that payments collected from the purchaser bear to the original contract balance.

7. MISCELLANEOUS
The terms and conditions hereof may be altered by subsequent written agreement between Dealer and Bank. This agreement may be terminated at any time by either Bank or Dealer upon notice to the other, provided, however, that such termination shall not affect the rights of Bank with respect to any contract purchased by Bank prior to such termination.

Dated: ________________________________

By ___________________________________

By ___________________________________

SECURITY FIRST NATIONAL BANK

By ___________________________________