

Lenders, dealers agree on issues
Automotive News
April 8, 1996
By Jim Henry

COPYRIGHT 1996 Crain Communications, Inc.

ORLANDO, Fla. - Lenders and their car-dealer customers often take different sides on controversial issues. But at this year's Auto Finance Convention of the Consumer Bankers Association, the two groups seemed to recognize that they're on different sides of the same coin.

The same three topics - subprime lending, used-car superstores and the Internet - both fascinate and frighten most bankers and dealers.

For the first time in recent memory, the same topics that were at the top of the Consumer Bankers Association agenda here last week also dominated the National Automobile Dealers Association convention, which took place in February.

In a nutshell:

SUBPRIME LENDING

Dealers at the convention, including NADA President John Peterson, said they want banks to do more of it. The banks say they do, too, since subprime lending offers high returns.

But the banks clearly have to worry about the risk more than dealers do.

With heavy hitters like Ford Motor Credit Co. getting into subprime, new entries who want to "swim with the sharks" had better be big interstate banks like Nationsbank and Bane One, or giant independent finance companies like GE Capital Corp., according to convention speaker Al Steinhaus, chief executive of Auto Finance Group, a major subprime lender that is a subsidiary of Key-Corp, based in Westmont, Ill.

"This (subprime) business by definition is different. ... You better have a lot of money in that deep pocket," Steinhaus warned potential competitors.

Dealer Joe Tigue, president of Westway Motor Sales in Irving, Texas, complained about banks turning down subprime borrowers.

"Selling the (grade) 'A' paper is a no-brainer. I don't want to be penalized for being a good salesman. I think some of you should be better collectors," he said.

Some banks just "might not have the stomach" for subprime, said convention speaker John Speaks, senior analyst for Moody's Investors Service.

USED-CAR "BIG BOXES"

Although dealers around the country have expressed concern about used-car superstores, those who spoke at the Consumer Bankers Association convention professed not to be worried. More than one said it was good that Chrysler Corp. gave CarMax a new-car franchise last year, since it opens the door a crack on public ownership.

Al Wagner, group vice president for Toyota Motor Sales U.S.A Inc., even said it is "perfectly conceivable that these organizations will become new-car dealers with all manufacturers." He quickly added: "I'm not making any announcement today."

Rhett Ricart, chief executive officer of Ricart Automotive in Groveport, Ohio, said he thinks dealers can learn from CarMax and others.

"I'd like to thank CarMax for being here. I'm one of the dealerships who isn't scared of them. They're giving everybody a hell of an education. They're not doing anything we can't do as car dealers," he said.

But Tom Moran, manager of planning and administration for CarMax in Charlotte, N.C., shook up some bankers when he said his chain will soon require its lenders to make themselves available nights and weekends. Some lenders already do that, but "bankers' hours" have irritated dealers for years.

THE INTERNET

Similarly, Moran said CarMax will require lenders to make two-way communication on the Internet available for the credit approval process.

Dealers and bankers agreed that they had better get going on the Internet, but the number of actual users seemed small in either group.

Barbara Guinn, president of Acura Bellevue in Bellevue, Wash., said other dealers laughed when she started a Web site just over a year ago.

"They told me the only 'hits' I would get would be from teenage 'surfers,'" she recalled.

In fact, she said the computer site has increased parts sales, and customers use it to make service appointments.

She said she also has sold 10 to 15 cars as a result of contacts made on the Internet. Several big-ticket NSX sports cars were among the sales, she said.

She said she even sold an NSX to a buyer from China through the Web, and she recently started offering used cars via the site.

She said her bank ought to be on the Internet, too.

"I feel strongly that our bank should be online," she said.