

of interest!

A timely digest of regulatory changes, specialized reports and important information for the consumer finance industry.



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Carleton Expands Support of Auto Lending

Baker Hill Chooses Carleton for Credit Origination Products

GMAC Insurance, others select Carleton

2004 saw an explosion in the demand for Carleton software within the automobile dealer industry. As companies look for better ways to close loans and sell add-on products, they are recognizing the unique support that Carleton can provide in helping them become more profitable while also maintaining strict compliance.

GMAC Insurance Using Carleton to Support Menu-Selling System

Carleton has a great deal of experience in supporting nation-wide loan-quoting software programs to the automobile industry. The financial software company first started supplying loan-quoting products to GMAC in 1975, and takes pride in the relationships they have established with many of the industry's leading lenders and insurance providers.

Today, GMAC offers its proprietary Menu Selling System software to the 6,000 plus General Motors dealers throughout the country. This program was designed to help the dealers quote comprehensive loan packages and display the options in an easy to understand format. Menu options and playing "what if" scenarios allow F&I managers

need to provide our dealers with the best solutions possible to support their efforts to close deals and sell value-added products," said Don Berry, manager of product research & development with GMAC Insurance. "By incorporating Carleton's loan quoting software capabilities and ongoing support, we feel we have the best menu-selling software application available anywhere. Carleton clearly has the experience and know-how to support all of our dealer's loan-quoting and insurance calculation requirements, and Carleton's technical staff has been a pleasure to deal with as we incorporated their software," Berry added.

Carleton's SmartNet for Dealers

Carleton SmartNet for Dealers is Carleton's turnkey system designed to provide flexible loan-quoting capabilities and electronic document delivery for the indirect lending environment. With SmartNet for Dealers, a lender or insurance provider can easily provide customers in all 50 states the capability to quote loans inclusive of insurance and other aftermarket products, interface with loan decisioning systems, and print loan-related documents — all via the Internet.

GM Protection Plan

to sell the package that best fits the car buyer's needs and budget.

Through their Menu-Selling System, GMAC Insurance helps their dealers sell extended vehicle service contracts, GAP insurance, and credit insurance products. They recognized that Carleton was uniquely qualified to support their efforts to provide a state-of-the-art solution for all of their dealers. "At GMAC Insurance, we know that we

SmartNet for Dealers is also unique in that the transaction can be totally

paperless. Once a deal is ready to close, the customer can simply sign the electronic signature pad that Carleton provides dealers, and the completed loan document can be electronically delivered to the lender, or the loan data can be sent to the application processing system. This system greatly increases efficiency and ensures the accuracy of the transaction.

SmartNet for Dealers is appropriate for
(cont. on page 4)

Baker Hill, an expert in banking process solutions based in Carmel, Indiana, announced in 2003 the introduction of Bank2Consumer®, an Internet-based loan-origination solution for consumer lending. Like its small business predecessor, Liquid-Credit Bank2Business®, Bank2Consumer brings together focused expertise in origination tools from Baker Hill and is supported by computational and compliance software support from Carleton, Inc.



"Since Baker Hill's experience traditionally was in business lending, we needed to partner with a company that could support consumer lending requirements in our Bank2Consumer software" said Mark Hill, president of Baker Hill. "We have been pleased with our decision to incorporate Carleton SmartCalcs software to meet these needs."

Bank2Dealer® is a browser-based loan-origination solution used to process and decision indirect consumer loan applications from the lender's network of dealers. Baker Hill launched this product in 2004, and customers for this indirect solution benefit from Carleton's loan-origination expertise. Baker Hill integrated Carleton SmartCalcs software into Bank2Dealer to handle lending and insurance computations.

Carleton's reputation in the industry and its expertise in loan calculations made this relationship a win-win for both sides. "Baker Hill's needs fit perfectly with Carleton's core expertise," said Dan Hickey, director of marketing and sales for Carleton. "By integrating our SmartCalcs software into their system, they could more quickly bring their new loan origination product to the market with the knowledge that the loan and credit protection computations are accurate."

PUBLISHER'S NOTEBOOK

New Year's greetings to all. 2005 looks to be an exciting year here at Carleton.

We're pleased to announce several new projects involving collaborative efforts — including an expansion of these efforts in the automobile industry. We've also worked closely with other major providers of software solutions such as Baker Hill and StoneEagle who have introduced major new products to their markets which incorporate Carleton's expertise and capabilities.

Our research department continues to follow the changes in MOB insurance and our Compliance Update brings you up to speed with the recent changes in the states of Ohio, Massachusetts and Texas.

As always, if you have any questions about our products or services, please feel free to contact us at 1-800-433-0090, or you can visit us at www.Carletoninc.com. We'd love to hear from you.

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Our research department comments on continuing changes in credit insurance.

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The two companies have collaborated on the electronic delivery of documents — an increasingly important service.



Serving consumer lending and credit insurance providers with full-service, one-stop solutions.

The Changing Face of “MOB” Insurance

from our research dept. ...

The adoption of the HOEPA amendments in October 2002 has changed the mix of credit insurance in the consumer credit industry. There is less single premium business being written and more MOB coverage in place. However, today's “MOB” doesn't always resemble what we have seen in the past. In fact, in many instances it is safe to say that MOB coverage in 2004 “ain't your daddy's MOB.”

We found that in many sectors of the consumer credit industry, “MOB” was a bit of a distant concept long associated with credit union activities but accepted as a relatively simple convention. In our discussions of programming MOB coverage for many creditors the phrase “It's easy, the premium simply doesn't affect the payment or principal” kept coming up again and again. If only it were that simple.

Traditional MOB Model

While in theory it has some merit, the phrase above appeared to represent a simplistic view and one that was in direct contrast with the properties of the MOB coverage that we had been computing and disclosing since the rate chart era of the early 1970s. In what we label “traditional MOB” coverage, the resulting payment to the borrower is a level amount. That disclosed payment is an “integrated” payment in that it will accomplish two significant business objectives:

- 1) properly amortize the debt at the stated interest rate and term,
- 2) provide a premium charge commensurate with covering the declining principal balance of the credit transaction.

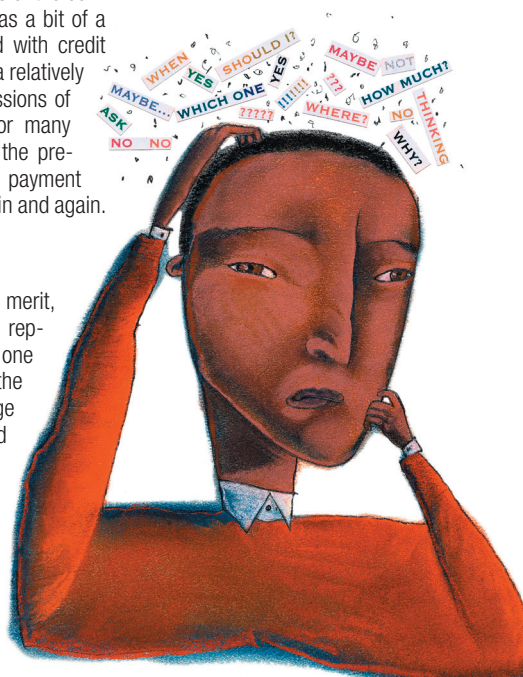
In order for the disclosed payment on the contract to be a level amount, it must consist of a variable P&I portion and a variable insurance portion. Both components are based on the declining balance of the principal outstanding. If either of the components (there can be more than two components if A&H and/or IUI coverage is included) were computed as a level amount, the addition of the resulting variable piece would cause the payment disclosed to the borrower to be variable by definition.

However, while it made sense for a number of our clients to return to that tried and true method of computing MOB, a combination of advanced technology and evolving industry practices allowed some creditors to view MOB calculations differently than in the traditional model.

Variable Monthly Payments

One of the factors driving the “traditional” method of MOB was the use of coupon books as the preferred tool supplied to consumers for remitting their scheduled payments. A level payment to the consumer was desirable due to the expense and logistics of potentially printing and distributing new coupon books whenever the payment changed.

The ability to compute, print and furnish borrowers with a monthly statement has provided more flexibility in handling the contingencies associated with variable MOB insurance coverage.



The use of statements allows the creditor to easily itemize amounts due on a closed-end loan and, as such, amounts like insurance can be variable each month. The “no insurance” P&I payment can be disclosed each month along with the variable cost of the insurance based on the declining balance of the loan. The two components can then be added together representing the total amount to be remitted. While this approach does make the insurance coverage more conspicuous, and perhaps more subject to reconsideration by the borrower, that is more than likely offset by the fact that the borrower's total monthly payment will, assuming payments are remitted on a regular basis, reduce each month.

The initial disclosures combine both “front-end” disclosure computations and “back-end” processing features. In the traditional model, the MOB premium is disclosed as an estimated amount based on the entire term of the loan. The payment is a level amount that

has the variable insurance portion plus the variable P&I portion integrated into the total disclosed total payment.

Regulation Z allows either the inclusion or exclusion of the MOB insurance portion in the disclosure of the payment at the option of the creditor (Official Staff Commentary Reg. Z Sec. 226.18(g)(1)). The “no insurance” payment can be disclosed as part of a proper “Fedbox” disclosure since it will remain the same regardless of the disposition of the insurance coverage. That option would not be possible under the traditional method since the P&I payment changes each month and would necessitate a series of disclosed payments. When viewing transactions with upwards of 60 monthly payments, that would not be a practical alternative.

The trick from an origination system point of view is to compute a “no insurance” payment yet recognize that monthly outstanding balance insurance coverage has been selected. Most systems work from the standpoint of a coverage code that is passed to signify which type of insurance coverage is selected. With this variable monthly payment scenario, insurance coverage is selected but the “no insurance” payment is computed and disclosed along with appropriate insurance information. That is an uncommon combination of computed and disclosed items.

It also combines features of what traditionally have been viewed as “front-end” computations for the purpose of initial disclosure and “back-end” processing/servicing calculations that happen subsequent to loan consummation. While the math involved is similar, these two processes are distinctly separate and very often reside on completely different systems and presided over by different departments within an institution.

Obviously, a key to successfully implementing this type of MOB will be clear and consistent interdepartmental communication and cooperation.

Level MOB

There is a technique spawned by the adoption of the HOEPA amendments that is viewed as “Level MOB” where the insurance charges are viewed as a monthly “add-on” to the no insurance payment for a set of data. However, in order to achieve a disclosed payment to the borrower that is a level amount, the premium computation is manipulated to produce a level insurance amount each month. The result is that the premium earned each month doesn't achieve the intended return until the maturity of the coverage or the financing transaction itself. Events such as cancellation of coverage and early payoff can have severe effects on the premium return and cause it to be substantially less than originally intended at any given point in time.

It is clear that simply stating a creditor offers MOB insurance no longer provides adequate information to accurately understand the practices and procedures between that creditor and their insurance carrier.

Effective State Changes

In each issue of our newsletter, we're pleased to bring you "Compliance Update" and "From Our Research Department," the latest information on federal and state regulation changes. **compliance update**

We have discussed this approach on a couple of occasions in earlier articles and publications on MOB insurance. We have seen a number of variations and versions of "level MOB" that contain differing inclusions of built-in lapse rates, investment rates, and default rates to compensate for subsequent events that impact the profitability of this approach. It remains attractive due to its adaptability to existing creditor system structures. It may well be the easiest and quickest approach to implement from a systems standpoint. However, we see it viewed as a temporary stop gap method that is used to "get by" until a permanent and more conventional method can be integrated into an institution's existing system.

Five Essential Questions

In the planning stages of instituting MOB coverage in an institution, we think there are five crucial questions that always need to be asked:

- 1) Will the creditor provide the borrower with coupon/payment books or send monthly statements?
- 2) Will the total payment remitted by the borrower be a level amount each month or will the payment change every month?
- 3) Will the Truth-in-Lending disclosure display the estimated premium based on the entire coverage term of the insurance or just for the first year of the coverage?
- 4) Will the Truth-in-Lending disclosures display a monthly payment including the insurance premiums or a "no insurance" payment?
- 5) Has there been thorough communication between the department providing the origination disclosures and the department/group who will be responsible for billing the insurance each month to ensure both sets of computations are consistent?

While answers to these five questions will not necessarily provide exhaustive answers to every facet of MOB operations, it will provide a solid foundation from which to build a program on.

The process of changing from a single premium environment to MOB is not as simple and straightforward as it may seem at first glance. Ensuring proper implementation and a smooth transaction will require an examination of the goals and practices of both the creditor and insurance carrier. Premium calculation options exist and failure to recognize that fact can lead to a series of misunderstandings, delays and frustration for all involved.

Carleton maintains comprehensive familiarity with over 300 state consumer finance and real estate lending laws in the U.S., as well as the consumer credit insurance regulations in all 50 states, plus the Provincial laws and acts of Canada.

Our "compliance smart" support includes regulatory change notification and compliance white papers designed to keep you aware of regulatory changes that would affect your software.

Our research staff can also provide professional consulting support to make sure your origination and processing systems are in compliance.

If you have any questions regarding the information provided in this issue, you can e-mail Jeff Buysse, director of research, at jbuysse@carletoninc.com.

OHIO

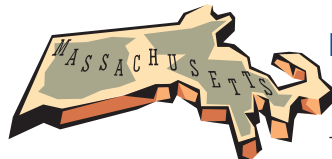
Effective: February 1, 2005
Law Type: Credit Insurance

In accordance with Ohio Administrative Code Rule 3901-1-14, the Ohio Department of Insurance has reviewed credit life and A&H rates and issued a memorandum requiring a reduction in prima facie credit A&H rates. The credit life rates will remain unchanged.

In a memorandum dated November 1, 2004, the Department states that A&H prima facie rates will be reduced by approximately 4%. The published prima facie life rates will remain at \$.64/\$1000/mo for single life and \$1.12/\$1000/mo for joint life (175% of single).

The new A&H rates will be effective February 1, 2005. The new 12-month rates will be:

14 Day Retro	\$1.94 per \$100	(currently \$2.02)
14 Day Elim	\$1.69 per \$100	(currently \$1.76)
30 Day Retro	\$1.46 per \$100	(currently \$1.52)
30 Day Elim	\$1.03 per \$100	(currently \$1.07)



MASSACHUSETTS

Effective: January 1, 2005
Law Type: Credit Insurance

The statutory prima facie credit life rates will remain unchanged for the period 2005-2007 while credit A&H rates will decrease for the motor vehicle class of business.

The credit life rates remain at \$.46 per month per \$1,000 of coverage for single-life coverage and \$.74 per month per \$1,000 (160% of single) for joint-life coverage.

The prima facie A&H rates will decrease to \$.49/\$100/yr for the first four years; \$.35/\$100/yr for each of the next three years; and \$.18/\$100/yr for each year of coverage thereafter.

The rates are effective January 1, 2005, and were reported in a Division of Insurance Bulletin 2004-09 dated October 1, 2004.

PROPOSED CHANGES

TEXAS

Effective: March 1, 2005 (proposed)
Law Type: Credit Insurance

The Texas Department of Insurance has published a formal proposal for revision of presumptive credit life and accident & health rates. The proposal represents significant changes regarding credit insurance including, but not limited to, the establishment of classes of business for the purpose of setting presumptive rates.

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Carleton and StoneEagle Collaborate on E-Contracting Solutions

Carleton has had the opportunity to collaborate on numerous projects over the past several years with The StoneEagle Group, a provider of software solutions and enterprise administration systems that power insurance carriers, service-contract administrators, third-party administrators and aftermarket providers.



One of the recent projects that the two companies have collaborated on is the electronic delivery of documents — an increasingly important service that Carleton provides. By incorporating Carleton's document-delivery and electronic-signature capabilities, StoneEagle is providing a unique paperless solution that can interface with virtually any other software application.

The Dallas-based company recently introduced their Electronic Signature Solution that can benefit auto dealers, lenders, insurance providers and any other com-

pany providing aftermarket products to the automobile industry. This new product provides data exchange capabilities with leading dealer management systems. By leveraging two-way data integration capabilities, data re-entry is eliminated and all transactions are completed more efficiently and accurately. This virtually eliminates costly "re-contracting" and expedites the closing of loan transactions.

"We are very excited about our continued relationship with Carleton," said Bobby Allen, president of StoneEagle.

"Their ability to provide accurate loan and credit insurance calculations bundled with their document preparation and e-signature expertise are critical elements in the types of ongoing business solutions we offer to our clients. Carleton is a valuable ally as we leverage opportunities in the auto-lending arena."

Carleton believes this collaboration with StoneEagle will help all of the financial software company's clients. "Due to our similar vision and innovative product offerings, we anticipate being able to offer all of our clients a broader and more integrated service," said Pat Ruszkowski, Carleton's president.

To learn more about the Electronic Signature Solution, contact Carleton at 800-433-0090 or Jason Gillette at StoneEagle at 972-934-1751 ext. 273. Or for more information, visit www.carleton-inc.com or www.stoneeagle.com.

Carleton Expands Support of Auto Lending

(cont. from page 1)

all indirect lending applications and can be utilized by any retail environment that requires financing of their products.

Carleton Providing Dealer Management Systems Support

Dealer Management Systems provide comprehensive software solutions to help automobile dealers manage their complete business. An important component of these systems are their F&I capabilities that enable a dealer to calculate and disclose auto loans, calculate insurance premiums and print the loan documents.

For the past ten years, Carleton has been an integral part of the solution offered by Auto Master Systems, Inc. AMS uses the loan-quoting and contract-printing capabilities from Carleton within their software. This program is a complete F&I package designed for today's buy-here pay-here operations. It offers unprecedented flexibility in adapting to state and local requirements, as well as a business's special needs.

"We understand the need to partner with other companies when we recognize how their unique expertise can be a positive for Auto Master Systems, Inc. and our customers," says Don Jones, CEO of Auto Master Systems. "Carleton is a valued partner

because we know that we can depend on them to support the F&I portion of the AMS solution, and we can install our systems with confidence knowing that Carleton is there to support us and our clients."

USA Computer Systems of Maine is set to introduce their Deal Writer product in early 2005. In their search for a partner to provide forms and finance compliance, they also concluded that Carleton was the easy choice.

"We did an exhaustive search and discovered that Carleton stood alone in their capabilities," says Jack Bridges, general manager of USA Computer Systems. "Carleton has shown us that they are committed to helping make us successful, and we look forward to a long and profitable relationship with them."

If you are interested in any of these solutions, or if your company would like to know more about how Carleton can support your goals in automobile or other indirect lending environments, please give our sales department a call today and ask for Dan Hickey. We'll be happy to schedule a time for a WebEx demonstration of our capabilities.



Effective State Changes

(cont. from page 3)

There are two proposed alternatives for presumptive rates included in the proposal. One establishes a distinct presumptive life rate for retail dealers as defined under Class E, of \$.254/\$100/yr and a life rate of \$.331/\$100/yr for all other classes of business.

The second alternative includes a single presumptive rate for all classes of business of \$.275/\$100/yr.

Credit A&H rates follow the same pattern. There is one alternative for all classes of business except Class E dealers that has rates lower than the current rates in effect. The dealer rates published in the first alternative are further impacted by applying the discount rate for interest and mortality. The second alternative publishes one set of rates for all classes and appears to leave the currently effective A&H rates virtually unchanged.

A public hearing was scheduled for January 6, 2005. Written comments on the proposal was due December 10, 2004.

The proposed effective date for new rates is March 1, 2005.



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