



State of Wisconsin
Department of Financial Institutions

Tommy G. Thompson, **Governor**

John F. Kundert, **Secretary**

March 14, 2000

**GENERAL LETTER CU 1-00
DEALER INDIRECT PAPER**

TO ALL CREDIT UNIONS:

It appears that over the past few years more credit unions are purchasing installment sales contracts or leases ("indirect paper") from Wisconsin Motor Vehicle Dealers. Some of the indirect paper purchased includes credit insurance that was written by the dealership. The purpose of this letter is to remind all credit unions that purchase indirect paper of their responsibility regarding the refunding of the unearned credit insurance premiums when an account prepays or terminates early.

Section 424.205(3), Wis. Stats., requires a creditor to promptly make or cause to be made an appropriate refund of the unearned credit insurance premium when a consumer credit transaction with credit insurance is prepaid in full or insurance written on a consumer credit transaction terminates prior to its maturity date (i.e. - repossessions or early lease terminations). Historically, many financial institutions have complied with this requirement by sending the dealer a monthly reserve statement that identifies the date the account(s) prepaid or terminated.

It has come to our attention that some reserve statements are not identifying prepaid/terminated accounts if there is not a reserve charge back to the dealer at the time the account prepays/terminates. Examples are accounts set up on a flat fee basis, accounts without reserves, and accounts that only have a reserve charge back if the account is prepaid within a certain time period (i.e. - 90 days).

As you may be aware, the Department of Financial Institutions – Division of Banking conducts routine examinations of licensed motor vehicle dealers in Wisconsin. One of the purposes of the examination is to determine whether the personnel of the dealership are allowing refunds of the unearned credit insurance premiums when accounts are prepaid/terminated. During the examination, the examiners must determine whether a dealership is being properly notified when an account is prepaid/terminated.

Sending monthly reports listing all paid/terminated accounts, plus a separate letter for each account, is the most effective way to assure the examiners that the dealership is being properly notified that an account has been paid/terminated. When a financial institution only sends a separate letter or notice for each paid/terminated account to the dealership, it is difficult to determine/verify whether the dealership is being properly notified.

Office of Credit Unions

Mail: PO Box 14137 Madison, WI 53714-0137

Courier: 345 W. Washington Ave. 3rd Floor Madison WI 53703

Voice: (608) 261-9543

Fax: (608) 267-0479

TTY: (608) 266-8818

Internet: www.wdfi.org

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In most cases where only an individual notice is sent, the dealer or the examiner typically needs to ask the financial institution for additional information to determine which accounts were prepaid/terminated. This is a time-consuming process for the financial institution, the dealership, and the examiner.

Please review your procedures regarding notifying dealers when an account with credit insurance prepays or terminates early to ensure that you are in compliance with the above noted Statute. We also ask that you keep the concerns regarding individual notices in mind as you review your process to determine if any changes are necessary.

If you have any questions regarding this issue, please contact Examiner Don Reichardt at 608-267-3743.

Sincerely,

A handwritten signature in cursive script that reads "Ginger Larson".

Ginger Larson
Director
Office of Credit Unions