

Indirect Lending

Recently credit unions have noted deterioration in credit quality of loans submitted from certain dealerships through indirect lending programs. Credit unions need to determine that acceptable credit quality is maintained. This requires management to continually monitor the paper quality and delinquency of loans generated by each dealership.

If weaknesses are noted, credit union management must take positive steps to restore credit quality to an acceptable level. This may require stipulating conditions for approval of certain loans or may require the credit union to limit or eliminate programs with specific dealerships.

Indirect lending can provide a sound means of increasing loan volume. However, management must consistently ensure that adequate internal controls are in place to provide acceptable loan quality.