

SPECIAL REPORT: AUTO LENDING

Opinions Divided On Leasing's Real Value

By Ray Birch, Reporter

MAIMI—Experts are split on whether CUs should aggressively pursue auto leasing.

A number of sources interviewed by *Credit Union Journal* believe auto leasing is gaining popularity with consumers, particularly due to an increased focus on monthly payments. Yet others feel there is too much competition from manufacturers to make leasing worthwhile.

Activity on LeaseTrader.com indicates that consumers are starting to come back to leasing following a decline during the height of the recession. John Sternal, VP of LeaseTrader.com, reported leases represent 15% to 20% of all vehicles sold today. "That is up from 9% during the height of the recession. Before the recession, leasing represented about 30% of new vehicle sales."

Sternal attributed leasing's growth to a greater focus on the monthly budget. "We are finding that the majority of car shoppers in every demographic and age group are approaching a car purchase today with a fixed-income mentality, an outlook typically reserved for the retired and elderly. Because of that mindset, leasing is starting to win, because people can get more car for their money."

According to the Hauppauge, N.Y.-based GrooveCar, leasing is "taking off," said President David Jacobson. GrooveCar's CU Xpress Lease is generating \$7-\$16 million a month from five credit unions. "We have ten more CUs in the pipeline and are in talks CUs covering eight states. At Pinnacle FCU we've surpassed a targeted monthly goal of \$1 million."

The \$4-billion Teachers FCU in Farmingville, N.Y., is active in leasing and expects to continue, shared Nancy J. Orlando, SVP of credit. "But there is more competition in the market now with other players, like the captives, coming back. For period of time they had been out. But they are back."

That's the big concern, stressed Tony Boutelle, CEO of the Ontario, Calif.-based Credit Union Direct Lending (CUDL). "Leasing is a growing market, no doubt about that. However the reality some credit unions do not see is that today's leasing market is so different than any leasing market in the past. The captives totally dominate it. I don't see how credit unions see leasing as a big opportunity."

Boutelle added that CUDL will support its member credit unions who decide to go into leasing, but CUDL does not plan to make a big play in it now. "If Bank of America and GE Capital got out of leasing (due to captive financing) and I don't see them really getting back in, I'm not sure if I were a credit union that I'd want to get heavily into leasing."

'Near Prime' Credit Offers CUs Prime Opportunity

By Ray Birch, Reporter

FARMINGVILLE, N.Y.—Credit unions need to take a closer look at B and C credit this year, because biggest opportunity lies in auto loans, a number of sources told *Credit Union Journal*.

Even a CU raking in the business on A-plus paper is considering "near prime."

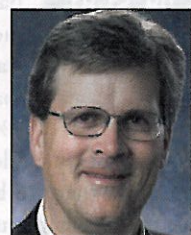
"We are hearing talk in the market that there will be a move away from A paper because of the opportunity," said Nancy J. Orlando, SVP of credit for the \$4-billion Teachers FCU.

TFCU is currently offering a 1.99% APR, 60-month deal on new cars for A-plus credit that is significantly increasing new car loan volume (see related story).

Orlando said Teachers is looking at B and C credit, and has a risk-based model to handle the business if it comes their way. "It has always been subprime and A-plus paper, and now it sounds like a swing may be taking place to near prime."

Tony Boutelle, CEO of the Ontario, Calif.-based Credit Union Direct Lending (CUDL), sees a great deal of opportunity

in B and C, and is encouraging its member credit unions to consider the option as long as they have proper risk controls in place. "In some of our markets there is a big opportunity in B and C-plus FICO score members. Credit unions claim in the early days was that they were the best B and C lenders. Now they are a little risk averse."



To really get the good A-plus paper, you have to buy some B and C to keep

dealers happy.

—Bill Vogoney

Risk-Management A Must

Boutelle contended that the very low rates being advertised to attract A-plus credit are shrinking margins to the point where those deals are not that worthwhile to the CU's bottom line, while B and C offers more room to generate income. "Banks are now looking to

book a full set of business to get them back to profitability. And that is what we are trying to encourage credit unions to do, with the proper risk management in place."

Bill Vogoney, SVP at the \$3.1-billion Ent FCU, Colorado Springs, Colo., emphasized that dealers need lenders to buy B and C credit. "This is where they are having a tough time getting deals, the 600 to 660 range. Plus, to really get the good A-plus paper, you have to buy some B and C to keep dealers happy."

Vogoney acknowledged that 600 to 660 credit is a range in which there is a wide variety of credit types, such as former A-plus borrowers who filed for bankruptcy in the last year, and those who have walked away from a home or car loan. "This is not a homogeneous group, so you have to be careful what you buy here."

"But if credit unions want to be able to buy some more business and think they can manage the risk, this is probably where to go," continued Vogoney. "But the challenge is getting the loan-to-value to where you want it to be with these borrowers. And you must avoid layering risk."

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