

# Credit Union **BUSINESS**

MARKETING AND LENDING ISSUE

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# Auto Loans: Good for Business?

## Yes ... Even Now

New vehicles aren't the only thing be driven – thanks to auto loans. Credit unions too are driving away with a much sought-after possession. Only instead of new cars, they're driving success.

As the market for auto leasing shrinks, the flexible terms and low rates CUs offer can afford consumers the means to finance vehicle purchases they might otherwise be unable to afford.

By Lauren Okeley

**C**redit unions have been able to maintain or increase their auto loan financing business throughout the auto industry's dismal performance this past year. They attribute that success primarily to their unrivaled member service.

Bill Vogeney, senior vice president and chief lending officer at Ent Federal Credit Union, Colorado Springs, Colo., notes that auto loans are down a little at Ent but “growing at a 12- to 13-percent clip right now.” That growth puts auto loans in a similar position to their 2006 levels. He considers their auto loans “very stable” right now.

Auto loans typically make up one-third of a credit union's total portfolio. The credit union auto lending market has been on the rise through 2008, according to Auto Count, an Experian company ([www.cudl.com](http://www.cudl.com)). As the market for leasing autos has shrunk, people are looking for other ways to finance vehicle purchases, and dealers need new sources to offer their buyers flexible terms and low rates.

Despite the current state of the economy and the “credit crunch,” Michigan First Credit Union has not changed its eligi-

bility requirements for auto loans. Michael Poulos, president and CEO of Michigan First in Lathrup Village, Mich., states that his CU does provide loans across the credit levels. He adds that this policy has not changed in the past few years, unlike that of many other financial institutions.

“We've actually had a banner year here, with \$32 million in auto loans, compared to \$21 million in 2007,” says Poulos.



*Bill Vogeney – Senior Vice President and Chief Lending Officer, Ent FCU*

NEW

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**PROBLEM:** A report entitled “Steer Clear: How Credit Unions Help Car Buyers Avoid Predatory Loans,” by William Myers, Field Coach, National Credit Union Foundation’s REAL Solutions™ Program and Senior Fellow at The Aspen Institute, makes a strong case for helping people of modest means get access to reliable and affordable cars. As the report states, cars provide convenience, flexibility, safety and the opportunity to work for employers that are not located near public transportation.

### Paths to Auto Loan Success

Poulos attributes Michigan First’s auto lending success to the credit union’s concentrated efforts at all six of its branches. A preferred dealer network includes 12 auto dealers within 15 miles of Michigan First’s main office. The dealers all give member discounts, and Michigan First hosts a car sale at its main location four times annually. The car sale is combined with many incentives, such as gas cards and Detroit Tigers baseball giveaways. The credit union also hosts a microsite, which is specifically dedicated to auto purchasing. In addition, Michigan First has a salesperson who visits auto dealerships in the area and offers them financing and good rates in order to provide “point of sale” lending to prospective buyers.

“From any side of the table, it’s a challenging market we’re going into,” says Tony Boutelle, president and CEO of CUDL in Rancho Cucamonga, Calif. “Credit unions are in the best market to help dealers make more auto loans. We’re seeing a number of banks pulling out of the auto loan market. Credit unions’ auto loan market share is increasing, in terms of fewer loans but more market share. We saw a seven percent increase in market share in 2008, from April, when it was 15 percent, to October, when it had grown to 22 percent. In the past, credit unions have been a fourth-, fifth- or sixth-tier lender to dealers. Now they are a first-, second- or third-tier lender. Many auto dealers now say that without CUDL, they can’t find lenders.”

At Ent Federal Credit Union, Vogeney says that the dealer management program concentrates on managing the portfolio of each auto dealership. That way, Ent knows the quality of every loan, how the dealer is performing and the net ratio of each dealer in comparison to Ent’s overall portfolio.

“We’re able to make credit decisions based not only on the borrower, but also on the dealer,” he states. “It’s really up to us to monitor the dealers to make sure they perform well. We saw some dealers whose portfolio had always done well, but we weren’t getting their business. So, we made a special effort to partner with them. We asked ourselves, ‘What can we do to attract these dealers’ business?’ We don’t allow dealers to mark up the loan rate percentage, and this [sanction] allows us to customize our lending program to each particular dealer.”

Larry Highbloom is president and CEO of VINtek in Philadelphia, Pa., which provides automotive collateral management services and direct auto finance solutions for banks, credit unions and other auto finance institutions. He points out that credit unions have not participated in the risky financial practices that have doomed other financial institutions over the past few years. As a result, CUs have been able to maintain loans.

Build a new member base through the credit union’s indirect auto business by emphasizing that credit unions are the safest place. Play up that they are safer than banks, that they offer the best value, dollar-for-dollar and that they provide the best service in borrowing money, explains David Jacobson, founder of GrooveCar in Hauppauge, N.Y. Credit unions must underscore the fact that they offer more auto finance options than most other lenders, he adds. GrooveCar is a financial intermediary that provides credit union members with auto buying resources, such as pricing, car reviews and video presentations. “Let dealerships know that you have money to lend,” says Jacobson.

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**SOLUTION:** Enterprise Car Sales, which specializes in working with credit unions to increase auto loan volume, developed the Borrow Smart. Buy Smart Program. In addition to providing access to great cars and service at affordable prices, the program includes an educational component that offers professional guidance through the credit union to help members choose the car that best meets their needs and budget. Cars are priced below Kelly Blue Book on an extensive selection of high-quality, late-model used vehicles, including lower prices on specially selected models.

## The Importance of Auto Loans

Auto loans aren't just about providing low-interest, short-term loans. They are much more than that, and many credit unions take maximum advantage of the opportunity to provide this type of loan to long-standing members and new members alike.

"Auto loans are a great product to offer customers. Credit unions can offer this product to their customers, and competition is not as significant as it used to be," explains Mark Edelman, managing member of McGlinchey Stafford LLC in Cleveland, Ohio. Edelman has more than 20 years of experience in auto finance and is one of the top three auto finance legal advisors in the country. Auto loans can help credit unions with member retention and building loyalty, both particularly important aims in the consolidation of the financial services industry, he adds.

Poulos points out that people are going to borrow money where it's convenient for them, not necessarily at a credit union. As such, credit unions need to develop relationships with auto dealerships in their area. He sees a lot of opportunity for business "if you go out and get it."

Auto lending is very important to credit unions for several reasons, according to Highbloom. It tends to cycle every four or five years; there may be multiple members of a household who need an auto loan, as opposed to mortgages, for example. It's a good member service experience to provide the foundation for credit unions to offer other loans. It's also crucial to invest in the latest paperless and other technology in order to keep costs down and ensure accurate and timely follow-up on every single loan.

"Auto loans are a great product because they're on shorter-term interest rates at lower risk. They do cycle, so there's opportunity for more margin and more business," says Highbloom. "Everyone needs a car. The ability to have credit available to members for the purchase of cars is very, very critical and very significant. Car loans give us an opportunity to touch members frequently, so they're (such loans) always a good opportunity for credit unions."

Jacobson considers auto loans "paramount" to credit unions. As such, credit unions need to know their market and understand who their competition is. In doing so, credit unions can offer products that can help not only improve a business but also save members money.

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**RESULTS:** The Borrow Smart. Buy Smart. Program has been successfully piloted in Santa Ana, California by SchoolsFirst Federal Credit Union (formerly Orange County Teachers FCU). Following a pilot program that began in one location, SchoolsFirst FCU subsequently expanded its program to three branches. More than 60 Members have purchased low cost, reliable vehicles through the program over the last year. As a result, SchoolsFirst FCU announced in November 2008 that the program was being rolled out to all 28 branches. To support the rollout, promotional materials in English and Spanish include brochures and a Web page on the credit union's website.



"Credit unions need to know their market and have an expert who knows where opportunities are. Experts who know the market are 'plugged in.' The credit quality of these experts is phenomenal. Credit unions are making money off these loans, and it's important to build relationships with auto dealerships now," explains Jacobson. "One dealer told us that if we did not offer a balloon loan [through which many of his customers borrowed from us], he would have shut his doors because he could not have moved his inventory."

If not for auto loans, there would have been zero growth in 2007 and 2008, says Jacobson. At least 90 percent of GrooveCar's loans were made to new credit union members this past year. Offering diverse products is one way to improve the number and amount of auto loans.

"Right now, people are very afraid," Jacobson states. "If there's ever a good time to bring in new members, now is the time to build membership, gain market share and sell multiple products. People are willing to listen right now because they can't get loans anywhere else, so they join credit unions. Credit unions really need to offer diverse products and align themselves with experts who can guide them and safeguard them from mistakes."

## Benefit to CUs?

There are many ways to state the obvious fact that credit unions



David Jacobson – Founder of GrooveCar, Inc.

are in the lending business, and auto loans are part of the deal. Auto loans are critical to credit unions' portfolios, and it's crucial to have some loans that are going to be paid off in the short term, Poulos says. "We need to have all our members'

business," states Poulos. "We want them to do all their loans through us."

Auto loans are a credit union's bread and butter, agrees Boutelle, who notes that about 33 percent of a credit union's loans are for autos. "Auto loans provide good collateral and good yield. Today, the curve is up, so credit unions are able to make some money on auto loans," says Boutelle.

Vogeney notes that auto loans are only as beneficial to the credit unions as their underwriting and pricing. "Some credit unions are losing money on auto loans," explains Vogeney. "We're all in different markets and we all have strategic challenges. Some markets are very cutthroat. We pride ourselves in risk management. We try to stand out on two key factors: service – we offer late hours and underwriters work from home as well – and flexibility – we believe in minor adjustments to our credit policies."

Risk exposure for credit unions is lower with the shorter terms commanded by auto loans, and a much more recognizable market for resale exists, according to Edelman. He adds that it is a lot easier for credit unions to cut their auto-loan-related losses. The best way for a credit union to benefit its members, he says, is to have auto loans that are performing well. Exposure is shorter, because the term is lower and the loans offer much more liquidity.

## Gaining Market Share

Credit unions can position themselves to gain auto lending market share by doing a combination of things. For example, they can let dealers know that they are there to provide financing on auto loans, and they can inform members of current auto loan rates.

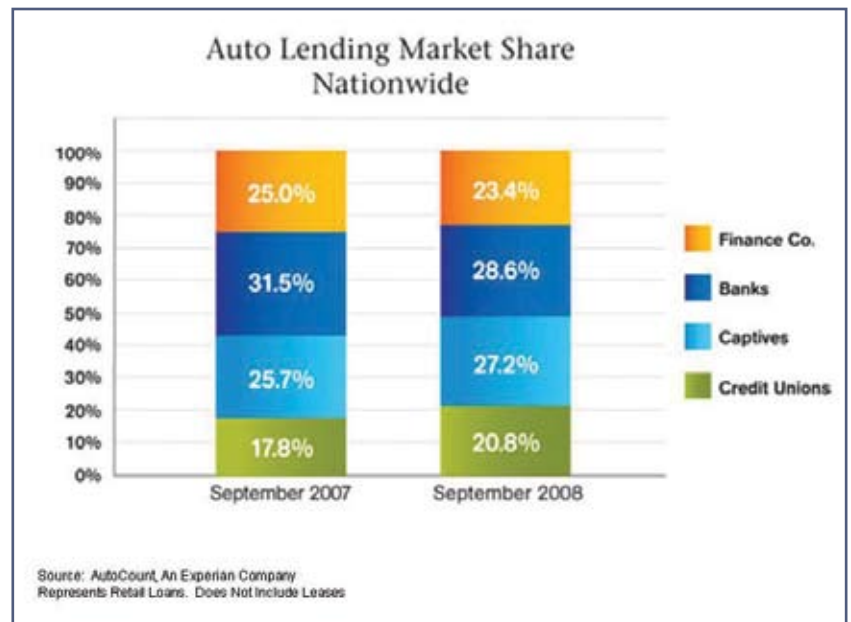
"Eighty to 85 percent of all loans are financed at auto dealers, so credit unions need to be there," reiterates Poulos.

Jacobson urges credit unions to offer diverse products to their members at the time of sale. For example, CUs can provide members with other loan rates and terms in case they need to buy another car or finance another purchase.

"Right now, market share is driven by membership. So be proactive in meeting with local car dealers because they are having trouble finding financing for their products," says Edelman.

Vogeney says that credit unions need to "be willing to pick up the pieces" for lenders that are exiting the business. Following this advice means talking to auto dealerships and keeping the credit union portfolio at a strong level. It also means understanding what risks are in the portfolio and how the portfolio is changing. "Loan quality is improving and the demographics of borrowers are changing and improving for dealers in the KIA and Hyundai markets, which are second-tier markets for credit unions," adds Vogeney. He urges dealers to go after these markets because opportunities there are available.

Since 70 percent of all auto loans are written at the dealer-





ship, Boutelle also advises credit unions to build relationships there. “Try to do as much as you can to educate your members on purchasing a car before they get to the dealership,” says Boutelle. “They will have a better chance of getting their loan when you educate them on how to get a good loan.”

Highbloom points out some things that credit unions can do to gain or improve their auto lending market share. In particular, he stresses that direct financing is growing in demand by consumers. “Credit unions are well positioned to tap into this demand, and it will help them grow their market share,” he explains. “There’s a potential for dealerships to close, so consumers will need alternate financing channels, like direct financing. Credit unions can polish up on investing in direct auto lending, which will provide some positives to them in this current environment.”

Some Midwest credit unions have banded together to offer auto financing support to each other. This collaboration is a good example of their commitment to auto lending and has led to improvement in their auto loan market.

Other lenders have stepped away from auto lending because of their other problems, such as lack of money. As a result, credit unions can step into that gap, adds Highbloom.

As auto dealerships across the country continue to close their doors, credit unions should be wary of depending on certain dealerships for business. And to the extent that credit unions have taken on certain risks with certain auto loans, they will have no one to look to to mitigate some of that risk, should the dealer close, says Edelman.

### Looking Toward a Better Economy

Credit unions that provide auto loans to their members are obviously looking ahead toward better times, but they will have to get through the current economical climate first.

“2008 has been a bad year, but hopefully that will slow down in 2009. I think there will be a number of auto dealerships closing their doors,” concludes Boutelle.

### 10 Reasons Why Now is the Right Time to Be in Auto Lending

Reason #10: Credit unions have been effective in mitigating the risk associated with indirect lending

Reason #9: Home equity lines are shrinking so members must use traditional financing.

Reason #8: Leasing is shrinking, so dealers need a new source for low rates and flexible terms.

Reason #7: Other financial institutions face high costs for lending to consumers.

Reason #6: Credit unions are gaining market share from other lenders that are pulling out.

Reason #5: The margins are back.

Reason #4: The origination cost of an indirect loan is equal to or less than the origination cost of a direct loan.

Reason #3: Point-of-sale lending helps capture existing members and new members.

Reason #2: Most auto loans are transacted at the dealership.

Reason #1: Your members need auto loans.

Source: CUDL

*Lauren Okeley lives in the Midwest, and writes business articles for trade and consumer magazines, such as “Bioresearch Compliance Report,” “Courts Today,” “My Business Life,” “Successful Meetings,” and “Renew.”*