Special Report: Lending

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5 Ways to Prepare for 'Carmageddon'

... whether it comes or not.

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5 Ways to Prepare *for 'Carmageddon'*

... WHETHER IT COMES OR NOT.

BY GLENN HARRISON

About midway through 2018, the drastic falloff in auto lending predicted by some auto lending industry analysts—dubbed "carmageddon" by some—hasn't come to pass. Vehicle sales are still robust, reflecting a slower-than-expected rise in the U.S. prime rate. Even so, a "hold the line—everything's fine," attitude could be a strategic mistake.

Don't take your auto loan portfolio growth for granted, especially if you depend on low-margin indirect lending volume. *Credit Union Management* asked a group of auto lending experts for ideas about how to position your auto lending program for success, whether or not a true market slowdown hits.

Our panel members all either run highly successful auto lending campaigns themselves or work regularly with lending executives at credit unions of all sizes, or both. They are:

- Tony Boutelle, president/CEO, CUES Supplier member CU Direct (*cudirect.com*), Ontario, Calif.
- Brett Christensen, owner, CU Lending Advice (*culendingadvice.com*), Euless, Texas, and lead faculty for CUES School of Consumer Lending™ (*cues.org/socl*) and CUES Advanced School of Consumer Lending™ (*cues.org/advsocl*)
- CUES member Bill Vogeney, chief revenue officer, $5.1 billion Ent (*ent.com*), Colorado Springs, Colo., and author of CUES' monthly "Lending Perspectives" column
- Brian Timson, national VP/lending, Allied Solutions (*alliedsolutions.net*), Carmel, Minn.

Here's what they suggest.

1. Move auto financing further up the sales funnel. "Car buyers are savvier today," Boutelle says. "They don't want to be sitting and going through the credit process inside a car dealership after they just spent three hours test-driving cars. Instead, they're shopping and getting pre-approved online. So, all the largest competitors are trying to get the loan approval further up the sales funnel."

At the wide top of the car-buying "sales funnel," buyers are just becoming aware of their options, most often by searching online for auto brands and models, expert reviews, side-by-side comparisons or videos, he explains.

Online sellers are vying to offer all these tools in one place. And they're merging or partnering with lenders to offer pre-approved loans on "scrubbed" vehicles—units that are actually available at specific locations with legitimate vehicle identification numbers.

Boutelle says CUs can bring a crucial element to such a partnership. "The fintechs and other online sellers are great at the auto selling side of things, but there isn't anyone that's also great at lending," he says. "This is where credit unions have a big advantage and can position themselves."

2. Don't use indirect for high-risk loans, and don't give up on the indirect loans you lose. "I see some credit unions getting out of indirect lending because they got too aggressive in buying higher-risk car loans through that channel," says Christensen. "Don't do your higher-risk lending through the indirect channel. Do it on the direct side, because people don't wake up in the morning planning to lie to their lender on a car loan application.

"The problem with the direct side of the fence is that you can be the best sales credit union on the planet Earth, but buying a car many times is an impulse decision at the dealership," he adds. "But it's okay if you don't get that loan on Saturday or Sunday. Become professionals at rescuing those loans later."

CUs can outcompete larger lenders to recapture lost auto loans, because members still tend to go to physical branches for many other transactions. Well-trained tellers and member service reps can spot auto loans that members may be paying too much for.

"You can find out from a credit bureau which members have their loans elsewhere. You can ask to rescue their car loan when they apply for a credit card or a signature loan," Christensen says. "You can keep trying, because you're going to see them again."

3. Indirect lending success is more about strategic positioning with dealerships than credit quality. "If you talk with most credit union lenders who have trouble with indirect auto lending, they'll say the root of all evil for indirect is poor credit quality," says Vogeney. "I argue that it's not credit quality—it's strategic positioning with dealerships to compete with other lenders.

The strategy Vogeney often sees for CU indirect lending is the "shotgun approach." For example, a $100 million CU launches indirect lending by signing up with 100 or so auto dealers.

"They're thinking, 'All we need is a couple of loans from each per month, and we're going [to be] good,'" says Vogeney. "But in reality, most business transactions—and especially in indirect lending—revolve around relationships, whether it's B2B or B2C. It's hard to build a relationship with so many dealers on one or two loans a month. Focus on fewer dealers, more loans per dealer and a stronger relationship. Especially for smaller credit unions, to build a relationship with a dealer, you have to differentiate yourself."

His suggestion: Draw a two- or three-mile circle around each of your branches on a map, find the dealerships within that circle and work directly with their staff members. Hire a relationship manager and answer dealer calls promptly.

"Especially if these dealerships aren't the biggest in town, they may have a chip on their shoulders about those larger dealerships and lenders, so they may be more willing to take care of your members, even if you don't have the lowest rate," he says.

4. Use technology and underwriting innovations to go back to basics: serving your entire FOM. "Too many credit unions today, unfortunately, are prime and super-prime auto lenders," Timson says. "That means they're competing with the Chases of the world. It's a race to the bottom on rates and yield.

"Many of these credit unions have gone away from their original mission: to support *everyone* within their communities, including those who need help to raise their credit scores. This is important because a lot of the younger millennials, especially, are underscored [on Fair Isaac credit rating]. A big medical situation would tank the majority of the population's FICO today—but a big hospital bill doesn't have to mean you're not going to make your monthly auto loan payment."

Timson says new auto loan underwriting tools and data can allow CUs to lend more broadly.

"One of the biggest disruptors in the marketplace is the fintechs, who are starting to underwrite very differently," Timson says. "They're using the data, analytics, social media, and other third-party data to determine someone's creditworthiness."

5. Create two streams for manual indirect loan processing. "Some credit unions speed up indirect loan processing by having two processing streams: one for packets that are complete and another for packets that have mistakes or omissions," says Boutelle. "This way, packets that need additional attention don't delay those that are ready for funding."

As the president and founder of CU Direct, which creates automated lending products and services, Boutelle believes that handling physical loan packets shuttled to lenders from dealerships is quickly becoming obsolete. He thinks more dealers will cooperate with lenders on digital processing, especially when it gets their loans funded more quickly.

But automation won't always eliminate errors, and Boutelle stresses that lenders have to be hands-on. "You have to stay on top of it and communicate personally with dealers when funding is delayed by missing documents or whatever," he says.

"The best lenders have leaders who are willing to try some new tactics," Christensen summarizes. "They're willing to make some changes and get better at sales—maybe tweak a policy here and fight back against the examiners there." *(Read "3 More Ways to Prepare for 'Carmageddon'" at* cues.org/052218skybox.)

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MORE ON LENDING

3 More Ways to Prepare for 'Carmageddon' (*cues.org/052218skybox*)

On Compliance: The Impact of 20 Million Improved Credit Scores (*cues.org/0218oncompliance*)

CUES School of Consumer Lending™ Aug. 13-14, Denver (*cues.org/socl*)

CUES Advanced School of Consumer Lending™ Aug. 15-16, Denver (*cues.org/advsocl*)

Responsive *Lending Solutions*

CREDIT UNIONS CAN GROW MEMBERSHIP AND ROI WITH THE RIGHT LOAN PROGRAM.

BY PSCU

Ask today's credit union members to describe what outstanding service means to them, and you can be sure they'll mention wanting simple, multichannel credit card and loan applications, fast approvals and great rates.

As credit unions find themselves squeezed by competition from both banks and digital-only lenders, it's becoming clear that a rich heritage of member-friendly service might win a few battles but won't carry the day in the loan origination wars.

FIND YOUR LENDING NICHE AND FILL IT

To develop the kind of successful lending programs that grow market share, profits and member loyalty, CUES Supplier member PSCU (*pscu.com*), St. Petersburg, Fla., believes your credit union must:

- focus on identifying its competitive strengths;
- find creative ways to leverage its existing resources; and
- develop third-party partnerships to address gaps in underwriting, processing, training and marketing support.

If that sounds like a tall order, credit unions should remember they have a formidable weapon at their disposal that banks and digital lenders can't touch: the power of CUSOs. For decades, credit union service organizations have given CUs a way to band together to lower costs, access technology, streamline workflows and eliminate service headaches—and lending is no exception. As the nation's leading CUSO, PSCU would like to share its expertise to help your CU create a lending strategy that will grow ROI, serve your current members and attract new ones.

PLAY TO YOUR STRENGTHS

Your credit union knows its members better than any big bank or cyber-lender can ever know its customers. The credit union tradition of stressing long-term relationships creates these advantages:

• **Outstanding loan products at lower prices:** From credit cards to auto loans to mortgages, credit unions are known for providing high-quality loan offerings at lower rates than other lenders.

• **Member insights:** CUs pride themselves on understanding their members' needs. Analytics let CUs track offer responses and purchasing patterns across the entire branch, call center, website and mobile ecosystem to create a deep understanding of what loan products are attracting which demographic and behavioral segments; and what offers and channels are generating the most ROI.

• **Loan benchmarks and metrics:** The National Credit Union Administration (*ncua.gov*) assembles and tracks vast amounts of industry data in its quarterly 5300 reports—a resource that banks and digital lenders can't easily replicate. Another example, PSCU's AIM® (Account Insights and Metrics) diagnostic reports give credit unions a dashboard tool to benchmark their performance against industry peers on 15 metrics, such as balances, fees, line utilization, delinquencies and charge-offs.

• **Cross-channel marketing integration:** Unlike many banks, most credit union employees serve their members with a sense of mission. What's more, highly motivated CU employees will often notice behavior patterns in one channel they can utilize in others. For example, when PSCU piloted its online credit card offer acceptance portal, there was such a rapid uptick in online acceptances that one CU decided to mail additional offers.

BRIDGE SERVICE GAPS

Once your credit union has defined its lending goals, its next step is to identify the gaps it must fill to reach them. This is where PSCU has found that CUSO partnerships with third-party vendors can give CUs the support they need.

• **Lending 360:** PSCU has partnered with CUES Supplier member CU Direct (*cudirect.com*), Ontario, Calif., to offer Lending 360, a multichannel lending solution that uses a CU's own underwriting rules to offer decisions in seconds, streamline underwriting and provide a branded mobile experience.

• **Dedicated financial contact centers:** PSCU helps your credit union support 24-hour lending services with dedicated financial contact centers that offer customizable, seamless lending support integrated with your credit union's core processor and underwriting guidelines. Member relationship experts handle all interactions and the centers offer callback capabilities to generate more completed applications online.

A robust lending program creates a win-win for CUs and their members. Partner with PSCU today to help your CU enhance its services and grow ROI.


Everything Your
Members Need—
Anywhere They Need It
Our Venture. Your Gain.