

MAKING SENSE

of Indirect Lending

Credit unions continue to lose more and more of their members' auto financing at the dealership. With increased competition, a continued decaying of member loyalty and major enhancements in technology, collaboration with an industry leading indirect lending provider will be imperative.

THE CASE FOR COLLABORATION

2014 auto sales continue to make a steady climb and economists predict that 2015 auto sales will reach close to pre-recession levels. In addition, the average age of cars on the road continues to climb. These factors bode well for credit unions across the united states who look to increase their loan portfolio over the next 18 months. However, additional factors such as continued low rate environment and an abundance of lenders in the marketplace may make it difficult for credit unions to capitalize.

Golden Circle Credit Union in Canton, Ohio began its indirect program more than 10 years ago. At that time, the credit union was insistent upon working collaboratively with a group of like-minded credit unions instead of continually trying to cannibalize each others' members by lowering rates, decreasing buying standards and increasing dealer pay-outs. By working together, Golden Circle CU has seen a steady and responsible growth in its loan portfolio without the sacrifice of profitability or quality.

By working with a credit union owned CUSO like Credit Union Acceptance Company (CUAC), GCCU has been able to work with a diversified group of credit unions in northeast Ohio to increase overall loan production, create a significant number of new members and maintain a reasonable level of return in this very low rate environment.

EXPENSES ARE KEY

In today's world of capital depletion and erosion of profitability, keeping operational costs low is key. Our existing model allows for GCCU to only incur loan production costs when a loan is actually funded on our behalf. We are not required to pay for each application, credit bureau or any staff to review applications. In addition, there are no software/hardware costs nor is there any IT related staff support required. Although we are encouraged to visit local dealerships, we are not required to retain a full time business development officer or dealer representative to serve in this capacity. Relying on the CUSO to build and maintain these relationships is essential for keeping costs down.



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STRENGTH IN NUMBERS

By working collectively, credit unions are able to share a wealth of information to assist with the overall success of the program. This includes the sharing of valuable dealer performance data, loan portfolio performance stats and loan loss information. This data is invaluable in making sure that profitable loans are generated and any dealer issues are addressed in a timely manner. Most importantly, credit unions working within this type of group are afforded the ability to approach the dealer as one voice and flex some additional muscle when tackling tough issues such as fraud, member mistreatment and dealer agreement violations.

DEALER MANAGEMENT

Working with a partner that takes a proactive approach to managing the dealer relationship is essential. This includes a solid dealer agreement that protects the credit union, routine dealer visits and a solid compliance policy to address issues such as CIP, Red Flag, OFAC etc.

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TECHNOLOGY

There have been vast improvements in technology over the last few years; and, members are relying more and more on the internet and mobile apps to look for their vehicle and secure their financing. This is especially important in the indirect lending process. When choosing an indirect lending provider, make sure that they are connected to the primary dealer application portals like DealerTrack™ and RouteOne®. This will ensure that you maximize your opportunities to capture your members' application at the point of sale. Also, as electronic desking and contracting becomes more and more popular, ensure your provider is compliant to maximize member convenience.

Also, make sure that your indirect lending solution provides the credit union and its members a free car buying web-site. This site should provide the ability for your dealers to link their inventory online, a solution to build out and price new vehicles, a listing of your preferred dealers and financing solutions contained within your web-site. 60% of car shopping today is spent online. Make sure that your members are not visiting other dealer or car valuation sites that will offer non-credit union financing. Lastly, your car buying web-site should be a revenue generating tool for your credit union. Don't let 3RD parties benefit from selling the value of your credit union members' car buying power.

ASK YOUR DEALERS!

Finally, if you are contemplating an indirect lending program, don't take a vendor's word for it. Go out and ask your local dealers how you can maximize your potential. Dealers are always looking to increase their financing options and generally cooperate with local credit unions. Find out what lending platforms they utilize and what will ensure that you have the best opportunity to capture your members' financing. Ask the dealer what is working currently in your market and what is not working. As we all know, candor is something that dealers are quite comfortable with.

ABOUT THE SPONSOR



Credit Union Acceptance Company, LLC (CUAC) is a credit union owned CUSO located in Houston Texas. We provide a vast array of customizable indirect lending solutions to credit unions across the country.

For more information, visit CUAC at www.cuac.com or email us at:

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