Auto Loan Growth from the Inside Out

© Copyright 2014 GrooveCar Inc. All Rights Reserved • June 2014

New Auto Loan Growth up ***14.7%*** *for all CUs.*

(Callahan & Associates, 2014)

Recent data reports that auto loans have grown to a level not seen since 2007 while mortgage refinancing has slowed significantly as have mortgage originations (a 36% drop is forecast for 2014 by the Mortgage Bankers Association). Even better, credit unions have witnessed their auto loan portfolio improve by 12.9% in March ’14, a level not seen since 2001 (CUNA Mutual Group - Economics, 2014). While the data remains promising for auto loan growth into 2015, how do credit unions maintain this level of success? On the flip side, if your credit union is not experiencing successful auto loan growth, why is that?

© Copyright 2014 GrooveCar Inc. All Rights Reserved • June 2014

There is no one answer to the how and why of auto loan growth, but rather, many strategies working in tandem toward the best interest of members and the advantage of the credit union alike.

The entire vehicle shopping process takes an average of ***4 months****.*

(J.D. Power New Autoshopper Study 2013)

The 12 Month Product

The 21st century consumer has more power than ever before in buying a car due to the vast amount of extremely valuable content and resources found on the web. Consumers are researching vehicles they are in the market for many months in advance of actually making the purchase, in fact, the average "Automotive Internet Shopper" spends four months in the process (J.D. Power Reports, 2013). Although lenders know there are stronger loan activity months than others during the year, it would be detrimental to the lender to only focus on promoting auto loan specials for the months they expect an increase in loan volume. A member who purchases a vehicle in June may have begun the research process in February or March. A credit union that promotes their auto related products and services throughout the calendar year stands a much greater chance of capturing loans simply because they are more relevant throughout the car buying process.

Think of marketing your automotive products as if you are planting a vegetable garden. Some of your seeds would need to be sowed in the spring when the ground is still cold and frosty, like peas, while others, like the tomato, must go in just before your final frost and require a lot of planning, tending and adjustment in order to maximize their harvest. Consumers can be like both vegetables: many plant the seed with research and planning, specking out their car and then actually reap the harvest by visiting a dealership. Others move at a fast pace doing everything at once at the dealership. The common denominator in both scenarios is that credit unions must engage your members prior to them visiting the dealership.

If you want to become a part of that planting/buying process you must be relevant. The key to that relevance is passion. Dealers have an advantage in that they are able to have meaningful, two way conversations with car buyers about the focus of that passion and emotion, the vehicle. They then parlay that into a sale that benefits the dealership. However, all is not lost for credit unions. They can capitalize upon this process as well with their own branded auto buying and research program that works in conjunction with a year round focus.

Provide an online auto buying resource that speaks to that passion and implement a timely and meaningful marketing strategy. Car buyers want to tout the bells and whistles, the shiny wheels, and the technology never before available. Give them everything on a silver platter – the virtual test drive, the ability to build out a car, etc. and to capitalize on that passion and emotion all while employing tools that can tell you when your member is in the market for a car, educating them on how credit union products save them money and working to overcome the boundaries posed by dealer point-of-sale.

© Copyright 2014 GrooveCar Inc. All Rights Reserved • June 2014

Taking the Road Less Traveled

> ***Only 11%***
> *of Automotive Internet Shoppers (AIUs) stated that their selection of a lender was impacted by digital research; but 51% indicated that digital research impacted the make/model of the car they purchased.*
>
> *(J.D. Power, 2013)*

Is your entire auto loan marketing strategy focused upon "Rates as low as…"? The newest data on auto loans tells us 97% of all car loans begin online (Capgemini, 2014) and that credit union auto loan penetration is tightly tied to tech adoption (Callahan & Associates, June). Notice that neither of these two points is in any way related to the traditional credit union go-to tactic of promoting their low rates. Also note that dealers, by far the most successful in the funding scenario, rarely if ever promote a rate other than 0%. Credit unions will never be able to beat that, so stop promoting your rates and start promoting your value.

Overcome the challenge of losing your pre-approvals at the point of sale by telling your members the truth about why your loans and your products are better. Yes, dealers have many attractive finance options and sales techniques at their disposal at any given time and that is where your members get "flipped" to other finance companies. However, the key to overcoming that challenge is to educate your member on the savings they realize when financing with you. Savings can be recognized by taking advantage of rebates and products unavailable with manufacturer financing and savings achievable through bundling the loan with lower cost GAP and Extended Warranty products. No longer view your members who may get flipped at the dealership as a challenge but as an opportunity. The difficult part is knowing when your members are in the market to purchase, a problem easily solved with the implementation of loan lead generators, now you just have to close them on why your offering has greater value.

How do you get the word out? Essentially, use marketing that drives action and adopt the modern day equivalent of shouting from the rooftops and sending smoke signals far and wide to reach people outside of shouting distance. Maximize your impact by using every marketing vehicle available: email, text, SEO, social media and even old fashioned direct mail and transactional encounters are key verticals. More than 26% of consumers stated that a link to information increases their likelihood of purchasing a brand, and a coupon or discount increases that likelihood to 61% (Millard Brown Digital, 2013). Use angles like these, available even to credit unions with limited resources, to pique the interest of your members and follow through with effective engagement at every possible opportunity.

A key market for credit unions is Gen Y/Millennials. Research tells us that Millennials are more connected than ever before and using more diversified devices and ways of communicating than we have ever seen. Almost all Millennials have a cell phone, 96% according to the PEW Research Center (Pew Research Center, 2014), and 23% connect with tablet devices (Nielsen, 2014). Use this knowledge to divert from the traditional path, to shape your strategy and capture that elusive incremental growth.

Finally, consider the following: Are your product offerings speaking to all of the consumers in your market? Leasing, for instance, represents 28.4% of all new vehicles financed (Experian Automotive, 2014) and represents a significant opportunity for credit unions. Leading lease markets can have more than six out of ten new car sales represented by leasing. Credit unions must keep up with the consumer demand for lower payments and as new technology rolls out (consider the "connected car"), leasing promises to remain an essential product for manufacturers. Plus, leasing is typically comprised of borrowers with super prime credit, 46% of lessees are classified as super prime borrowers (Experian Automotive, 2014).

There are excellent options for credit unions interested in leasing, but due diligence must be employed to find the right one. Reach out to other credit unions offering leasing, ask them to share best practices, lease-end processes and if they have vetted out some of the companies you are interested in partnering with. Additionally, make sure the company you choose has expertise in re-marketing (lease end process) so that your credit union is not faced with compromising residual values to originate loans.

© Copyright 2014 GrooveCar Inc. All Rights Reserved • June 2014

By the Numbers

› Leasing represents **more than 60%** of all new car sales in leading markets

GrooveCar, 2014

› **69% of car consumers** want information on financing/ leasing

Capgemini, 2014

› **80% of car consumers** want to configure a vehicle online

Capgemini, 2014

› **34%** of online automotive consumers use **multiple devices** to shop for a new vehicle

J.D. Power New Autoshopper Study 2013, 2014

› Almost **1 in 5 auto loans** are financed with a credit union

Experian AutoCount, 2014

› Used Auto Loan Growth is **up 12.1% for all CUs**

Callahan & Associates, 2014

› **Gen Y makes up 24%** of the vehicle market share

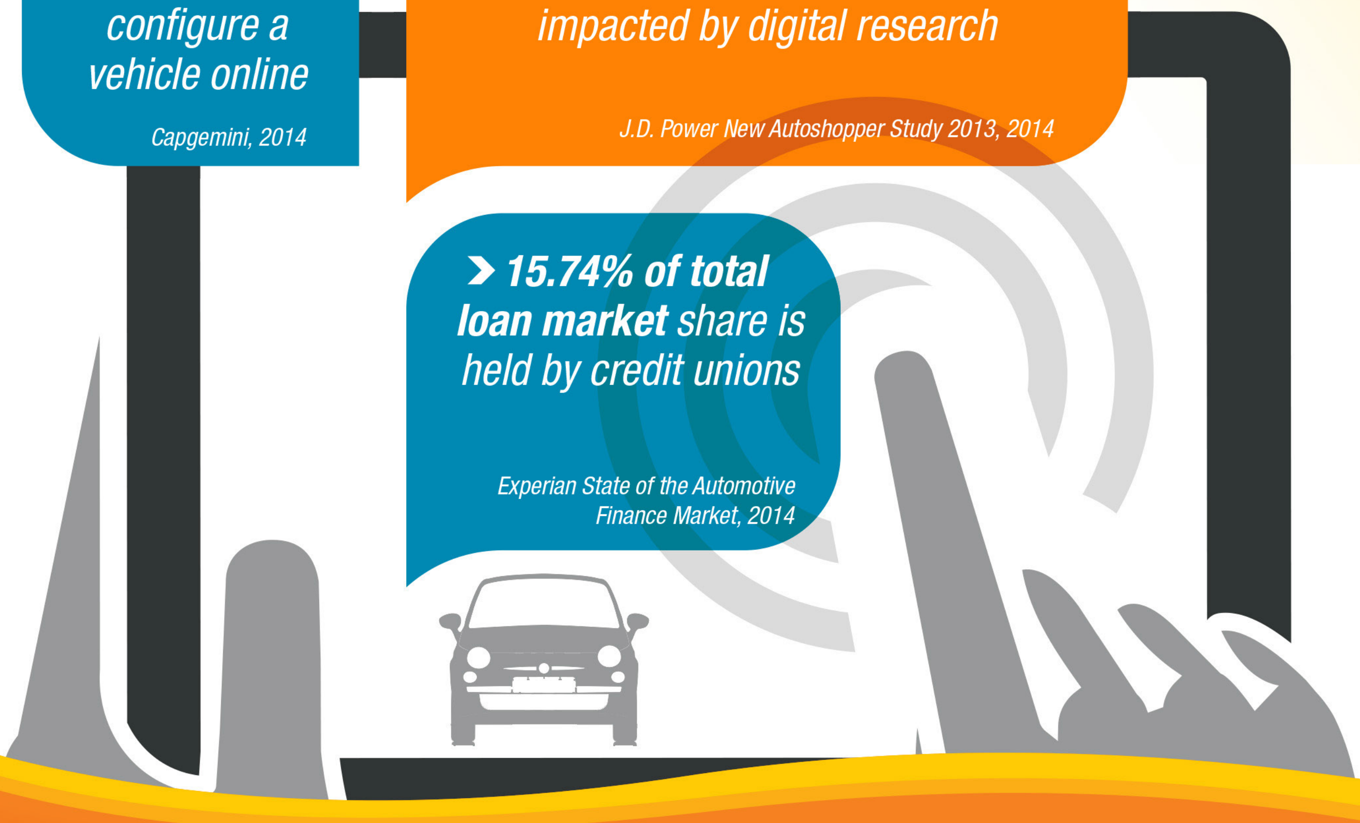
J.D. Power, 2014

› **11%** of Automotive Internet Shoppers (AIUs) stated that their selection of a lender was impacted by digital research

J.D. Power New Autoshopper Study 2013, 2014

› **15.74% of total loan market** share is held by credit unions

Experian State of the Automotive Finance Market, 2014



© Copyright 2014 GrooveCar Inc. All Rights Reserved • June 2014

Cultivate the Sticky Member With Value

***61%** of consumers stated that a coupon or discount makes them more likely to purchase a particular brand.*

(Millard Brown Digital, 2013)

Making the most of your loans, auto loans in particular, is a constant challenge. But with the right tools and resources they don't have to be.

Take the McDonald's Value Meal Program as a model. McDonald's employees have a policy of always offering patrons an opportunity to purchase fries and a soda with any sandwich, and those fries and a soda cost less in the value meal than each would be a la carte. In this scenario everyone benefits; the patron gets more food at a reduced price and McDonald's capitalizes upon the higher profitability available with low cost products.

Ask yourself which has more value, one item or a package? Your members achieve the most value when they utilize the package your credit union offers and you maximize profitability. Provide your member with additional auto related products or services at every opportunity, and particularly at loan inception. Remember, dealers are going to sell all the same products (GAP, auto insurance and extended warranties) to your members but at a higher cost. This is a great opportunity to educate your members while delivering your value proposition – low rates with significant savings. This effort will result in improving your product-per-member ratio while enhancing your members perceived value of your credit union brand. All equaling the ideal "Sticky Member".

In concert with offering your members the extra value products, your organization can leverage branding and reputation while capturing non-interest income. Many organizations will promote a big name product based upon the perceived value it offers to members without compensation. But by doing so, they may be losing an opportunity to capture their members' loans and completely discrediting their brand's buying power.

The first step is to start selling, yes selling, from a position of value and strength rather than with an angle of discount. Tout your brand, your name in the community and leverage these to create partner "Preferred" dealerships within your auto buying program and strategy. Credit unions taking this action realize better retention of direct loans, streamlined lending processes and improved relationships with dealers.

© Copyright 2014 GrooveCar Inc. All Rights Reserved • June 2014

Interest rate and down payment requirements are not as important to members' choice of auto lender as customer service, ease of contacting the lender and lender responsiveness.

(Filene Research Institute, 2013)

Conclusion

The path to purchasing a car has changed more in the last ten years than it has in the fifty years prior. To remain a viable lending source, credit unions must change their approach to the modern car buyer and that requires implementing the newer technology while updating their marketing approach to effectively sell the products that keep members with you for all of their financial products. Control your own destiny, take action today.

© Copyright 2014 GrooveCar Inc. All Rights Reserved • June 2014

About GrooveCar

GrooveCar is the leading industry provider of online auto buying resources developed exclusively for credit unions. Our unique blending of real world expertise with dealer, credit union and consumer practices delivers the only credit union-centric resource for organic auto loan growth, real time loan lead generation and profitable product marketing.

Since 1999, GrooveCar has been a guiding resource for credit union automotive solutions. Our team of automotive retail and credit union industry thought leadership helps you to find and implement the best automotive product solutions.

www.GrooveCarInc.com

© Copyright 2014 GrooveCar Inc. All Rights Reserved • June 2014

200 Motor Parkway, Suite B-10, Hauppauge, NY 11788 • 1.866. Groove4 • www.GrooveCarInc.com

© Copyright 2014 GrooveCar Inc. All Rights Reserved • June 2014