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Growing Quality Auto Loans

By David Jacobson

As credit unions cast their nets to offer enhance member loyalty, attract new ones and proffer new product and services to stay competitive, they would be well-advised to consider ways to grow quality loan volume. We have developed a list of steps credit unions can take to increase their auto loan volume; of course, like everything in life, the methods listed do not provide absolute guarantees of success, but from what we have observed, they kind of work.

Therefore, without any further ado, here, for your consideration, are some guidelines on how to bring in more quality auto loans.

› **Dealer's Finance Reserve**
Allow the auto dealer to mark up the interest rate. This results in significant loan growth in both high quality and marginal loans. Many credit unions do not allow dealers to mark up the rate. This is a grave mistake; especially since the competitive nature of auto lending is causing more and more credit unions to offer or considering offering dealers finance reserve.

› **Leasing**
Leasing has increased more than 20 percent in the past 12 months and is a sure way for credit unions to increase market share. Leasing also draws a higher quality credit.

› **Make GAP insurance standard**
Many lenders make GAP insurance standard by working that cost into the rate instead of charging a separate fee. If you don't, the likelihood is that you will gain or lose a number of loans each month. Further, credit unions should consider doing this on loan terms of more than 60 months.

› **Short turnaround**
Keep the application turnaround time under 10 minutes. Auto dealers have many choices when it comes to lenders, and if you are hoping to make it to the top of the consideration pile, the time it takes to deal with quick responses to credit applications can make a major difference.

› **"Auto approve" as many deals as possible**
Even if you have been offering instant loan approvals for awhile, you can afford to take a closer look for improvement, as there is always room to do so. See where you can tweak the scorecard to approve loans that make sense for all parties concerned.

› **Offer buy-down program to dealers**
Allow dealers the opportunity to stand out by offering current members and future ones low rate financing. The dealer will pay the credit union the difference between the buy rate and the buy-down rate upfront with the funding package. It's a "win-win" for all parties concerned.

› **Max Advance**
Almost all lenders maximize the amount a dealer is allowed to finance on new and pre-owned vehicles based on loan-to-value. In many cases it's just as

important for a lender to modify its maximum advance guidelines on creditworthy individuals. By allowing dealers automatic allowances on warranties and other products on higher-tier loans, you are, in essence, helping motivate them to send the credit union more loan applications. They will, too.

› Communication / Relationship

Don't underestimate the power of a quality relationship. This includes the relationship between the credit union and the indirect lending management company.

› Incentives

Whether your credit union is an active participant in a network indirect lending program or is on its own, it's important for you to stand out among other lenders in your market. One way to do this is by offering dealer F&I managers an incentive program. Motivating dealers to reach growth goals by winning prizes—vacations, plasma televisions, etc.—works.

› Rate Marketing

Having a lower "B" tier rate than your competition doesn't mean you get the loan if the application was submitted with the applicant anticipating an "A" tier approval. By jumpstarting and better marketing your rates effectively, you will quickly find that this plays a key role in the quality and quantity of loan applications you receive.

Like any other industry, the leaders in automotive indirect lending are easy to recognize. They are proactive, keep their fingers on the pulse of the industry and consistently motivate their members/customers to do business with them.

While there are, admittedly, no guarantees, it is essential to give your credit union the best chance of success, and these suggested guidelines can provide positive growth opportunity, if implemented..

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