

Credit unions delve into leasing with marketer's help

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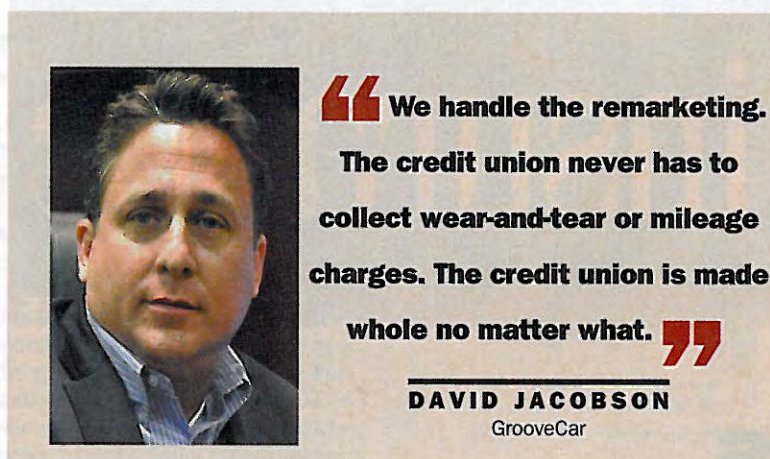
Chrysler Financial's decision to bail out of consumer leasing two years ago should have been fatal for Westbury Jeep-Chrysler-Dodge in Jericho, N.Y.

At the time, auto leasing accounted for 80 to 85 percent of the store's volume, and the captive lender gave just four days notice before pulling the plug.

"They said they couldn't get money anymore, that they didn't like doing this but they had no choice," says Keith Donnelly, Westbury's general manager.

"My whole business has been built around leasing — this is Long Island."

Fortunately for Donnelly, there were several credit unions on Long Island expanding their indirect loan business through dealerships. Some



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DAVID JACOBSON
GrooveCar

of these credit unions signed up with marketing and financial services company GrooveCar Inc., of Hauppauge, N.Y. GrooveCar developed a business unit — CU Xpress Lease Inc. — designed to ease credit

unions into the auto leasing business.

Credit unions have long been skittish about auto leasing. Like many banks, they don't want to get burned matching the well-funded promotional terms of the auto manufacturers' finance arms. Overestimating the vehicle's value at lease expiration can cost them several thousand dollars when they have to auction off the car.

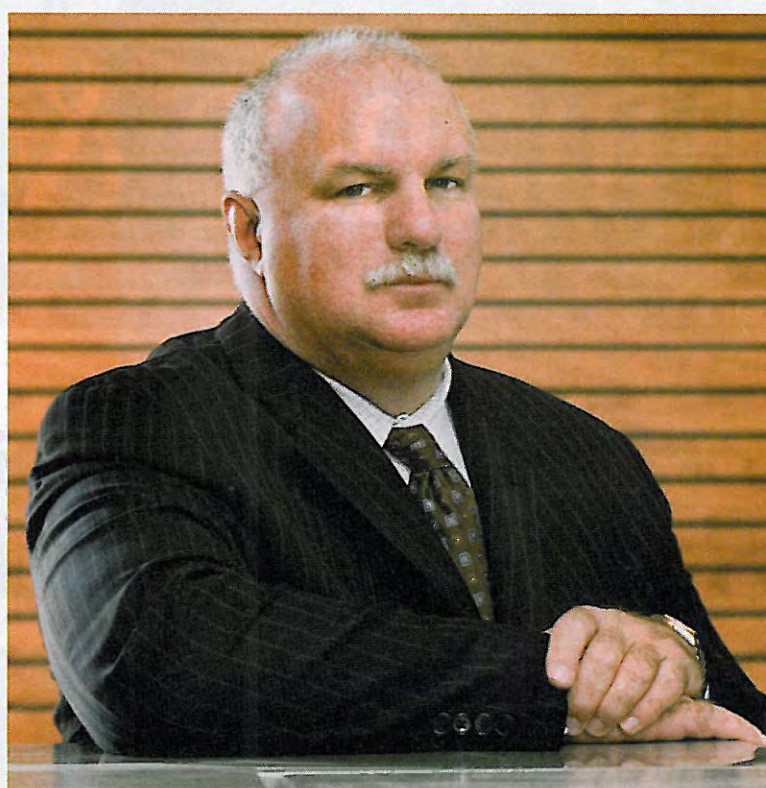
But CU Xpress Lease tackles the credit unions' worries.

The program started three years ago, and lease volume is just a trickle at 500 to 600 contracts per month. But it's picking up as the company convinces credit unions they have little to lose.

"We have residual value insurance covering potential losses on the back end," says David Jacobson, GrooveCar's founder and president. "We handle the remarketing. The credit union never has to collect wear-and-tear or mileage charges. The credit union is made whole no matter what. The only ingredient needed here are credit unions willing to lend money."

Although CU Xpress Lease will remain a niche player — filling in the gaps in the captives' lease programs — the operation is expanding its business beyond New York to credit unions in California, Florida, Michigan, New Jersey and Pennsylvania.

"We are one of their largest clients," says Donnelly of Westbury. "When GrooveCar got into the leasing business, it was a blessing."



CU Xpress Lease started supplying Long Island dealership general manager Keith Donnelly with lease programs after Chrysler Financial stopped leasing in 2008 amid the credit crises. During that rocky period, he says, "Credit unions came to us with open arms." Leasing is now nearly 30 percent of his volume.

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Avoidance issues

Why credit unions don't lease

- They fear huge losses on off-lease vehicles.
- They can't compete with captives' promotions.
- They want to avoid the hassle of selling off-lease cars.

Retail leases make up less than 1 percent of credit unions' auto volume, says Credit Union Direct Lending, a software company offering several hundred credit unions indirect lending programs through car dealers. CUDL is not in the leasing business.

Growing niche

But Long Island credit unions such as Teachers Federal Credit Union, which has \$4 billion in assets, are finding leasing can be profitable when an entity such as CU Xpress Lease assumes the risks.

"Over the last few months, the leasing portion of our business has grown to 60 percent. There's an active lease market here," says Bob Allen, CEO of Teachers Federal.

"For us, the full-service philosophy enhances our relationships with our members and with the car dealers. Leasing is an important piece of the puzzle."

Jacobson says CU Xpress Lease avoids competing head-on with the captive finance companies. Instead, it looks for the vehicles they're not promoting.

For example, American Honda Motor Co. has lease promotions on the Honda Accord, but not on the Honda Pilot. So CU Xpress is offering attractive leases on the Pilot.

"We are taking the crumbs," he says.

Little or no risk

The credit unions just supply the funds for the leases, then CU Xpress and its partner, Fusion Auto Finance of Hurst, Texas, develop and manage the lease programs. Jacobson, a former car dealer, says he partnered with Fusion because it has experience.

"We can get the cars on the road, but we needed someone who could service the lease and dispose of the car at the end of the lease at the highest value," he says. "Fusion has specialized expertise."

CU Xpress Lease also insures the leases against losses that occur if it

overestimates the residual value, the vehicle's value at the end of the lease. Lessors can lose thousands of dollars at auction if the residual value is set too high.

The company maintains a 50,000-square-foot building to resell off-lease vehicles to wholesalers and in June began retailing off-lease vehicles over the Internet.

"We're seeing better prices than you can get at auction," Jacobson says.

Between CU Xpress Lease and GMAC Financial Services — now the preferred lender for Chrysler Group dealers — Westbury Jeep-Chrysler-Dodge is amply supplied with lease programs, says General Manager Donnelly.

And even after Chrysler Financial bowed out, his business was humming along.

When leasing plunged in 2008, his store's volume dipped to 2,400 from 2,800 in 2007. But in 2009, volume went back up to 2,700 new units, Donnelly says.

Leasing is currently 25 to 30 percent of Westbury's volume, Donnelly says. But he says that before the credit crisis, lease volume was artificially high because of incentives. Cutbacks during the credit squeeze brought the market to a more realistic equilibrium, he says.

During that rocky period, credit unions came to his rescue.

"They had plenty of money to lend. We could lease, we had balloon notes, though there were no banks out there lending," Donnelly says.

"The credit unions came to us with open arms." **AN**

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