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New road toward a new set of wheels

Credit unions, auto makers replace banks as primary car lenders

By KRISTEN D'ANDREA

Over the last two decades, the way consumers go about acquiring a car has evolved. Changes in the auto industry, regulatory differences, the current economy and the recent credit crisis can all be attributed to the current state of car loans – one where credit unions and automobile manufacturers have taken the place of traditional banks as primary lenders.

"In the '80s and '90s, Suffolk County National Bank was one of the largest indirect lenders in Suffolk County," said Douglas Shaw, senior vice president and corporate secretary of Suffolk Bancorp. "Car dealers came to us to provide financing for their customers."

But their business model changed through the mid-1990s. Today, Suffolk Bancorp's focus has shifted from auto leasing to providing financing for the small business community. "Our consumer lending has become much more focused on specialty loaning," Shaw said.

Traditional banks have found it hard to compete with deals offered directly from car manufacturers. Leasing options, manufacturer incentives and looser restrictions have made auto makers hard to beat when it comes to options for consumers.

"No one's competing with [manufacturers]," said David Jacobson, president of GrooveCar, the Hauppauge-based car-buying service for credit union members. It boils down to the simple fact consumers are hard pressed to find rates lower than those offered through the manufacturer, which are currently hovering at about 1.9 percent.

"However, what most people don't realize is that those rates are in lieu of rebates," Jacobson added. "Would you rather get a 1.9 percent rate with no rebate or 2.9 percent with a $3,000 rebate through the credit union?"

Credit unions are currently one of the top leasing lenders in our area, Jacobson said, noting they're often able to offer more flexible options such as extended terms, balloon loans, used-car financing and leasing.

At Bethpage Federal Credit Union, about 10 percent of adult members have auto loans, according to Gerard Schmitt, vice president of marketing. This year, 56 percent of Bethpage's new auto loans originated from existing members and 44 percent have come from new members. As of last week, Bethpage lowered its best rate to 2.94 percent.

"In 2008, during the credit crisis, a lot of banks stopped lending while credit unions kept going," Jacobson said. "[Credit unions] built a reputation as being full-service lenders when in the past, they weren't."

Speaking to LIBN from the 2010 Auto Finance Summit in Las Vegas, Jacobson said industry experts at the event anticipate auto sales to increase over the next six months.

Three years ago, vehicle sales capped out at 17 million across the country, according to Mark Schienberg, president of the Greater New York Automobile Dealers Association. Fast forward through the credit crisis to 2009 and vehicle sales were at 9.8 million nationwide. In the first eight months of 2010, U.S. auto sales have been up 2.7 percent nationally, compared with an increase of 11.6 percent in New York, he said.

"The New York market is seeing a pretty strong rebound in vehicle sales," Schienberg said, adding that two years ago, just before the economy collapsed, the U.S. had $32 billion worth of vehicle sales. "That's $1.8 billion worth of sales tax revenue that was generated to local communities," he said.

Good news for consumers who will be in the driver's seats as auto sales pick up and lenders loosen their standards. While they might be relaxing their restrictions, financial institutions are much more cautious about who they're lending to, Schienberg said. Automobile loans are "very safe financing" for financial institutions, he added. "Only 1 percent of people default on their car loans."

Bob Giglione

David Jacobson: No financers are competing with auto manufacturers.

Even so, banks are demanding excellent credit scores and want to see more of a down payment by the consumer.

Last month, auto loan originations were up 19 percent – the largest increase since December 2007, according to credit reporting agency TransUnion.

As capital markets improve, however, competition will return as well. "Credit unions are positioned to take this very seriously and maintain and gain market share," Jacobson said. "Everyone's going to be vying for a piece of the pie," or, in this case, looking to woo the consumers with the highest quality credit.