



# Credit Unions Take Steps to Optimize AUTO LOAN PERFORMANCE

## Outreach To Millennials And Higher Risk Borrowers In The Mix, With Call Center Support

While auto sales for the first quarter of 2016 were a little off projections, Steven Szakaly, Chief Economist for the National Automobile Dealers Association (NADA), believes that sales this year are nevertheless on pace to reach NADA's 2016 forecast of 17.7 million vehicles.

The less-than-projected auto sales were the result of lower U.S. retail sales overall, that fell unexpectedly in March as households cut back on purchases of automobiles and other consumer goods, Szakaly reported at NADA's convention.

With the lower first-quarter auto sales, the 2016 annual sales projection is now 16.57 million vehicles.

## Be Prepared

Whether auto sales reach NADA's 2016 projection—or exceed it—it's important for credit unions to maximize any and all opportunities.

CO-OP Financial Services recently talked to two credit union lending experts with ties to CO-OP Member Center about their auto lending program—Norm Phillips, Centralized Lending Manager at SELCO Community Credit Union and David Kelsay, SVP of Lending at Sierra Central Credit Union.

Although serving entirely different market areas, they are taking a common approach to their very successful auto lending strategy by seeking new lending opportunities and not taking anything for granted. Even if auto sales do not reach this year's projections, they feel confident that their lending programs will achieve their goals.

## First-Time Auto Buyers



Eugene, OR



**\$1.3**

billion in assets

One program that both lending experts say is generating new business is tapping into the potential of first-time auto buyers, generally younger people who may not have established a track record as borrowers or might have a low FICO score.

Phillips explained that the SELCO program is targeted toward younger consumers who are at least 18 years old with some form of minimum income and have a down payment. They simply have not had the need to borrow money, but now may be in the market for their own car, usually a used vehicle.

"Our experience with these younger borrowers is that they make their payments on time and the performance of these loans is slightly better than our auto lending portfolio as a whole," said Phillips.



Norm Phillips

By offering young borrowers the opportunity to buy an auto when probably no other legitimate lender would approve their loan, SELCO believes it opens the door for them to be future members with checking and savings accounts as well as additional auto and other loans. "We are willing to give them a chance, and they appreciate it," said Phillips.

Be There. Be More.



## Attracting Millennials



Yuba City, CA



**\$827**

million in assets

Sierra Central Credit Union has a similar first-time auto buyer program coupled with a marketing campaign to attract more Millennial borrowers to bring in a new generation of members, a crucial strategic objective as the average age of its membership is 54 years.

"We recognize the growth potential of Millennial consumers in our market area is off the charts but these consumers also require a more targeted promotional outreach that will resonate with them and their lifestyle," said Kelsay.



David Kelsay

The Sierra Central auto loan program is based on a set of criteria which take into account the fact that young borrowers most likely do not have a loan track record or any significant income, and present a calculated risk the credit union believes is worth taking.

"We evaluate each first-time buyer based on who they are today and whether we believe they are a good credit risk tomorrow, which they have been," said Kelsay.

## Higher Risk Borrowers

Along with reaching out to younger consumers, the two credit unions have targeted potential borrowers who are older and might have a blemish on their loan record due to the economy, job loss or other disruption.

Both utilize a program offered by Open Lending ([openlending.com](http://openlending.com)) called Lenders Protection that provides a form of loan default insurance for higher risk direct and/or indirect auto loans such as subprime type loans.

To make these loans pencil out with the associated risk factor, SELCO charges a higher interest rate to cover the risk and the insurance premium. Nevertheless, Phillips said SELCO started with the Open Lending program in July 2013 and the credit union has funded more than \$15 million in loans as of June 2016. "The program has been pretty successful," he noted.

At Sierra Central, Kelsay says that although the interest rate is the same as a regular auto loan, the loans are structured through Open Lending to compensate for the risk factor and to be profitable.

"That portfolio performs well with a good return on investment," said Kelsay. "We are also receiving positive responses from dealers."

## The Call Center Value

In addition, the two credit unions have taken another step that has improved their auto loan performance by contracting with a call center—specifically CO-OP Member Center—to handle off-hours lending activity, especially on weekends when a large percentage of auto sales occur.

"We've only been on CO-OP's call center service since October 2015 and we've already experienced up to an 85 percent funding rate for approved loans coming in over the weekends," said Phillips. "We recently booked \$2 million in loans in one weekend."

Added Kelsay, "CO-OP Member Center has increased our loan activity and the return on investment is better than we ever thought it would be."

**To learn more about lending capabilities and call center support, visit [CO-OPfs.org](http://CO-OPfs.org), email [sales@CO-OPfs.org](mailto:sales@CO-OPfs.org) or call 800.782.9042, option 2.**