

Auto Loan Recapture – The “Hidden Gem”

-“The importance of outside opportunities to help your members” –

By: Jeff Frantz, senior vice president, Lending Solutions, Inc.

The numbers are intriguing. According to Ward-Smith.com, the highest performing credit unions finance just under 20% of their members' auto purchases.* In 2006 those credit unions totaled 464. The remaining credit unions averaged a tad under 15%. That means 80-85% of members are financing elsewhere. Some were pre-approved at the credit union, maybe with a loaded payment (another subject for debate), and the F&I guy converted the member to another lender. Some didn't apply at the credit union thinking they'd apply after they picked out their car and were easy targets at the dealership. The F&I guy's pay is largely commission on financing and ancillaries, so they are great at what they do – financing your members.

Moreover, credit union market share of auto loans shrank from 18% in 06 to 17% in 07 as researched by AutoCount - an Experian company. Through November the year-to-date average units sold is at the slowest pace since 1998. NAFCU economist Dr. Tun Wai noted “due to the current soft economic conditions, low consumer confidence and high energy prices, an improvement in vehicle sales is unlikely until well into 2008”.

Is it time to throw in the towel and accept things as they are? Heck no! **It's time to take your members back!** Regardless of the size of your credit union, the opportunity to put more auto loans on the books by recapturing members you lost or didn't have a chance at in the first place is enormous. Take a \$100 million dollar credit union with 15,000 members. If 75% of the membership are car buyers that's 11,250 members with cars. If 80% are financing elsewhere that's 9,000 lost loans. If your average rollover is 32 months that's 281 lost loans per month. And you can be sure a good chunk of those loans are at interest rates higher than yours.

What's the best way to get after those loans? Start an auto loan recapture program on a recurring basis. Any one of the three credit bureau providers can monitor your membership base to identify which members recently financed elsewhere. In most cases they can back into interest rates so you can target those members that need the most help and best fit your portfolio. Once identified, these members can be contacted with a compelling offer to save money by bringing their loan back to their credit union. If you don't have the resources to fulfill and sustain these contacts, outsourcing is a good option. Make sure your contact provider plays in the credit union space, knows lending and can demonstrate sales aptitude. With the average ROI running over 500% and average acquisition costs per loan averaging around \$110, outsourcing may be your best bet.

Let's face it, your members joined the credit union for a reason and in most cases it was to gain access to affordable loan rates. The members you aren't serving, because they got TO'd (turned over) to a crafty F&I person, still belong to the credit union, and with the proper advise, will bring their loan back to the credit union. While car purchases slow down, a sound auto loan recapture program can offset the difference and help you grow your portfolio in 2008.

*2006 Ward-Smith.com “HP Scorecard”