a CALLAHAN COLLECTION 2015

edition 6

DRIVER'S EDUCATION

FOR MORE CREDIT UNION STRATEGY & PERFORMANCE VISIT

CREDITUNIONS.COM

EDITOR Alix Patterson

MEDIA DIRECTOR Rebecca Wessler

DESIGNER Paige Lock, Paige's Pages

COLLECTION CURATOR Erik Payne

CONTRIBUTORS
Catherine Siskos
Drew Grossman
Erik Payne
Sharon Simpson

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PUBLISHED BY

CALLAHAN & ASSOCIATES

1001 Connecticut Ave, NW Suite 1001, Washington, DC 20036
Ph: 800.446.7453 | F: 800.878.4712
Editor@CreditUnions.com

Callahan.com | CreditUnions.com

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Total auto loans across the credit union industry grew 16.70% year-over-year as of the first quarter 2015. That's the tenth consecutive quarter in which the industry posted double-digit growth or higher. At the same time, new and used auto delinquencies were low — 0.62% and 0.31% respectively.

Credit unions serve a diverse set of members, and not all of them have "A" or "B" quality credit. That's why this Callahan Collection showcases credit unions that have developed educational and technological means to better serve the auto needs of members while managing against risk.

EDUCATE MEMBERS ON THE LOAN RATE THEY DESERVE

Georgia-based Associated Credit Union helps consumers understand auto loans and sensible rates.

BY SHARON SIMPSON

Associated Credit Union ($1.3B, Norcross, GA) has created a dominant niche for itself in the local lending market by using radio show appearances and other promotions to educate members and the broader community about the auto loan rate they deserve. According to Search & Analyze data on CreditUnions.com, Associated posted an 24.17% overall loan growth rate as of March 31, 2015, as well as an impressive auto loan penetration of 59.25%. This is well above the auto loan penetration national average of 17.75 % and state average of 29.64%.

The credit union works with approximately 100 dealers through its indirect lending program but generates as much, or more, business on the direct side because of its consumer education outreach.

"We constantly tell members to get pre-approved because you need to know the rate you deserve before you shop," says Greg Connor, executive vice president at Associated Credit Union. The credit union uses a mix of paid spokespersons and its own lending staff to discuss car buying during a popular weekly radio auto show, so listeners witness firsthand Associated's intention to benefit the consumer. "We also emphasize that if you financed your car through the dealership, you probably didn't get the best rate you could qualify for and encourage people to call us to refinance."

In addition to its regular presence on the radio show, ACU also sponsors a live car-buying seminar at least once a year that is broadcast over the airwaves to a wide audience.

"Atlanta is a huge driving city, and no one has a commute that is less than 30 minutes," Connor says. "They are going to listen to the radio. We're on a wide spectrum of stations including rock, country, and Christian — not just one genre."

ACU's focus on education in conjunction with its auto recapture mailer that goes out monthly to members who took out loans elsewhere helps members understand the potential savings and refinance with the credit union without the fear of judgment. Associated highlights "Auto Refinance" as a separate product on its website and clearly shows members the benefits of refinancing higher rate loans. By encouraging members to refinance and listing the product and potential savings prominently, Associated Credit Union helps members feel more comfortable about coming back even after they've taken a loan from another lender.

For members who need an extra nudge, the credit union offers a 90-day, no payments promotion for both auto refinances and new auto loans during the holidays and throughout the year.

CU QUICK FACTS

Associated Credit Union
NORCROSS, GA

$1.3B
ASSETS

162,732
MEMBERS

28
BRANCHES

1.25%
12-MO SHARE GROWTH

24.17%
12-MO LOAN GROWTH

0.48%
ROA

“We constantly tell members to get pre-approved because you need to know the rate you deserve before you shop. We also emphasize that if you financed your car through the dealership, you probably didn’t get the best rate you could qualify for and encourage people to call us to refinance.”

Auto Loan Refinance Savings

Lender	Rate	Amount Borrowed	Term	Payment	Savings
Associated CU	**1.75% APR**	**$21,000**	**48**	**$453.31**	
Other Lender	4.90% APR	$21,000	48	$483.42	$1445.28
Other Lender	5.90% APR	$21,000	48	$493.15	$1912.32
Other Lender	6.90% APR	$21,000	48	$503.17	$2,393.28
Other Lender	7.90% APR	$21,000	48	$513.35	$2,881.92
Other Lender	8.90% APR	$21,000	48	$523.49	$3,368.64

APR = Annual Percentage Rate. Must qualify for loan. Auto must meet Associated Credit Union’s guidelines. Rate and term may differ based upon your credit history. Rates are subject to change and vary based on the loan term, vehicle model year, and your credit history. Offer good only for loans financed at other financial institutions. Offer may be withdrawn. All rates, terms and conditions are subject to change without notice. Some restrictions may apply.

Payment Examples

“This promotion is popular, especially over the summer,” Connor says. “Members can refinance and save on their interest rate, and if they do it in June they can also use their excess funds to pay for that vacation because they won’t have to make their regular car payment.”

According to Connor, not all members will refinance even with a great promotion as an extra incentive, but they will think about the credit union the next time they purchase a vehicle.

For those with less than stellar credit scores, ACU also offers a rate rewards program that reduces the loan rate if the member makes payments on time. Members receive a 100-basis-point reduction after the first year of on-time payments and an additional 100-basis-point reduction for each of the next two years if they continue making on-time payments.

“This program is beneficial to both the members and the credit union by rewarding on-time payments,” Connor says. “We aren’t permanently forcing members who may have had a job loss or other issue to have a higher rate.”

The member’s monthly payments stay the same, but the interest rate drops as much as 300 basis points. That equates to a typical savings of $1,200-1,400 on a $20,000 loan.

Associated Credit Union is proving that it is possible to have both a relationship with dealers and a thriving direct loan business. In addition to its heavy radio presence, the credit union also uses Google Adwords.

“It would be hard not to know about us in the market,” Connor says. “However, our presence is not pushy. We focus on education and want you to know what you deserve.”

As credit unions look ahead and consider strategies to help grow auto lending, these closing remarks from Connor are a mantra to keep in mind: “We try to make sure that in everything we do, there is a benefit to the member at every juncture. If you do that you’re going to get your share.”

HOW TO BOUNCE BACK WHEN YOUR AUTO PORTFOLIO BOTTOMS OUT

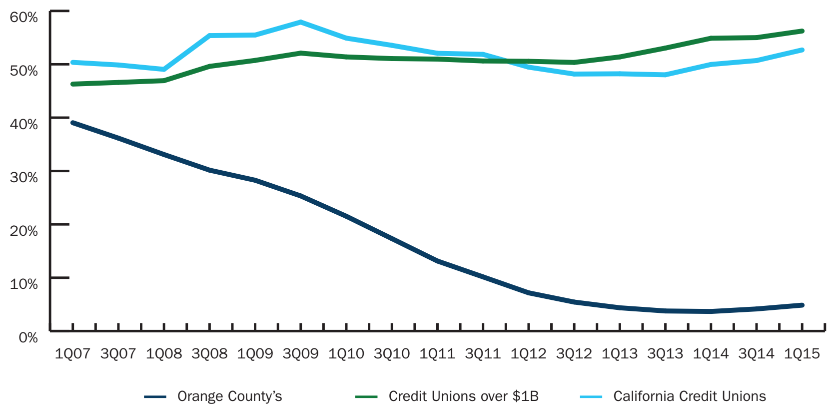
When indirect lending margins at Orange County's Credit Union started to shrink, the $1.2 billion cooperative injected life into its auto portfolio with a new focus, a fresh marketing campaign, and different metrics.

BY DREW GROSSMAN

Orange County's Credit Union ($1.2B, Santa Ana, CA) had an active indirect lending auto program until 2007; that's when the country entered a recession and margins on the credit union's portfolio began to shrink. During its 2007 strategic planning, the credit union's board and senior management team determined OCCU needed to focus its efforts on organic growth — i.e., direct lending — to better serve its members, as the run-off from its indirect portfolio was detracting from its total membership.

"The yield curve was so inverted that an indirect program just didn't make sense for us," says Jeff Harper, vice president of lending at Orange County's Credit Union.

INDIRECT AUTO LOANS / TOTAL AUTO LOANS



All Graphs Generated by Callahan & Associates' Peer-to-Peer Software

From 2007 to 2014, the ratio of indirect loans to total auto loans at credit unions nationally increased from 41% to 49%. Orange County's ratio, however, fell from 39% to 4%, according to Callahan & Associates. In the two years spanning 2008 and 2010 alone, Orange County's auto loan portfolio plummeted to $108 million from $204 million.

CU QUICK FACTS

Orange County's Credit Union
SANTA ANA, CA

$1.2B
ASSETS

90,799
MEMBERS

10
BRANCHES

6.97%
12-MO SHARE GROWTH

17.91%
12-MO LOAN GROWTH

0.62%
ROA

So the credit union used an intertwined strategy that is one part metrics and one part marketing to inject some life into its lending.

In 2011, Orange County's increased direct originations by more than 70% compared to 2010; it has posted 10-20% growth in originations every year since. During the past few years it has also bundled more member-friendly products — such as GAP, MRC, and payment protection — to drive non-interest income. Its portion of non-interest income to total income was 32.7% as of third quarter 2014. By comparison, it was 27.2% for credit unions with more than $1 billion in assets and 25.9% for credit unions in California.

THE RIGHT METRIC MAKES THE DIFFERENCE

When Orange County's decided to focus on direct auto lending, it needed new goals and metrics. An initial goal included increasing its look-to-book ratio; that is, it wanted to ultimately fund more applications that matriculated through its lending system.

"In the beginning we didn't have a strong benchmark to go after," Harper says. "We just focused on how we were going to pull through more applications. The look-to-book ratio became our staple of how we were going to grow production."

Average credit unions run a look-to-book ratio of approximately 40%; for top performers, it's closer to 50%, Harper says. Orange County's decided to aim to be a top performer.

Convenience and decisioning speed are two key components that contribute to a higher pull-through for auto loan applications. To show members how easy it is to work with OCCU, in 2011 the credit union started promoting its existing e-signature capability. Instead of making an appointment in the branch, borrowers could close loans quickly and easily from a remote location.

OCCU is currently converting to a new loan origination system that will increase decisioning speed. On the front end, the new system features a simple, easy-to-use origination process that will allow staff to focus on conversations with members. On the back end, the credit union anticipates the system's decision engine will provide automated decisioning for at least 50% of applications. The system went live in June 2015.

But the credit union cannot rely on convenience and decisioning if it doesn't have a properly trained team all working toward the same goal. To empower and build employees, OCCU created its LIFE training program: L – Leaders at all levels, I – Inspiration in the community, F – Fanatic about the fundamentals, and E – Extraordinary in the ordinary. LIFE develops and encourages leadership across all jobs and functions. Through LIFE, participants learn how to compete for auto business across the organization and learn why it's everyone's job, not just lending's, to provide value to the auto-lending program.

These efforts, and more, are having the desired effect on OCCU's look-to-book ratio. Although the third quarter year-to-date number of applications increased only 2.0% over last year, funded loans increased almost 12%. OCCU's look-to-book ratio has increased steadily each year from 41% in 2012, to 43% in 2013, to 44% in 2014.

SHRINK MY DEBT

In addition to convenience and speed, Orange County's Credit Union needed to make some noise in its Southern California market. It targets "A" and "B" credit borrowers that want to buy a car or refinance loans held at other institutions and sends pre-approvals every quarter through direct mail, email, and online banking. But it needed something more.

In February 2012, Orange County's launched Shrink My Debt for mortgage, auto, and credit cards. The marketing campaign is composed of a micro site, a team of credit union ambassadors, and a small fleet of five leased smart cars — four coupes and one convertible — wrapped with Shrink My Debt branding.

OCCU understands the needs of its members, and the Shrink My Debt concept was born out of a conversation between Harper and assistant vice president of marketing Teresa Koch about how Orange County's could help members deleverage their debt load. The credit union hired a research firm to study consumer sentiment about financing and started forming focus groups in January 2011 to test the research and iron out the details of the marketing campaign.

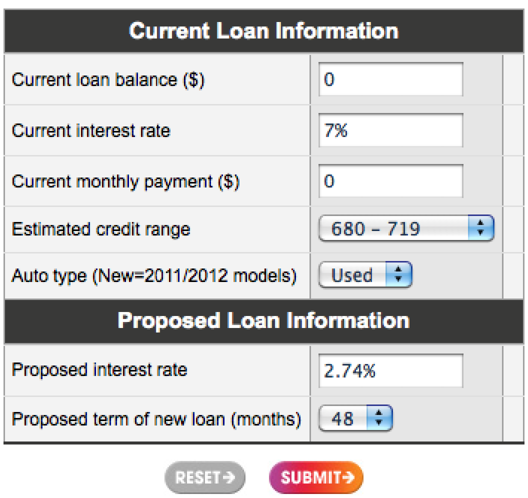
"We found out some of our members did not realize they could refinance auto loans," Harper says.

In the post-recession environment, several factors came together to create an ideal refinance market, Koch says. First, OCCU's consumer research indicated consumers were more interested in paying down debt rather than taking out new loans; second, the low interest rate environment was predicted to last through 2012 and beyond; and third, unhappy consumers were looking for a trusted source with whom to refinance.

OCCU's current rates as low as 1.99% for auto loans are half of what they were a few years ago, and a lot of members who took out loans at the higher rate still have enough years left on the loan to make it smart to refinance, Harper says. The credit union found it could save the average member $700 in interest over the remaining life of the loan if the member refinanced.

"A lot of members don't understand the rate, but they understand the payment," Harper says. "We try to emphasize the savings. What could they do with that $700? We started to promote the ideas, you could buy a TV, you could take a mini vacation."

To estimate how much they can save, members can use the ShrinkMyDebt.org calculators (see below) that the credit union worked with a third party to customize with the appropriate rates and branding language. Consumers enter their current rate and their potential rate and the calculator returns the decrease in monthly payments and how much the consumer will save over the remaining term of the loan.



Current Loan Information	
Current loan balance ($)	0
Current interest rate	7%
Current monthly payment ($)	0
Estimated credit range	680 – 719
Auto type (New=2011/2012 models)	Used
Proposed Loan Information	
Proposed interest rate	2.74%
Proposed term of new loan (months)	48

RESET SUBMIT

SOURCE: SHRINKMYDEBT.ORG

Aside from reducing its Shrink My Debt cars from five to one — it purchased the convertible and uses it for parades, employer group events, and community activities — OCCU plans to continue the campaign pretty much unchanged in 2015.

Its current efforts have helped it sustain a consistent 5% to 6% annual membership growth ratio of solid, participating members without relying on new members that come from indirect lending or mergers, so why fix what's not broken?

"We'll definitely do a splash with Shrink My Debt in the new year," Koch says. "People will be in the New Year's resolution mode and trying to get their financial health in order."

5 SMART LESSONS FROM SHRINK MY DEBT

Shrink My Debt has helped Orange County's Credit Union reinvigorate a waning auto portfolio. Here are five ways any credit union can do the same.

1. Be seen. OCCU's PR ambassadors drove branded smart cars in the evenings and over the weekends. Staff ran errands in them and leveraged traffic patterns to maximize visibility. "Smart cars catch one's attention," says vice president of marketing Teresa Koch. "Wrapped smart cars even more so."

2. Be ready. "The cars were a great conversation starter," Koch says. And to make sure staff made the most of impromptu interactions, the credit union armed them with interesting facts about smart cars as well as lenticular shrinkmydebt.org cards to hand out.

3. Track expenses. Recordkeeping is an important part of being a PR ambassador. They log their business and personal miles and note any time spent on the clock.

4. Budget smartly. The total cost for the lease, gas, and insurance cost OCCU approximately $750 per month per smart car. Plus the credit union invested $1,400 per car upfront for the wrap. For the larger Shrink My Debt campaign, the credit union invested roughly $85,000. Costs included the fleet of smart cars, the micro site and calculators ($12,500), and window wrapping at the branches ($9,000) as well as miscellaneous branded materials.

5. Use all available resources. "Putting together the campaign was a comprehensive collaborative effort," Koch says. Shrink My Debt touched more than a half-dozen departments, including: consumer and mortgage lending, retail, accounting, risk management, HR, executive management, and marketing.

PLACING LIMITS ON SKIPPED PAYMENTS

Payment holidays are popular for auto loans, but credit unions don't want borrowers to get hooked on the privilege.

BY CATHERINE SISKOS

Credit unions may not realize it but the summer vacation their members are probably fantasizing about most is a break from paying an auto loan. Skip-a-payment programs or payment holidays, as they are also called, give members the option to forgo a payment by extending the life of the loan one month with interest charges continuing to accrue. At Meriwest Credit Union ($1.0B, San Jose, CA) about 60% of all skipped payments apply to auto loans, making them the number one product to benefit from the program, says chief experience officer Tony Cortez.

Although many credit unions have been offering payment holidays on credit cards and consumer loans for decades, a combination of low interest rates and straitened finances have sparked renewed interest in the programs from members. At America First ($6.7B, Ogden, UT), so many members kept asking around Christmas if there was a skip payment option that the institution recently began promoting the roughly 40-year-old program during the holidays. The summer is the second most popular time for members to request skipping a payment. As a result, many credit unions promote the feature biannually even though members can request a payment holiday any time of the year.

The advantages aren't all on one side. While borrowers appreciate the financial breather, credit unions benefit from the additional income that the programs generate through interest and fees. Still, cooperatives also place various restrictions to ensure that the programs don't become a serious risk for both institution and borrower.

"Every time members extend their loans out, it puts us at risk too, in case we have to repossess the loan," says Kelley Martin, assistant vice president of consumer credit services with Delta Community Credit Union ($4.8B, Atlanta, GA). The cooperative recently instituted changes to its program, which is at least 15 years old. Periodically evaluating the programs to determine if additional safeguards are needed is essential to their success, she says.

BENEFITS THAT ADD UP

From a purely financial standpoint, the programs are certainly successful. Randy Halley, senior vice president for branch delivery at America First, estimates that payment holidays generate millions of dollars each year in interest and fees from loans that remain on the books an extra month or two.

CU QUICK FACTS

Meriwest Credit Union
SAN JOSE, CA

$1.0B	*ASSETS*
69,234	*MEMBERS*
11	*BRANCHES*
3.77%	*12-MO SHARE GROWTH*
18.70%	*12-MO LOAN GROWTH*
0.76%	*ROA*

CU QUICK FACTS

America First Credit Union
OGDEN, UT

$6.7B	*ASSETS*
696,493	*MEMBERS*
109	*BRANCHES*
8.20%	*12-MO SHARE GROWTH*
11.23%	*12-MO LOAN GROWTH*
1.66%	*ROA*

CU QUICK FACTS

Delta Community Credit Union
ATLANTA, GA

$4.8B	*ASSETS*
315,648	*MEMBERS*
26	*BRANCHES*
3.35%	*12-MO SHARE GROWTH*
18.12%	*12-MO LOAN GROWTH*
0.84%	*ROA*

TABLE 1: HOW CREDIT UNIONS REIN IN PAYMENT HOLIDAYS

	Meriwest	Delta Community	America First
Up To Two Skipped Payments Per Year	✓	✓	✓
Processing Fee	$35	None	$25
Borrower Current On The Loan	✓	✓	Exceptions Permitted
Advance Notice	None	32 days	None
Loan Open For Six Months	✓	✓	No minimum
No Skips Two Months In A Row	✓	✓	Allowed but rare
Limited Skips Per Life Of Load	None	None	None

SOURCE: MERIWEST, DELTA COMMUNITY, AND AMERICA FIRST CREDIT UNIONS

Like many credit unions, America First and Meriwest both charge a processing fee, $25 and $35 respectively, to borrowers who want to skip a loan payment. At Meriwest, the processing fee alone generates about $20,000 in income during each of the two seasons when the credit union promotes its skip payment program, Cortez says.

Although the skip payment feature doesn't help credit unions attract auto loans, Martin believes the program can act as an incentive to stay put for borrowers who are considering refinancing with another institution. Plus, all three cooperatives say offering a financial breather helps keep loans current that might otherwise be sent to collections.

"It just gives members a little extra time to get us payment, especially during the holidays," Martin says. Although critics contend the programs teach members poor financial habits, "in the long run, members are much better served staying current on the loan instead of having it be delinquent and go on their credit report."

SAFEGUARDS TO KEEP RISKS AT BAY

Nevertheless, credit unions rely on various restrictions to keep the borrower and institution from landing in trouble. A borrower who uses the skip payment feature too often can quickly end up owing more than the car is worth and negate any gap insurance coverage if the loan balance and car value grow too far apart.

That's why, at a minimum, credit unions typically limit the number of skipped payments to two a year per loan, with most cooperatives also prohibiting payment holidays for the same loan two months in a row. Meriwest goes one further by requiring that the skipped payments must be six months apart. In addition, most credit unions also require a car title that names them as the loan holder, a detail that might be missed if borrowers refinance from another institution.

From there, cooperatives often add a range of other requirements targeting both the borrower and payment history to minimize the risk. Although some credit unions grant payment holidays only to borrowers whose loan payments are current, America First's team of underwriters reviews requests from borrowers with less stellar records, deciding each one on a case-by-case basis.

Restrictions also get tweaked over time. Last October Delta Community added another qualification for borrowers up to date on payments — that the loan must be at least six months old. The credit union introduced the new requirement so that payment holidays wouldn't mask any ongoing problems with a new loan. Meriwest's underwriters also review any skip payment request that the automated system rejects. Before granting an exception, underwriters look for other telltale signs of financial trouble, such as a decline in account deposits. Otherwise, the cooperative usually limits payment holidays to borrowers with a credit score of at least 600 who are current on the loan.

"It takes 60 days for a loan to be in default, and if you skip a payment, then it's 90 days," Martin says. "That was too long for us to recognize any red flags, and that first payment default is a great indicator of any problems with the borrower."

Even processing fees play a role in mitigating risk.

"The fee is meant to be a deterrent," Halley says. "There needs to be a little bit of a penalty so that members think about whether it's really worth skipping the payment."

Fees aren't the only way to encourage borrowers to check their worst impulses. Delta Community, for instance, doesn't charge a processing fee, but it does ask borrowers to apply for the payment holiday 32 days in advance.

"That allows us enough time to contact the member if we see any problem with extending the loan," Martin says.

A STRATEGY TO PROVIDE RELIABLE RIDES FOR VULNERABLE MEMBERS

Manatee Community Credit Union provides reliable transportation and financial education to vulnerable, low-income members.

BY ERIK PAYNE

Transportation provides access to professional and personal opportunities. It dictates where people can take jobs, their ability to maintain jobs, and how involved they can be in day-to-day family life. It offers freedom and choice. In areas without dependable public transit, cars are a necessity. And in these areas — as is often the case — opportunists take advantage of the people with the most need.

Sherod Halliburton, chief executive of Manatee Community Credit Union ($28.6M, Bradenton, FL), sees this firsthand. Bradenton is a community of approximately 50,000 residents, according to the U.S. Census Bureau, yet Halliburton estimates there are 15 payday lenders within three miles of his credit union's headquarters.

Before he became CEO of Manatee in 2012, Halliburton was the executive director of a redevelopment agency. There, he helped manage a well-received affordable transportation initiative. However, the agency's program lacked a financing component.

Under his leadership, Manatee developed its own transportation initiative, called Reliable Ride, in late 2012. Today, this program is a joint venture between the United Way of Manatee County and Enterprise Rent-A-Car.

WHAT IS RELIABLE RIDE?

In short, Reliable Ride provides affordable, quality transportation to low-income borrowers. But Reliable Ride is not solely a financing program; it also solves community wide transportation and financial education challenges. Manatee has been able to help its community overcome these challenge by partnering with the right organizations and encouraging participants to meet more than baseline standards.

The United Way, which joined the venture in August of 2014, is the program administrator and is responsible for marketing and promotion as well as inter-agency coordination. According to Halliburton, most borrowers learn about Reliable Ride through the United Way or its affiliates. Interested parties meet with the United Way's Reliable Ride rep, who gathers personal and financial information to determine if they meet the program's income-based parameters.

Not surprisingly, financials do factor into the application process; however, Manatee first requires applicants to write a letter explaining how reliable transportation will improve their life. The United Way coordinates a financial education component as well, which requires applicants to watch online auto

CU QUICK FACTS

Manatee Community Credit Union
BRADENTON, FL

$28.6M
ASSETS

3,547
MEMBERS

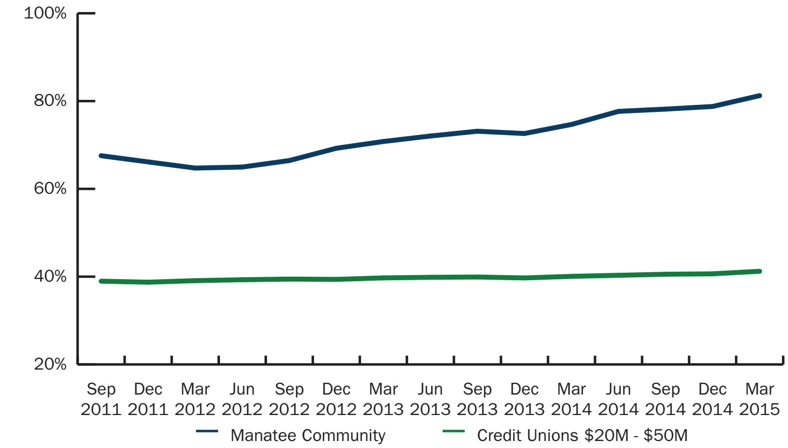
1
BRANCHES

6.20%
12-MO SHARE GROWTH

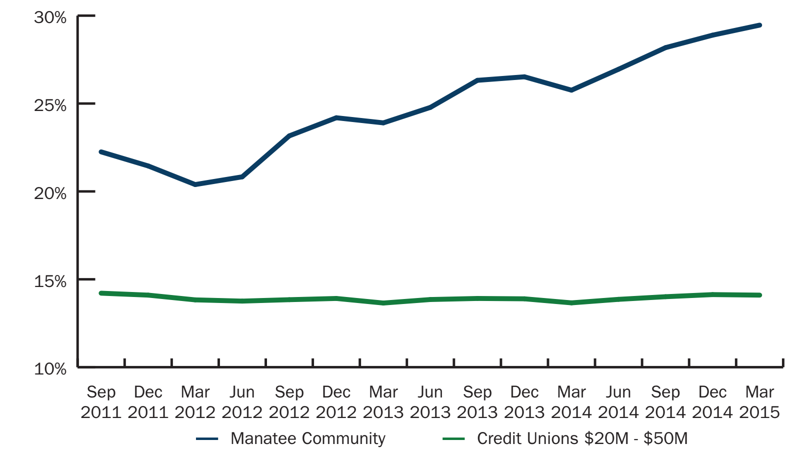
16.38%
12-MO LOAN GROWTH

0.88%
ROA

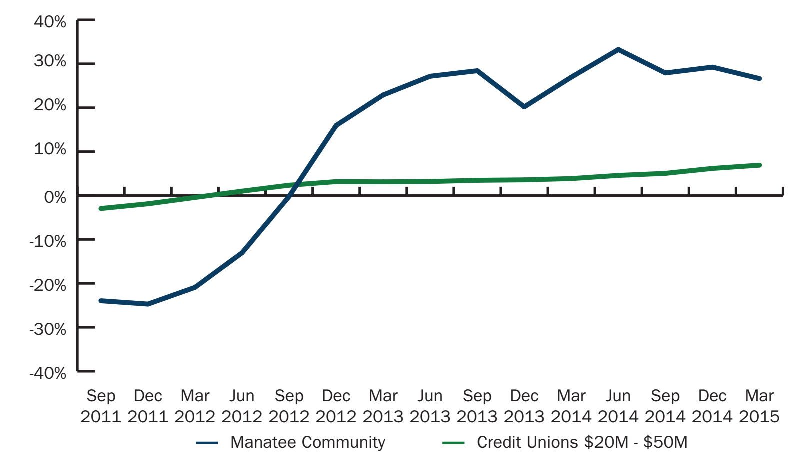
AUTO LOANS / TOTAL LOANS



AUTO LOAN PENETRATION



AUTO LOAN GROWTH



maintenance videos and pass corresponding tests. After applicants meet these two conditions, Manatee pulls a credit history, determines the loan amount — which it typically finances for four years at 14.9% APR — and sends the participant to an Enterprise car salesman who helps them find the right car.

"That's based on family situation," Halliburton says. "How many does the car need to seat? How much can they afford? What's their lifestyle?"

Enterprise provides certified used automobiles that each come with a one-year warranty, roadside assistance, and a seven-day, 1,000-mile purchase agreement, although the United Way coordinates the auto maintenance.

"Without Enterprise, we couldn't get away with calling it 'Reliable Ride,'" Halliburton says.

The rent-a-car company also helps offset the program's administration costs; however, Manatee assumes 100% of the risk of the loan.

By the end of the first quarter, the credit union expects to have served 100 members through Reliable Ride, and it aims to serve 10 members per month in the near future.

HOW TO FIND THE RIGHT PARTNER ORGANIZATIONS

Although not every credit union has a relationship with an organization as large and respected as the United Way, they can still learn from Manatee's Reliable Ride. To start, Halliburton advises others to look for local community organizations that focus on financial stability, personal improvement, and budgeting.

"In all of our communities, there are organizations that are doing asset-building programming, financial education, and home-ownership education," Halliburton says.

These organizations are natural partners for myriad reasons. Namely, collaborating with them allows the credit union to focus on financing while the community organization focuses on administration. Such collaborations also create a mutually beneficial relationship in that the community organization will have a financial institution to refer clients for lending opportunities and the credit union will have a larger, more diverse body of members to serve.

Plus, community organization referrals lend credibility to a credit union.

"I can say I am a socially responsible lender all day, every day," Halliburton says. "But when the United Way or other human health and service organization says 'this is our partner and they are going to take care of you' people receive that message differently."

"I can say I am a socially responsible lender all day, every day. But when the United Way or other human health and service organization says 'this is our partner and they are going to take care of you' people receive that message differently."

HOW TO BUILD THE RIGHT INCENTIVES

The Reliable Ride application process includes an educational element supported by the United Way. The nonprofit's auto videos teach viewers about basic maintenance such as how to check tire pressure, how often to change oil, and what the gauges on the dashboard mean. This helps ensure that program participants not only have a car but also the knowledge to operate it safely and properly.

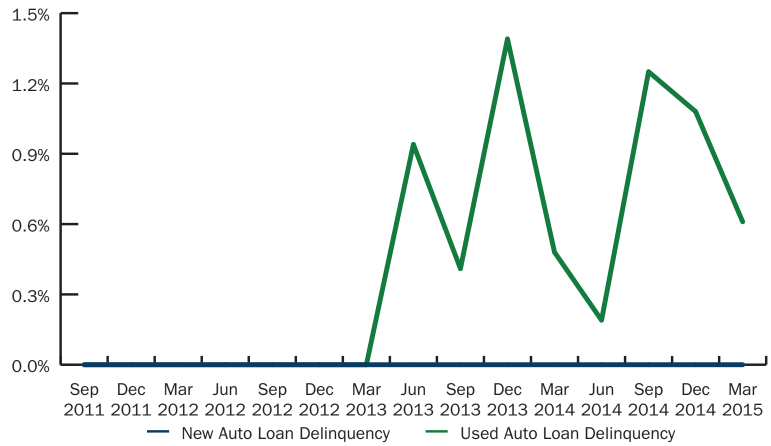
"If we are placing a person in a car, it's important to us that they have an understanding of how to maintain that car," Halliburton says.

But the credit union also uses education as an incentive. The 14.9% rate Manatee charges is lower than Reliable Ride participants would otherwise qualify for, but it's still high. That's by design.

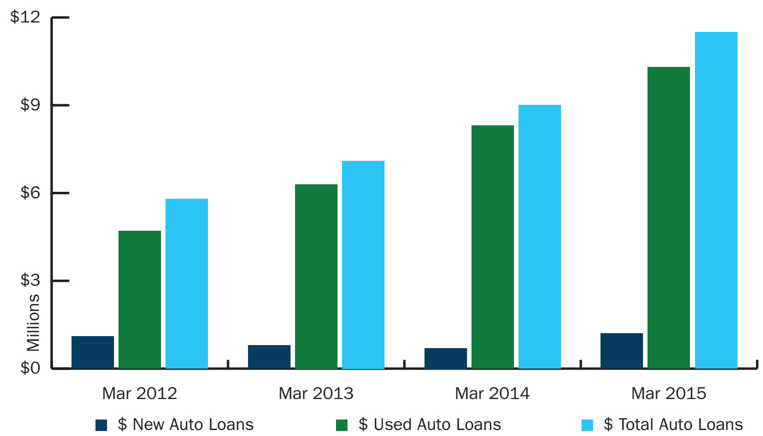
If participants can make on-time payments for 12 months and complete more extensive, in-person financial education classes, then Manatee will drop the interest rate to 9.9%.

"We want to balance economic opportunity with life lessons to prepare them for how things work in the real world," Halliburton says. "If you make a commitment to improving your life, if you go to the class so you can understand your financial circumstance better, if you make your payments as agreed, you will be rewarded."

AUTO LOAN DELINQUENCY - MANATEE COMMUNITY



AUTO LOAN BALANCES - MANATEE COMMUNITY



All Graphs Generated by Callahan & Associates' Peer-to-Peer Software

TODAY'S TECHNOLOGY HELPS MITIGATE LOSS AMONG RISKIER BORROWERS

Credit unions are using resources such as GPS tracking devices and starter-interrupt systems to help members with low credit scores and questionable histories purchase cars.

BY ERIK PAYNE

Credit unions make money in three ways: interest on loans, interest from investments, and non-interest income. According to midyear data from Callahan & Associates' Peer-to-Peer analytics, average interest on loans for credit unions nationally represented 64.27% of total income. Unfortunately, the credit scores of many would-be borrowers tumbled as a result of the economic downturn, and along with those drops in credit scores went their chances of taking out a loan and contributing to a credit union's interest income. Although many members are working their way back into financial shape, credit scores are notoriously slow to recover, which means a once at-risk member's ability to borrow is still hindered.

Credit unions, sensitive to member needs, have created lending programs geared toward members with lower credit scores. Such loans might carry a higher risk, but credit unions are continuously working to mitigate that in a way that does not disrupt member service.

AMERICA'S GPS

Located on Fort Lewis McChord, America's Federal Credit Union ($468.9B, Fort Lewis, WA) understands how tough the transition period can be for families that have lost a job or left the military. That why in mid-2011 the credit union, which primarily serves a military membership, started its Member Assurance program. Based on feedback from the collections department, the program asks members who are struggling with car payments to return the vehicle to the credit union, at which point America's sells it. The proactive sale protects the damage that would be done to a member's credit should the credit union have to recover the asset, and it saves the credit union the resource expenditure involved in a repossession.

Unfortunately, the vehicles America's tries to sell often are worth little in equity. So the credit union takes its auto strategy one step further back in the process by connecting with the member before they get into a loan they can't afford. To help members with impaired credit get into a car that's affordable and reliable, America's offers a loan with a one-and-a-half point bump over its standard auto loan rate. The loan also comes with a requirement that the credit union install a tracking device under the dashboard that allows it to track the car's movements if the member defaults on the loan.

CU QUICK FACTS

America's Federal Credit Union
LEWIS MCCHORD, WA

$468.9B
ASSETS

41,740
MEMBERS

14
BRANCHES

10.62%
12-MO SHARE GROWTH

10.08%
12-MO LOAN GROWTH

0.92%
ROA

CU QUICK FACTS

DOCO Credit Union
ALBANY, GA

$215.8M
ASSETS

42,699
MEMBERS

10
BRANCHES

1.29%
12-MO SHARE GROWTH

1.02%
12-MO LOAN GROWTH

1.15%
ROA

> "I don't want to punish the tried-and-true members who, for whatever reason, still have a low credit score but have always taken care of us. We still want to help those folks."

According to Diane Branson, America's executive vice president and chief operating officer, choosing the right GPS tracking vendor is important, as credit unions want one that keeps up with tracking technology and offers a product with longevity. Branson declined to name the vendor America's uses, but said the credit union has had to deal in the past with devices that go bad, in which case the credit union must work to quickly repair them.

America's purchases three years of airtime on the devices and can renew if necessary. When the member pays off the loan, the credit union stops renewing airtime and the device goes off the grid, meaning it can no longer be used for tracking purposes.

In the meantime, though, members "get a quasi LoJack deal without paying for it because we can track that car if it needs to be tracked," Branson says.

Unlike America's other auto loans, the decision-making process behind the GPS loans take longer than the credit union's standard 10 minutes.

"There's more hand-holding, fact-checking, and underwriting that goes into making these loans," Branson says.

The technology takes additional time to install as well. The credit union buys the devices, but it is the auto dealer — the credit union only works with dealers with which it has a good relationship — who installs them after determining expenses and costs with the credit union.

Branson admits its GPS program is not right for every credit union. However, America's has experienced only a quarter of the risk it anticipated. According to the most recent data provided by America's, its GPS tracking loans had a 1.62% loss ratio and a 1.39% delinquency ration. These figures stand in comparison to Callahan & Associates' most recent Peer-to-Peer data, from March 2015, which show that delinquent loans made up approximately 0.69% of total loans for all credit unions nationally, while the average delinquency ratio for America's loans outside the program as 0.75%.

Although both the rate and the potential for repossession are slightly higher with the loan, members appear to be happy to drive a car they can afford and rebuild their credit.

"[Our members] know what their credit is," Branson says. "They know what their opportunities are."

DOCO'S STARTER-INTERRUPT STRATEGY

According to the 2010 U.S. Census, 31.9% of families and 39.9% of the population of Albany, GA, fall below the poverty line. Accordingly, the credit scores of members of DOCO Credit Union ($215.8M, Albany, GA) are lower than the national average.

To meet the demand for cars in Albany, DOCO carries a large proportion of auto loans on its balance sheet. The credit union carries $77 million in total new and used auto loans, a large difference from is Georgia state peers who carry just $44 million in these areas, according to Callahan & Associates' Peer-to-Peer data. Many of the area's "Buy Here, Pay Here" car dealerships charge interest rates of up to 28%; by comparison, DOCO's rates typically range from 12.25% to 18%.

The credit union separates potential borrowers into tiers, considering metrics such as loan-to-value ratio and length of employment in addition to credit scores. The lowest credit score a borrower can have and still qualify for a standard loan is 570. Any lower and the member falls into the DOCO's Fresh Start program, which, among other parameters, requires all vehicles be equipped with a device that can interrupt the electrical flow to the car's starter.

"It's their best chance to get a reasonably priced loan on a vehicle without having to go to a 'Buy Here, Pay Here' or a finance company," says loan manager Daryl Salter. "You have people say 'I've had bumps on my credit score; I just need someone to give me a chance.' If they really feel that way, this is an opportunity to do that."

The credit union introduced starter-interrupt devices in 2006 when SureTrack, the vendor who makes the devices, suggested DOCO install them as a way to mitigate the risk of lending to lower-tier members. SureTrack installs the device and DOCO controls it. And although every situation is different, Salter says the credit union generally disables a car when a loan payment is more than 15 days late. If a member cannot restart their car, they generally call the credit union first. DOCO usually restarts the car if the member promises to make a payment, and the credit union cannot disable a car while it is in operation.

After it launched the strategy, it found members elevated their DOCO auto loan to their top priority. Of course, members must initially agree to allow the credit union to install the device, and DOCO does make exceptions for long-term members.

"I don't want to punish the tried-and-true members who, for whatever reason, still have a low credit score but have always taken care of us," Salter says. "We still want to help those folks."

On average, the credit union installs five starter-interrupt devices a week and makes one repossession per month. First quarter delinquent loans and net charge-offs at DOCO are higher than peer and national averages, 1.36% and 0.87%, respectively. The starter-interrupt loans, however, are performing better than their lower-risk counterparts. According to Salter, starter-interrupt loans have a 0.5% delinquency on a portfolio of more than $4 million, a figure that has remained steady over the life of the program.

DOCO does experience issues with the program, however. Enterprising members can find ways to take off the device. In those cases, DOCO — who ultimately just cares about repayment — must decide whether it wants to repossess a vehicle from a member who is making timely payments.

"The starter-interrupter is not a magic bullet." Salter says. "It's not the perfect solution for everybody, but it is a great tool."

Member reaction to the program has been surprisingly positive.

"I thought it would be a terrible thing," Salter says. "I thought there would be folks saying this is crazy. But a majority of folks want to pay. I think that is their nature — they want to pay."

VYSTAR NEARLY QUADRUPLES ITS INDIRECT LENDING FOOTPRINT

VyStar Credit Union faced several challenges that kept it from aggressively competing with elite indirect lenders in its market. Here's a look at how it overcame them.

BY CRIF LENDING SOLUTIONS

VyStar Credit Union ($5.5B, Jacksonville, FL) started its indirect lending operations in 2002 and experienced moderate growth throughout the northeast Florida market. However, the credit union faced several challenges that kept it from aggressively competing with elite indirect lenders in its market.

"Most of the challenges that we initially faced when we began the indirect program (with CRIF Select) were the result of a lack of experience and inconsistent dealer communications," says Dennis James, vice president of lending services operations for VyStar. "We recognized that there was a strong need to enhance our point-of-sale program through improved dealer communications that would enable us to address our concerns and help us to serve our dealer partners and members more effectively."

The 37-branch VyStar serves more than 480,000 members throughout 17 counties in northeast Florida. In an already very competitive auto lending market, dealerships were resistant to offer new member relationships to VyStar through the indirect loan channel. Dealers believed that if they submitted a credit offering on a new member to VyStar that all future auto loan business for that member would go directly to VyStar and ultimately circumvent the point-of-sale process.

Through improved dealer communications the credit union now partners with approximately 130 dealerships and a list of participating dealers is accessible on the credit union website.

But that wasn't the only misleading perception holding back the program. Dealers thought VyStar was only interested in A+ and A-paper (known as prime credit borrowers), which clearly wasn't the case. They also thought that working with VyStar would hold them back on future points of sale.

"It was pretty obvious to us that a change needed to be made," James says. "So we immediately started investigating our options. We knew through leveraging the expertise on our staff and collaborating with CRIF Select that we could revise and create a successful full-spectrum indirect lending program to benefit our members and dealer partners."

A PROBLEM-SOLVING PARTNERSHIP

In 2013 VyStar and CRIF Select recalibrated their joint efforts to fully maximize the experience, proficiencies, and resources of both organizations. Select Complete is a fully loaded and turnkey indirect lending solution that guides institutions from start to finish.

> "Due to the size of its existing market, VyStar was assigned a dealer account manager who works in collaboration with VyStar's indirect lending staff to handle such a large territory of dealers."

With its automated decision technology Select Complete can cover everything institutions need from an indirect lending program. For credit unions who are interested, Select Complete can also provide outsourced underwriting services. Although VyStar utilizes the auto decision capabilities of Select Complete, it establishes and maintains all underwriting guidelines for its indirect program. Select Complete's outsourced services also provide support for loan package processing and funding as well as program reporting and consulting.

Dealer management services are key to the Select Complete partnership. CRIF Select provides a personal account representative in the area to interact with dealers on the institution's behalf to help strengthen and solidify dealer relationships. Due to the size of its existing market, VyStar was assigned a dealer account manager who works in collaboration with VyStar's indirect lending staff to handle such a large territory of dealers.

VyStar recently expanded its indirect lending platform to include motorcycles, and plans are underway for future expansions that will include RVs, boats, and other watercraft.

VyStar's partnership with CRIF Select has been a success. Average monthly funded volumes for the first three quarters of 2014 are up to $26 million compared to $5.4 million for all of 2013. Through September 2014, VyStar has funded $242 million of in loans through its indirect program — well surpassing $65 million for 2013, nearly quadrupling its footprint.

"Dealer relationships have been strengthened across the board," James says. "They have really boosted growth for our indirect lending portfolio, and they have also boosted our membership by a 1:1 ratio." Through September 2014, VyStar has generated more than 4,000 new members through the indirect channel, compared to 1,187 for all of 2013.

DEALER RELATIONSHIPS

VyStar's network of dealers has remained about the same, approximately 130 dealerships, but the biggest change is in the amount of business gained from those dealerships with the help of CRIF Select. Ed Smith, indirect lending and business development manager for VyStar, indicated that it has increased considerably. In fact, the change has been so positive that VyStar plans to expand its team of three underwriters and two staff members handling loan disbursements.

As far as the process goes, dealerships package all loan approvals and submit to CRIF Select's processing office for funding. All stipulations are reviewed in detail as well as the execution of the retail installment contract and all other necessary supporting documents. CRIF Select's team then completes a detailed review of the contract and communicates any necessary compliance issues back to VyStar prior to funding. As a result, Smith says, all internal and external audits, including NCUA audits, have revealed a minimum number of issues.

"CRIF Select is always open to requested procedural changes and takes a proactive approach for any enhancements," James says. "We've handled numerous enhancements, and all of them were handled seamlessly without hindering the dealership or member experience."

To ensure the partnership operates at peak efficiency as it expands, CRIF Select conducts annual reviews with VyStar. "Partnering with CRIF Select allows us to maximize economies of scale with controlled costs while being able to serve our members, develop strong dealer relationships in the communities we serve and bring credit union services to more people," James says. "Ed [Smith] has been able to assemble a great team that has significant levels of expertise in the indirect lending arena and shares a passion for excellent member and dealer service. You couple that with an industry leader like CRIF Select that has the same level of commitment to service excellence, and our members and dealers have a great value proposition in the indirect channel."

Even though VyStar handles its own underwriting guidelines, CRIF Select offers comprehensive underwriting services as part of its solutions. For more information on the important things to consider when optimizing the underwriting services of your indirect lending program, please visit our website to download a copy of our "Indirect Lending Top 10 Checklist: Underwriting."

Be Selective

PROGRAM FEATURE	CRIF Select	CAPTIVE AUTO LENDERS	COMPETITON
HOLDS DEALER CONTRACTS	✓	✓	✓
MANAGES DEALER NETWORK	✓	✓	✓
DEALERTRACK, ROUTEONE AND PROPRIETARY APPLICATION PORTALS	✓	✓	✗
CUSTOM DECISION ENGINE	✓	✓	✓
APPLICATION QUEUING	✓	✓	✓
UNDERWRITING ON BEHALF OF INSTITUTION	✓	✓	✗
COMPLIANCE AND FUNDING	✓	✓	✗
DISBURSEMENT OF FUNDS	✓	✓	✗
COMPREHENSIVE REPORTING	✓	✓	✗
AUTO LEASE PROCESSING CAPABILITES	✓	✓	✗
AFTER-HOURS LOAN UNDERWRITING SUPPORT	✓	✓	✗

CRIF Select

Look no further than CRIF Select when building your indirect auto lending program. After you've compared the features you need, you'll see that CRIF Select gives you the distinct advantages you need over the competition. CRIF Select puts you in position to go head-to-head with the captive auto lenders, too. Take a look at the chart above.

We Make Lending Easy

To see how CRIF Select Indirect Auto Lending Programs provide successful results, read the article in this issue on Vystar Credit Union or CLICK HERE to request the Interra Credit Union case study. Both are recipients of 2015 CRIF Next Level Achievement Awards.

To find out more about the various CRIF Select offerings, CLICK HERE to request our program brochure. Or contact us at: info@criflending.com
770. 541.4567 criflendingsolutions.com

CRIF SELECT is a division of
CRIF LENDING SOLUTIONS
Together to the next level