

# INDIRECT LENDING

## In Overdrive

In today's lending world, indirect automobile lending is a crucial part of a Credit Union's lending strategy, especially with the continued decaying of member loyalty and increased competition at the dealership level and an abundance of lenders in the marketplace. Even though more and more Credit Unions are involved with indirect lending, either as a collaborative group or independently, there are many lessons to be learned, take as an example the story of a New England indirect lending Credit Union Service Organization (CUSO).

Credit Union Lending Alliance of New England (CULANE), is a Maine CUSO that was developed as a collaboration between Down East Credit Union and Credit Union Acceptance Company (CUAC), a Houston based indirect lending CUSO. Down East Credit Union's original indirect lending program was developed in 1999 as Consolidated Solutions. Until CULANE was developed to replace Consolidated Solutions, the CUSO worked with a group of like-minded Credit Unions to grow auto loans through a third-party indirect lending platform. Unfortunately, through this original program, Consolidated Solutions encountered many drawbacks and found itself in a position where enrolled Credit Unions were cannibalizing each other's member loans, application quality was diminishing due to the dealers being forced to use an outdated third-party software product and contending with their loans being flipped to out-of-market Credit Unions. In addition, their third-party platform was generating a very large amount of dealer advertising revenue using the Credit Union's membership base without any financial gain to the participant Credit Unions. In Down East Credit Union's partnership with CUAC, they found a collaborator that could remedy this and many other program issues and to help make CULANE a more viable finance option for dealerships, increase overall profitable loan production for participating Credit Unions and generate a significant marketing revenue stream for Credit Unions.

### THE CASE FOR COLLABORATION

There is much talk about collaboration in our Credit Union world. Unfortunately, more often than not, it is just a word - this is particularly true regarding indirect lending initiatives with multiple Credit Unions. By working collectively, Credit Unions can share a wealth of information to assist with the overall success of the program. The sharing of valuable dealer performance data, loan portfolio performance stats and loan loss information is invaluable in making sure that the loans generated are profitable and any dealer issues addressed promptly. Most importantly, Credit Unions working as a group can leverage their combined influence and approach the dealer as a united voice giving them the edge when tackling complex issues such as fraud, member mistreatment, and dealer agreement violations.

Dealerships have scores of finance choices and usually direct loans to lenders that bring value to their business. Asset wise, Credit Unions are much smaller than their competitors - especially in a dealers finance office where they are frequently overlooked as an option. More often than not, member loans are converted, especially when they have to deal with an excess of rates and lending guidelines. CULANE found that approaching the dealer with a single indirect rate sheet and lending standards reduced confusion for the dealer when submitting an application and eliminated competition between Credit Unions. CULANE also found that by being on the Dealertrack™ and RouteOne™ platforms, which

are vastly preferred by auto dealers over some third-party solutions, their application volume increased dramatically as well as the quality of applications.

Together, Credit Unions are stronger and are able to leverage their combined power of collaboration. Dealers do not mind losing one small finance option but will think twice about jeopardizing the opportunity to work with a dynamically collaborating group of Credit Unions.

#### HARNESSING MEMBER CAR BUYING LEVERAGE

Nine of ten car buyers start their car shopping online. To be successful in the indirect space, Credit Unions must provide car shopping tools for their members. These tools include a car shopping website with the ability for their indirect dealer partners to showcase their inventory online, display preferred dealers' contact information and most importantly - the Credit Union financing options.

Many national online member car shopping programs sell Credit Union member car-buying power to car dealerships. In fact, for many, these collected fees from dealers account for the majority of their annual revenue. When multiple credit unions in a market combine their member car-buying power, they can leverage dealers for greater respect in the lending relationship. A Credit Union's car shopping website should be a revenue generating tool for the Credit Union. Unfortunately, Consolidated Solutions had allowed their third-party indirect lending partner to financially benefit from selling the value of partner Credit Union member car-buying power.

#### TECHNOLOGY

There have been vast improvements in technology over the last few years. Members are relying more and more on the internet and mobile apps to look for their next vehicle and secure their financing. This is especially important in the indirect lending process. When choosing an indirect lending provider, it is of utmost importance to make sure Credit Unions are connected to primary dealer application portals like Dealertrack™ and RouteOne™. Unlike some platforms, Dealertrack™ and RouteOne™ do not charge dealers a fee to have access to the platform or submit applications. Dealer surveys validate that if a dealer is required to pay fees to submit loan applications, they are less likely to use it and this significantly limits the number of applications that would flow to Credit Unions.

Providing platforms other than Dealertrack™ and RouteOne™ creates double-entry inefficiencies for dealers and gives them yet another reason to limit the number of applications they send to Credit Unions. It is also essential to keep in mind that as electronic desking and contracting becomes more and more popular, you ensure your platform application provider is compliant to maximize member convenience. Lastly, as more and more dealers integrate their core processing systems with Dealertrack™ and RouteOne™, it will be imperative to ensure that your Credit Union is present on these platforms.

By asking your local dealers which platforms they prefer to use, this will help you make the right choices to ensure that you have the best opportunity to capture your members auto financing. Ask the dealer what is working currently in your market and what isn't. As we all know, candor is something that dealers are quite comfortable with. Today, CULANE connects to Dealertrack™ and RouteOne™ to ensure that Credit Union partners maximize opportunities to capture current and new member loan applications at the point-of-sale and has seen a considerable volume as compared to that of their previous partner.

“I recently saw a post from one of my colleagues on LinkedIn. It was regarding the Art of Active Listening and the quote was, “Most People do not listen with the intent to understand; and, they listen with the intent to reply.” Well, we listened to our indirect dealership partners with the intent to understand their needs and we heard them. It just took us several years to find the right partner and business model to implement. What we heard was the need for a better Credit Union indirect lending program and the partner to do that was CUAC.” Stated Dan Daggett, CEO of CULANE.

**About Credit Union Acceptance Company (CUAC):** CUAC is a Credit Union owned indirect lending service provider that offers a wide variety of solutions that harness Dealertrack™ and RouteOne™, shares dealer marketing revenue and can even help develop multi-credit union indirect lending CUSOs. CUAC has had the opportunity to work with many Credit Unions in numerous markets. Each of these markets has presented different and unique challenges; all overcome through true collaboration efforts that set the groundwork for profitable and long-term indirect lending initiatives. To learn more, please visit [www.cuac.com](http://www.cuac.com) or email [cuacINFO@cuac.com](mailto:cuacINFO@cuac.com).