



WEBINAR 54

10 Tips to Optimize Your Auto Loan Portfolio

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MEET OUR SPEAKERS



SPEAKER

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MODERATOR

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ABOUT LSCI



- Industry leader in credit union training and loan management
- Trained over 50,000 credit union employees to achieve dramatic improvements in loan yields, ROAs, and member service practice.

Rex Johnson
Founder, LSCI



University of Lending | On-site Consulting | Portfolio Analysis
HYLS Underwriting Guide | Smart Loan Audit | Marketing-as-a-Service

ABOUT AUTO EXAM



- Auto Exam, Inc. and Vision Warranty Corporation specialize in providing vehicle service contracts to the credit union industry.
- Our goal is to provide the highest level of coverage and service to credit unions and their members.
- Auto Exam, Inc. is also a full-service company with a complete suite of lending products including credit insurance, CPI and GPS tracking.

Tej Gill
Training Director



VSC | GAP | Credit Insurance | Debt Cancellation | GPS

OVERVIEW



Growing Your
Loan portfolio



Training



Cross-Selling



First-Time
Buyers Program



GPS Programs



Selling Extended
Service Warranties



Vehicle
Inspections



INDUSTRY FACTS

According to Callahan & Associates data, "Annual growth in auto loans was the fastest of any major loan product for U.S. credit unions, and the segment accounted for \$369.8 billion in total balances at year-end 2018."

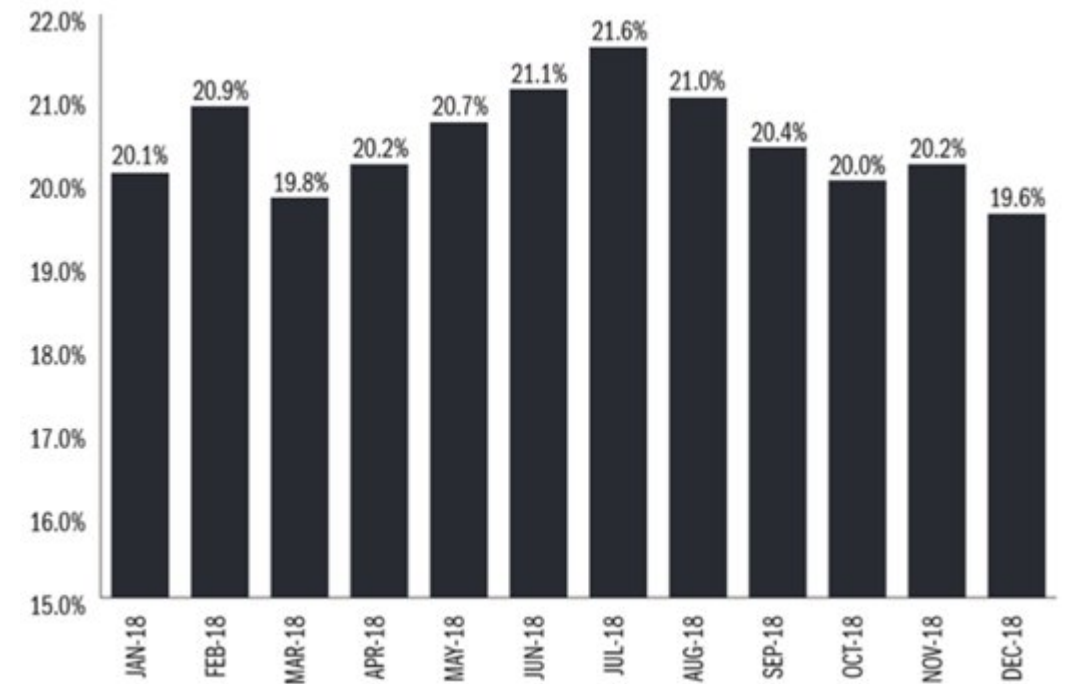
Source: <https://www.creditunions.com/articles/recent-auto-sales-trends-and-what-they-mean-for-credit-unions/>



LENDING SOLUTIONS
CONSULTING

AUTO LENDING MARKET SHARE

- U.S. CREDIT UNIONS | DATA AS OF 12.31.18



Source: <https://www.creditunions.com/blogs/industry-insights/6-graphs-about-credit-union-auto-lending/#ixzz5tm9IH3Fk>



TIP 10

APPROVE MORE MEMBERS

- Basic transportation to and from a good source on income is a great lending opportunity for your credit union. Focus on how they paid their prior auto loans.
- Strongly suggest auto pay and gain their direct deposit.
- Coach members on building their credit scores and refinance your loans to a better rate once the member improves their FICO.
- **LSCI recommends the following 4-step process**
 - Thorough Loan Interview - Motivation
 - Underwrite the LSCI way
 - Hard close
 - Collections - Solutions based and resolved before 60 days
- **Guidance for program success include:**
 - One vehicle loan per income source
 - Limit the loan amount to “Basic Transportation”. We suggest 50% of annual income, not to exceed \$15,000
 - Closely monitor your CPI program



TIP 9

DEVELOP A FIRST TIME BUYERS PROGRAM

First Time Buyer Criteria:

- Job time
- 50% of member's annual income
- What is the best LTV?
- Down payment?
- Max loan amount?



TIP 8

CREATE A SUCCESSFUL GPS PROGRAM

- Around 40% of Americans are considered subprime. Why miss out on those loans?
- Reach members that you have been unable to serve in the past. Credit union loan growth has fallen dramatically in the past few years, this is a way to recover some of the losses.
- Increase your income with high interest loans. The NCUA suggests credit unions charge higher interest rates on subprime loans to recover potential recovery costs.



BENEFITS OF A GPS PROGRAM

- Using GPS tracking greatly reduces time and recovery issues for your collections department.
- Less than 2% of GPS units are disabled by the member.
- Loss of collateral is one of the biggest fears when engaging in subprime lending. GPS tracking can greatly reduce this issue.

POLL





DISCUSSION

Who covers the cost for the GPS unit?

- New member
- Dealer
- Credit Union

CASE STUDY

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CASE STUDY

AUTO EXAM

GPS Program

Client:

- \$250M Credit Union in Michigan
- Members: 20,000

Problem:

Increase auto loans to sub-prime borrowers

Solution:

- Installed GPS
- Loan on-boarding process

Results:

- 30-40 more approved loan per month
- Lower delinquency on these loans
- Easy to locate in the event of repo
- Higher participation in loan protection products

TIP 7

INSPECT VEHICLES

- Perform diagnostic checks and get needed repairs done at the time of the loan. If the car has mechanical issues you will get it back!
 - Use auto diagnostic tools
 - Check tires & brakes
 - Start the car
 - When is this helpful?
 - Older vehicle
 - Cash out refinances



A hand holding a pen is writing on a document that features various charts and graphs. The document is placed on a wooden surface. The text 'TIP 6 PROVIDE GAP AND WARRANTIES' is overlaid on the image in a large, white, sans-serif font.

TIP 6

PROVIDE GAP AND WARRANTIES

GUARANTEED ASSET PROTECTION

- Increased frequency of accidents due to distracted driving
- Lower vehicle valuations from primary insurance companies
- Financing Higher LTVs

VEHICLE SERVICE CONTRACT

- Rapidly advancing technology
- Increased labor rates
- DIY no longer possible
- Protect against repo due to a breakdown



CASE STUDY

AUTO EXAM

Vehicle Service Contracts

Client:

- \$34M Credit Union in Texas
- Members: 4,500

Problem:

Increase direct loans and VSC participation

Solution:

- Cross-sell to drive-thru members
- Implement incentive program
- Quarterly sales training
- Sales contests

Results:

- 12-month loan growth- 28%
- 15-25 VSC sales per month
- Happier employees with incentive plan



TIP 5

EDUCATE YOUR MEMBERS

- Help your members get a good deal and show them how to not overpay for their vehicle.
- Coach the member on what to expect at the dealership:
 - Do not let the dealer pull your credit report
 - Tell the dealer you are a cash buyer
 - Get three purchase orders from three dealers and buy the best value in relation to retail value
 - Educate members about Loan to Value



TIP 4

EDUCATE MEMBERS ABOUT LOAN TO VALUE

Formula: LTV = Loan amount / Value of the collateral

	Purchase Price	\$ 9,500
	+ TTL	\$ 750
	+ Gap and Warrantee	<u>\$ 950</u>
	= Total Purchase Price	\$11,200
	Retail Book Value: \$10,500.00	Loan amount: \$11,200

- Use the lower or retail value or purchase price for value of collateral.
- LTV is $(\$11,200 / \$10,500) = 106.7\%$
- If Retail Book Value is \$12,000, then LTV is:
 $(\$11,200 / \$11,200) = 100\%$

WHEN TO TAKE MORE RISK

GOOD LTV - RISK

- Car is newer and has low miles
- Add on's caused high LTV
- Secured debt to annual income no more than 50%
- Low unsecured debt, no signs of living on inflated income

BAD LTV – RISK HIGH

- Negative equity caused high LTV
- High unsecured ratio
- Quick to trade in (new car addiction, past trade in prior to 24 months)
- Evidence of inflated income
- Higher mileage & older model (one option is to have the member trade in for a new car - the credit union is better off rolling in negative equity into this one)



TIP 3: TRAINING

- Offer a fully protected payment
- Ask what is a comfortable payment
- Plant the seed during pre-approval
- Cross-sell additional loans on credit report
- Show value over cost
- Overcome objections at least once

A group of people are gathered in a meeting room. Some are standing and looking at a smartphone, while others are seated around a table. In the background, there is a large whiteboard on an easel. The scene is dimly lit, with a blue tint.

TIP 2

REVIEW UNDERWRITING CRITERIA AND POLICIES

- Review your rate and LTV policy to be compensated for the risk
- Allow GAP & VSC above and beyond LTV restrictions
- Be willing to extend the payment at least 6 months without raising the rate
- .25% discount for additional products
- Allow underwriters flexibility to make exceptions

TIP 1

FINE-TUNE MARKETING STRATEGIES TO CAPTURE MORE LOANS

- Meet or Beat the Rate
- Earn a \$150 Visa Gift Card to Refinance Auto with the Credit Union
- Pre-Approval Promo: Thinking of Purchasing an Auto – Let us help boost your score!
- Partner with auto dealers as an on-site lender



Q&A

PLEASE TYPE IN YOUR QUESTION OR RAISE YOUR HAND

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THANK YOU



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