ORIGENCE

EBOOK

Lending tech trends: An essential guide for credit unions

Innovation & technology

Credit unions have experienced firsthand how technology plays a critical role in the lending experience. Traditional credit union competitors are giving ground to a new breed of technological challengers: fintechs, neobanks, and other next-gen modes of finance. In response, credit unions across the country are beginning to embrace digital transformation strategies to meet the evolving expectations of modern, digital-first members.

Historical areas of strength for credit unions, such as a personalized member experience, need to adapt to meet members where they spend most of their time: online. Credit unions seeking to accelerate their digital transformation often face challenges with legacy system limitations that hamper modernization efforts and resistance from an internal culture that understandably clings to the traditions that make credit unions relevant.

The good news is that technology allows credit unions to turn challenges into opportunities. Access to key member products and services can be expanded exponentially, helping even credit unions with small footprints compete on a bigger playing field. CUSOs, who share the same mission as credit unions and are specialized to meet their needs, can serve as the bridge into the future by providing the same new capabilities fintechs do, with fewer drawbacks and barriers to entry.

The changing fintech landscape

Fintechs have been on the rise for decades. Since its founding in 1998, PayPal has grown into a global behemoth, funding over $936 billion in payments in 2020. The fintech landscape has exploded in recent years, funding $131.5 billion in deals across 4,969 deals in 2021[2]. There are now over 11,000 fintechs, with many on their way toward becoming household names. The biggest brands in corporate America, including Apple, Starbucks, and Amazon, are now offering financial products. Some of the deepest-funded fintechs, such as Crypto.com, have even started using movie stars, like Matt Damon, in their advertising campaigns.

With talk of the ongoing 2022 recession, funding that was once the lifeblood of fintech companies is becoming progressively harder to secure. The fintech industry, born out of the imperative for disruption, is now itself being disrupted. As this shakes out in the upcoming year, credit unions should understand that fintechs fall into two general categories: enablers and challengers.

Companies that enable credit unions take an existing process and make it easier or more efficient – meaning they exist to help credit unions succeed. The challengers are there to replace existing processes and seek to compete with credit unions and banks. As Barry Kirby, senior vice president of CuneXus, points out, credit unions must recognize the difference between enablers and challengers while vetting fintechs carefully to identify those that align with the credit union's mission.

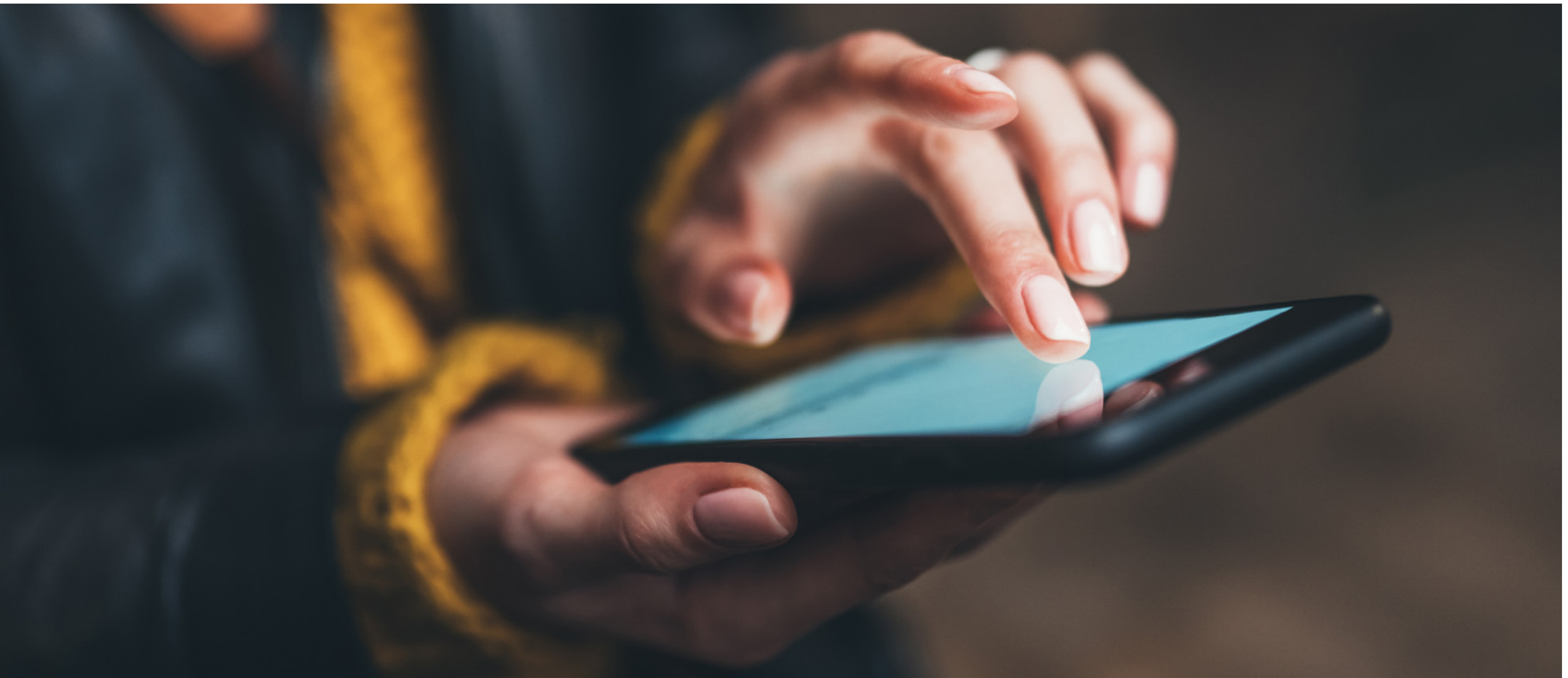
> MANY SUCCESSFUL FINTECHS HAVE BENEFITED AS MUCH FROM THEIR CALL CENTERS AS THEY DO FROM THEIR MOBILE APPS

What specifically should credit unions be seeking from fintechs? According to the Cornerstone Advisors report, *Key Marketing & Lending Benchmarks for Credit Unions*, lead generation and lead nurturing are two areas where credit unions rank themselves lowest. In addition, credit unions can benefit from fintech marketing expertise. As Sam Kilmer, managing director at Cornerstone Advisors, notes, sometimes it's not just the technology but the approach to doing business that makes fintechs different. Many of the most successful fintechs have benefited as much from their call centers as they do from their mobile apps.

A shared mission: how CUSOs drive innovation for credit unions

Credit unions should keep in mind that CUSOs offer many of the same technologies that fintechs do – while sharing the same credit union DNA and mission. By definition, a CUSO will have the same risks and rewards as its owner organizations, meaning that CUSOs are far more invested in credit union success. Fintechs are often vendors that sell the same technology to different organizations across industries.

If digital transformation is the battleground where the future of credit unions will be decided, CUSOs are the secret weapon that can help more organizations succeed. CUSOs offer specialized solutions for credit union marketing experiences, digital loan originations, decision-making, and beyond. Ironically, the next-gen technology that your credit union adopts might come from a name you have known for decades.



Automating success: decisioning & DPA

Across the industry, credit unions have identified document processing inefficiencies as a particular pain point. Members want to complete their entire borrowing process as part of one end-to-end experience, especially in auto lending. The need to move faster has never been more prevalent. Building an indirect lending program for credit unions requires capabilities to help auto dealers offer members a more streamlined borrowing experience.

Artificial intelligence (AI) will empower credit unions to win in indirect lending. With AI, credit unions can make decisions faster, more accurately, and more conveniently for the borrower. Maintaining positive dealer relationships is key for a credit union's success. Many lending opportunities are lost because a borrower forgot to upload a document or the funds took too long to arrive.

With auto decisioning and document processing automation, those problems can be mitigated. AI engines can offer a 99% accuracy rate, helping credit unions and dealers find omissions while fighting fraud and ensuring compliance with all necessary regulations. While some credit unions are often reluctant to fully embrace automated decisioning, solutions exist that can be configured to your specifications and criteria.

Action items

Recognize the difference between enablers and challengers

Carefully vet potential fintech partners to identify those that align with your credit union's mission. Build your partnerships on a strong foundation of mutual understanding, trust, and purpose.

Explore better, seamless, end-to-end options

Consider a CUSO for specialized solutions designed to help credit unions offer a configurable marketing experience, digital loan origination tools, automated decision-making, and more.

Enhance the member experience

Leverage automated decisioning and document processing to make faster, more accurate, more convenient decisions for your members and dealer partners.

References:
1. McKinsey & Co – May 2016
2. CB Insights 2021 State of Venture Report

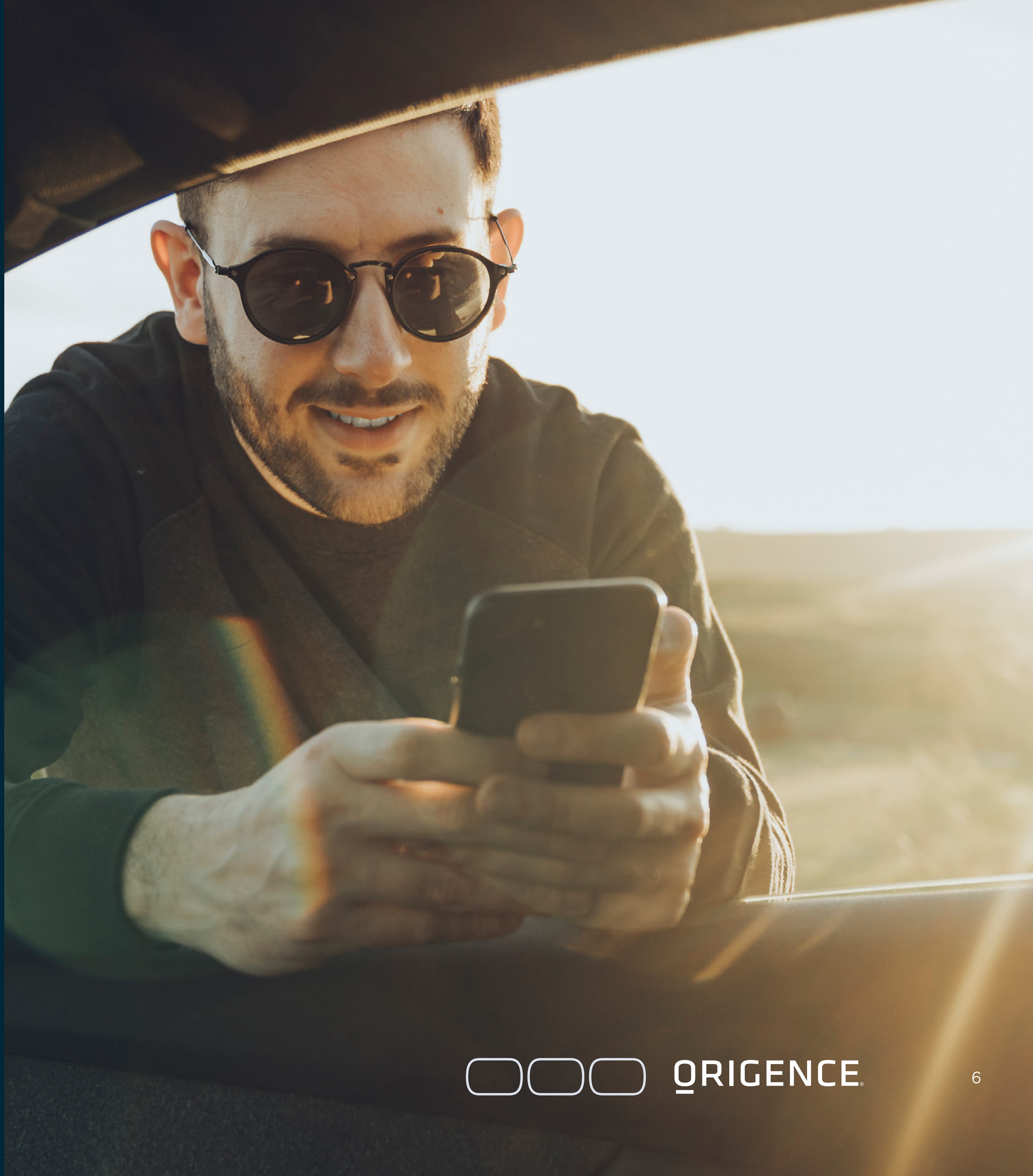
Auto lending – the road ahead

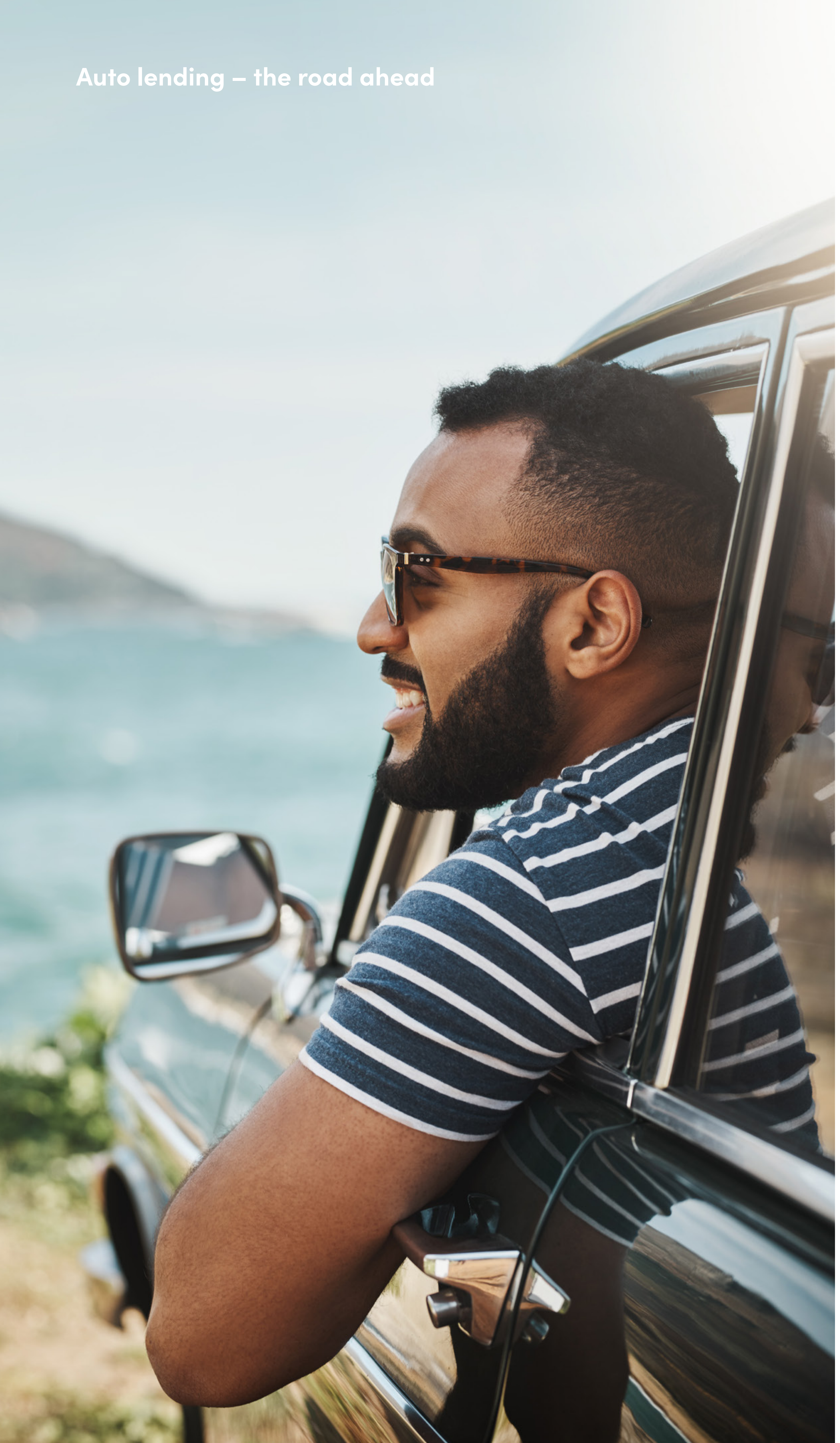
The auto finance industry continues to face unprecedented market dynamics in 2022. Supply chain bottlenecks are forcing car manufacturers to cut production, while inflation and pent-up consumer demand are causing prices to increase. New car shortages drove up demand for used cars, creating sticker shock. To top it all off, gas prices spiked while major legislation was passed incentivizing green technology, causing consumers to rethink everything about which cars they intend to purchase.

CREDIT UNIONS ARE DOMINATING THE USED CAR LENDING MARKET, WITH A 4% INCREASE IN 2022

For lenders, navigating the road ahead isn't easy. Seizing opportunities to grow market share can't come at the cost of lending on overvalued assets – and building and maintaining a network of auto dealer relationships is always a challenge.

On the following pages, you'll find valuable information on auto and retail lending, with insights, data, and guidance on how credit unions can position themselves for success in this hyper-competitive market.





The state of retail lending

Credit unions are performing incredibly well in used car financing thanks to their ability to offer members the flexible terms they need to offset record-high prices. This progress is fueled by technological tools that help provide auto dealers with speedy approvals, consistency of performance, and auto decisioning that make the retail lending experience more attractive to members.

Research from *The State of the Automotive Finance Industry*, by Thomas King, president, data & analytics division and chief product officer at J.D. Power, shows that:

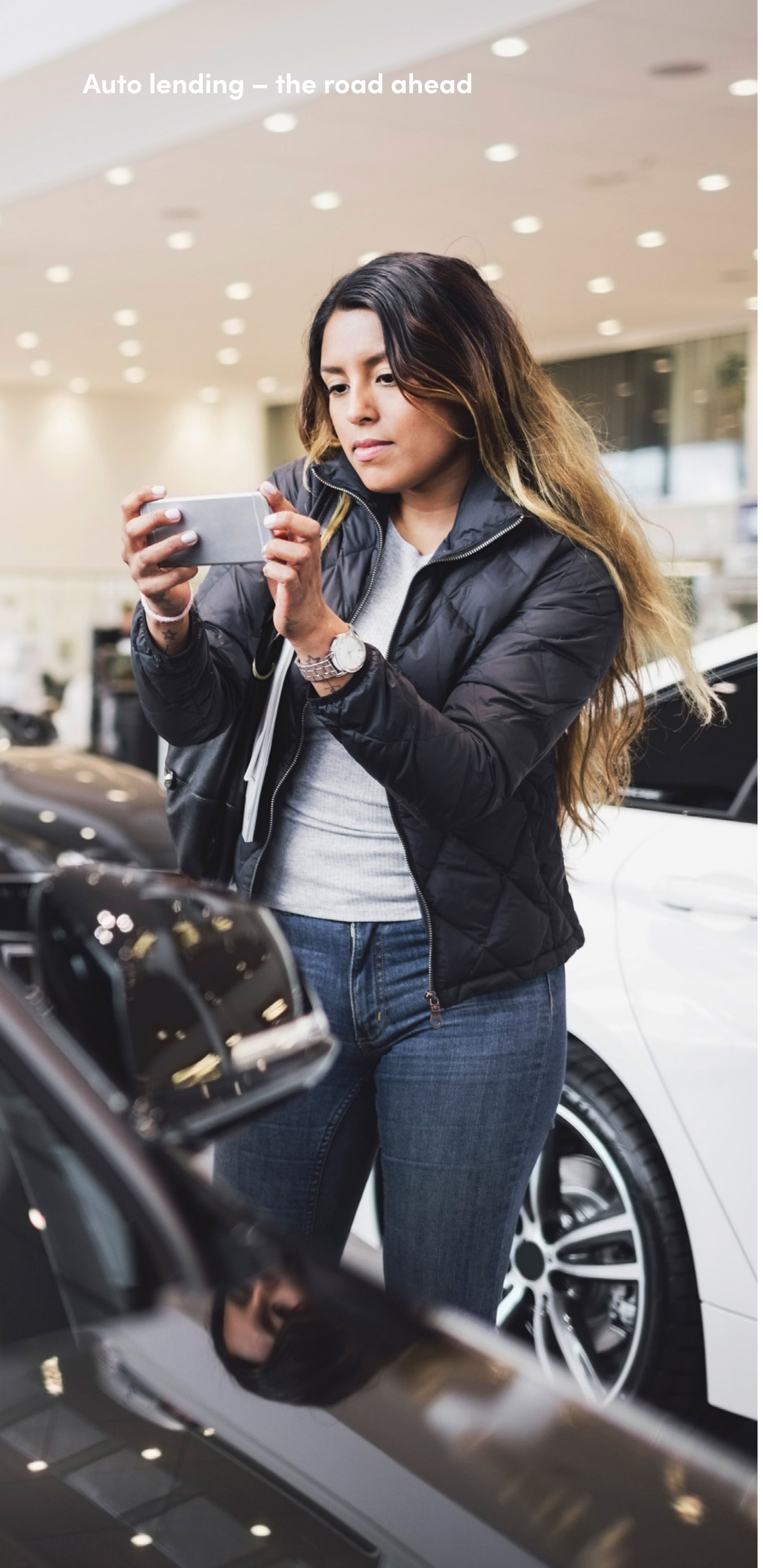
Demand for new vehicles is exceeding supply, resulting in record profitability and a **229% increase in gross + F&I in 2022** (vs. 2019), even as retail sales have fallen 11%.

Tight inventory will continue to hamper production – retail inventory of new vehicles is not forecast to hit pre-pandemic levels until **after 2023**.

OEM incentives have essentially disappeared, falling to a fraction of their pre-pandemic levels.

The popularity of leasing has declined, **falling to 17%** of the market from 30% in 2019, and has especially declined in the premium car segment.

Credit unions are winning in the used car lending space, growing their share of the market thanks to a combination of low rates and their willingness to service lower-FICO borrowers.



What is the future of dealerships?

Even before the COVID-19 pandemic, the car buying experience was changing. Ideas like car-sharing, ride-sharing, and e-hailing were transforming how consumers felt about owning a vehicle. Like virtually everything else in the world, the traditional way of doing business was being challenged by a new generation of technological innovators.

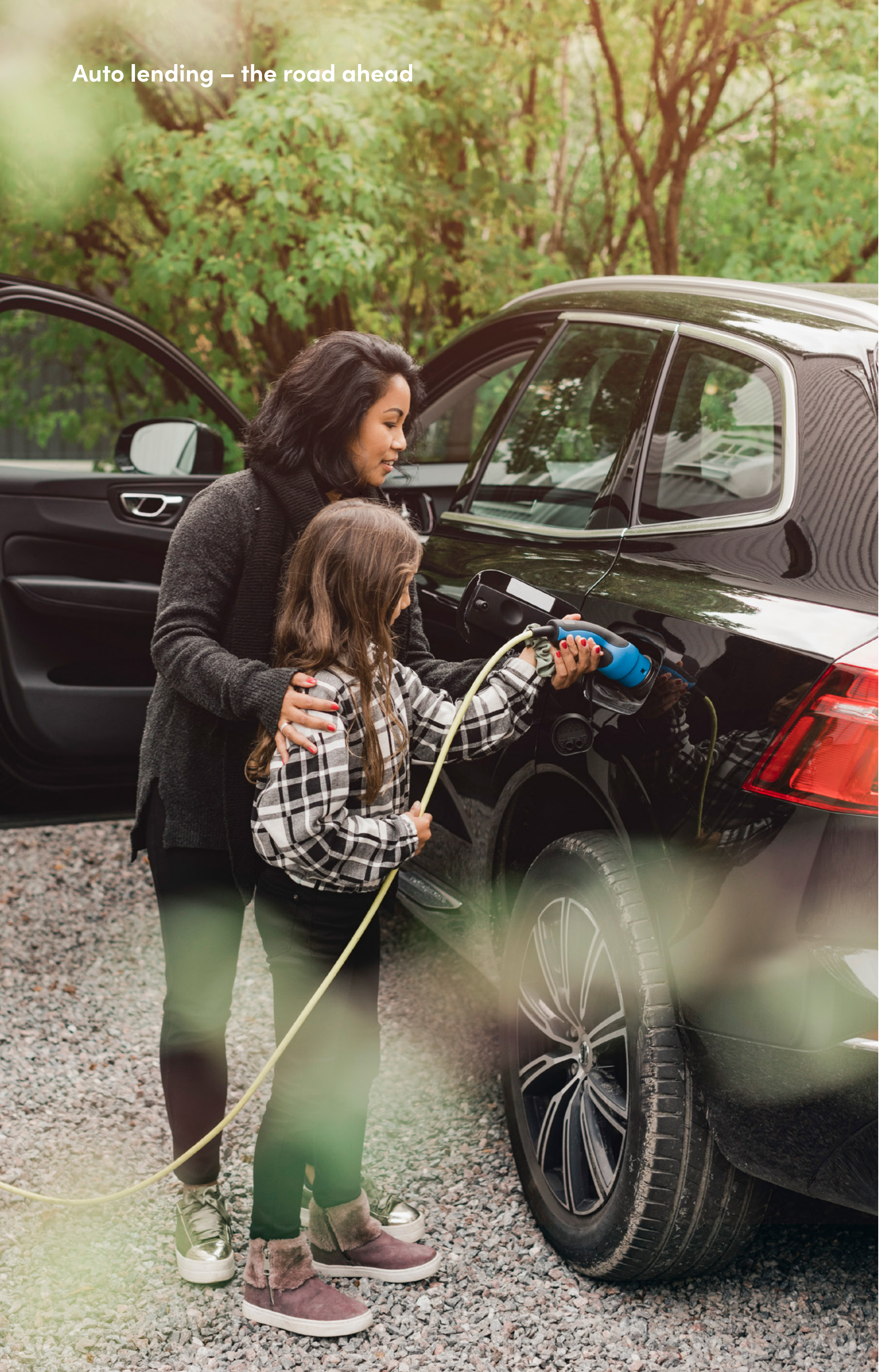
Of course, the pandemic curtailed or delayed many of those trends while accelerating a new cycle of change. The used car market exploded as supply chains, and equipment shortages forced car manufacturers to cut production. Consumer demand surged for new vehicles, driving up prices as it altered the entire buying lifecycle for consumers.

How will all the events of recent years affect the future of the car dealership? Here are the trends that we are watching at Origence:

> SHORTAGES ARE INCREASING MARGINS; DEALERS ARE MAKING MORE MONEY SELLING FEWER NEW CARS

- The industry is increasingly moving toward a one-price strategy. Since manufacturers set those prices, dealerships are essentially processing orders without the ability to negotiate costs.
- Shortages are driving margins. Dealers are making more money selling fewer new cars while taking orders for cars that might not arrive for a year or more.
- Many dealers are planning for the inevitable downturn in this cycle by improving their sales processes and training staff in customer service.
- Dealers see that OEMs desire more control of the buying process. Some OEMs are even looking at non-dealership models, but customer satisfaction is low with direct-sales models.

When it comes to credit unions that need to partner with dealerships, the ability to provide quick funding is the primary concern. Maintaining a strong relationship is key – as is treating all customers with respect, regardless of credit score.



EVs charge new opportunities to grow portfolios

The revolution turned out to be digitized for cars, with electric vehicles (EVs) growing in popularity while they help trigger wholesale changes to the car buying and owning experience. With the Inflation Reduction Act set to provide over 360 billion in subsidies for electric cars and other green technologies, and California announcing its intention to phase out sales of gas-powered cars completely by 2035, it's safe to say that EVs have a bright future.

While EVs are currently only about 5% of the new vehicle market, that number has doubled since last year, with around 240,000 consumer purchases of pure EVs (excluding hybrids). EVs are substantially more expensive than their gas counterparts, with an average price of $54,000, and are already showing that they last longer and have different maintenance patterns. Moreover, EV owners are extremely loyal to the experience – very few switch back to combustion engines after owning electric.

EVs attract a premium buyer with an average credit score of 758. Credit unions have a lot of room to run when financing new EVs since they currently only capture about 21% of financing opportunities. As you would expect, credit unions have a much higher percentage of the used EV financing market, with 32% vs. 45% for banks. Wells Fargo and U.S. Bank are the two biggest EV lenders, adding up to over 40% of the total market.

> **EVS ARE ATTRACTING A MORE PREMIUM BUYER, WITH AN AVERAGE CREDIT SCORE OF 758**

For credit unions, EVs should be considered a prime opportunity since the loans are the best performers across both new and used. Premium buyers make larger payments on assets that tend to hold value longer – although 75-month loans have a higher rate of delinquency.

Source: Melinda Zabritski, senior director, solutions consulting
Experian Lending in an Electric Vehicle World – July, 2022

Action items

Leverage the technology

Provide auto dealers with speedy approvals, consistency of performance, and auto decisioning.

Maintain strong dealer relationships

Dealers need to know that they can rely on your credit union for fast funding and a seamless digital financing experience.

Prepare for the rise of EVs

EVs attract a premium buyer who may have a higher credit score, access to increased loan amounts, and the desire to set longer terms. Establish a strategy that meets these new demands.

Insights on indirect lending

For credit unions, indirect lending offers room to grow loan portfolios and lending volume while increasing new memberships – especially in 2022. With all the disruptions to traditional car buying since the pandemic, credit unions are picking up market share in indirect lending by offering low rates. Credit unions are also growing in indirect through their ability to work with members that might not have perfect credit scores.

Helping credit unions succeed in indirect lending is what CUSOs do best, with technological solutions that connect credit unions to a network of dealerships while creating a better borrowing experience for the member. In the modern world, indirect lending needs to be fast, convenient, and accessible. At Lending Tech Live ’22, leaders from the credit union industry came together to share advice on growing, maintaining, and improving indirect lending programs.

Best practices for growing your volume

Relationships… relationships… relationships. For credit unions seeking to grow volumes, one of the key factors to consider is building a network of dealer relationships. Dealerships need to know you, like you, and want to do business with your credit union – especially in a world where the competition is just one or two clicks away.

What dealers value most from their relationship with credit unions is fast funding. Quick decisioning and efficient paperwork processing are also critical drivers of success – as is consistency. A good relationship requires mutual trust. Dealers want to know that credit unions are in it for the long haul and will be there year after year.

Internal knowledge of the automotive space is another thing that many credit unions overlook. Credit union and auto dealer cultures can be different, so having staff understand how to bridge that gap is important. While banks excel at making instant decisions, they often don't have a point of contact that dealers can access if they need to discuss a specific loan. Providing a human connection can help credit unions stand out in the dealership space.

In lending, the rate sheet is king – that's the foundation to grow your loan volume. In a world of rapidly rising interest rates, credit unions are gaining share in indirect lending by offering better terms while clearly communicating their program guidelines to dealerships.

The digital transformation imperative

Right now, credit unions face pressures from many different angles. Competitors... regulators... innovators like fintechs... the list goes on. More than any other market dynamic, keeping up with changing consumer expectations is the number one concern for credit unions. If you go back to 2017, data shows that member satisfaction has declined with credit unions and increased with banks. This is due primarily to banks offering digital and mobile services that credit unions struggle to replicate. Consumers are living in a digital-first world, and credit unions need to find a way to meet them there to stay relevant.

> DIGITAL TRANSFORMATION IS REALLY ABOUT USING NEW TECHNOLOGICAL TOOLS TO PROVIDE MORE VALUE TO YOUR MEMBERS

Digital transformation is a phrase that gets tossed around over and over again, but what does it actually mean? Put simply, digital transformation is about using new technological tools to provide more value to your members. Unfortunately for credit unions, digital transformation also requires cultural changes – not the easiest challenge for tradition-bound credit unions to overcome.

There are a few key things that credit unions can do to make their digital transformations a success:

1. Consider the entire process lifecycle to make sure you meet your members at all points that are relevant to them.
2. Start with a strategy and stay focused. Go forward with the initiative that does the most good for your members instead of launching program after program.
3. Leverage partnerships! You can't do it all yourself. Credit unions can implement proven, off-the-shelf technologies quickly and easily.
4. As with any technology, apply user-centered design and best practices, like journey mapping and personas.

If you would like more advice on implementing digital transformation for credit unions, download a complimentary copy of Digital Transformation: A Playbook for Success. This practical guide with in-depth information can help make your journey into the digital future a bit easier to manage.

Action items

Support your members via indirect lending

Explore indirect lending opportunities to build your portfolio, increase loan volume, and connect with new members.

Embrace the age of digital transformation

Implement technology with a strategy that prioritizes the member experience and allows for smooth internal adoption.

Adapt old processes to meet new needs

Meeting the modern needs of digital-first members starts by ensuring your internal teams have the tools and training to succeed. Cultural changes rarely happen overnight. Have patience and make sure everyone is supported.

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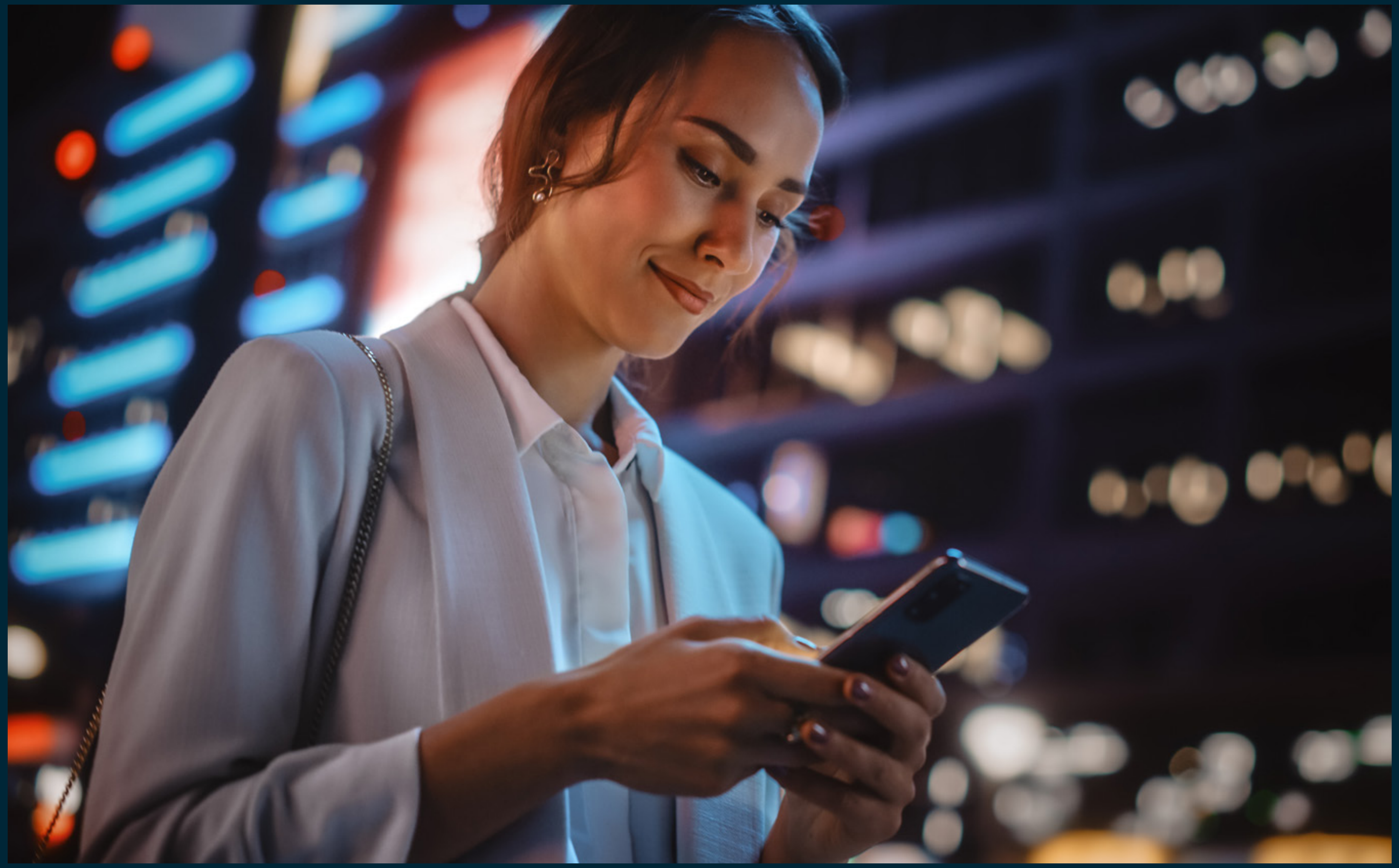
Reimagine lending with Origence arc

Origence arc was created to help credit unions innovate their lending and loan origination. With Origence arc, credit unions can unlock the power of SaaS origination, member experience, and marketing automation – together. Origence arc will transform the entire origination journey for credit unions and their members by creating a brand-new digital experience that goes toe-to-toe with any other in the lending space.



Origence arc OS

What used to be Lending 360 is now Origence arc OS – a complete origination system for both consumer loans and accounts. Totally configurable to your needs and standards, it offers credit unions seamless control, more efficiency, and faster decisioning for auto loans, credit cards, personal loans, lines of credit, and more.

Origence arc MX

Origence arc MX creates a complete marketing experience for credit unions, offering higher automation and new reporting capabilities. Formerly known as Intuvo Marketing Automation, arc MX can help credit unions increase their lending performance while building stronger member relationships.

Origence arc DX

A new product, Origence arc DX helps credit unions offer members the personalized digital origination experience they demand. Members can apply for loans or open accounts all online, even completing the post-application steps digitally. Origence arc DX works seamlessly with arc OS for a true end-to-end platform that covers the entire member journey.

Schedule a DEMO of Origence arc

Origence provides lending technology that elevates the origination experience to increase loan volume, create efficiencies, and grow accounts. With Origence, financial institutions can originate consumer and indirect loans with greater levels of productivity and increased scale, while also delivering a convenient and personalized borrower experience.

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