CREDIT UNION CASE STUDY: CUDL LENDING PLATFORM

Visions FCU leverages the power of CUDL to increase auto loans through the indirect channel, improve dealer production, and expand into new markets.

THE CHALLENGE:

Achieve $100 million in annual new indirect auto loan originations within five years from the start of the initiative.

Visions FCU had offered indirect lending for several years, but in 2012 it only originated $7 million in new loans – not impressive numbers for a credit union that had more than $3 billion in assets at the time.

There were two primary reasons for the low numbers.

First, Visions' indirect lending program was a manual process. Dealers would fax purchase orders to the credit union, and employees would manually enter the information into its loan origination system. Credit union loan officers would then have to call the dealership with loan approval or denial.

"In 2013, when we were researching loan origination systems, we were also doing research with dealers to see what they wanted from us," said Visions' director of digital banking, Tom Novak. "One of the things we heard over and over again was 'you need to give us a digital process.'"

Second, although Visions had agreements with approximately 80 dealers to provide indirect financing, only about 10 of them sent the credit union applications, and even fewer produced loans that were eventually funded, creating a look-to-book issue. A lack of quick, digital loan decisioning was partly responsible. However, Visions was also competing against other indirect lenders that offered markup incentives to dealers, something it firmly believes goes against the credit union philosophy. The credit union needed an indirect partner that would provide it with attractive market differentiation that wasn't tied to paying any markup.

CUDL provided Visions with the ability to fund and retain more auto loans, increase profitability and fuel membership growth.

To say Visions' indirect lending program has grown since implementing CUDL is an understatement. In 2013, the credit union's first year with CUDL, indirect auto loans increased 60%.

THE SOLUTION:

Implement a digital indirect lending system that would enable the credit union to meet its loan growth goals, while fostering and supporting a relationship with dealers that made the credit union a valuable business partner.

Visions looked at many indirect lending systems and ultimately selected CU Direct's CUDL lending platform for several reasons. Primarily, CUDL provided Visions with the ability to fund and retain more auto loans, increase profitability and fuel membership growth. Additionally, CU Direct's superior business model allowed Visions to protect its look-to-book ratio.

"With other platforms, the credit union pays for every application submitted," Novak said. "Dealers could 'shotgun' a deal to you and you'd pay an application fee for it but, were unlikely to get the loan. With CUDL, you only pay for loans that are funded. At the time, that was unique to CUDL and that was huge."

That strategy allowed Visions to grow its indirect program with ongoing reassurance it would be financially rewarding and sustainable, he added.

THE RESULTS:

To say Visions' indirect lending program has grown since implementing CUDL is an understatement. In 2013, the credit union's first year with CUDL, indirect auto loans increased 60% to $11 million in new originations. The following year, the loans increased more than 150% to

$28 million. In 2015, Visions' indirect auto portfolio grew at an even faster rate, with a whopping $79 million in new indirect loans. The next year brought more growth, with an increase to $90 million in originations. Further, the credit union has grown membership 1,000-1,600 members annually since implementing CUDL in 2013.

And in 2017, the year it hoped to reach a once unthinkable goal of $100 million, Visions blew past that mark to end the year with over $120 million in new indirect loan originations. Since implementing the CUDL platform in 2013, the credit union has experienced a 1614% growth rate in indirect loan originations. In total, Visions' overall indirect portfolio grew from $30 million at the outset to nearly $213 million, a five year growth rate of 610%.

ESTABLISHED NETWORK SUPPORTS GROWTH

CUDL's wide dealer network fueled immediate growth for Visions' indirect lending program.

"All dealers had to do was agree to work with Visions," Novak said. "We also wanted to bring more dealers onto the platform, but for the CUDL network to have many already participating was important."

The credit union was even able to leverage CUDL's dealer network to break into new markets in New Jersey and Pennsylvania.

"We had a big brand recognition hurdle," Novak said. "Trying to break into a new market with marketing alone often yields poor results and can be very costly. We wanted to be a reliable partner in big ticket purchases in our members' lives, so rather than try to develop brand recognition solely by ourselves, we let our dealer partners assist with that recognition."

CUDL's strong brand allowed Visions to be top of mind with dealers. And, Novak added that over time, when the credit union further expanded into these new markets by opening a branch or executing a marketing campaign, it wasn't the first-time consumers in those markets were hearing Visions' name.

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CREATIVE MARKETING ATTRACTS DEALERS

It wasn't just participation in the CUDL network that endeared Visions to dealers, especially in new markets. The credit union also created a special rate sale marketing program that rewarded dealers for their business.

Top performers were provided with special rates on a quarterly basis, and in turn, participating dealers promoted the rates using their own marketing budgets, across all marketing channels.

"It was a mutually beneficial arrangement," Novak said. "We gave the dealers a special sale rate/term and in return, we expected them to market it. We reviewed the ads for compliance and branding, but otherwise dealers were free to determine the style of the ads."

The strategy not only brought in new business, it also increased the appeal of partnering with Visions over other loan providers.

"If we had 20 dealers in a market and only 10 qualified for the sale, the other 10 wanted in on it next time," Novak recalled. "There was a lot of buzz generated about it, and it helped us build our dealer partners. It really opened the floodgates."

In fact, the marketing strategy was so successful, the credit union has cut back on rate sales from quarterly to semi-annually to prevent market saturation.

DEALER FEEDBACK IMPROVES PROGRAM

Key to Visions' indirect lending success was its commitment to seek out annual dealer feedback and use the data to make program enhancements that strengthened dealer relationships and increased originations. The special rate sales came from that feedback, as well as a first-time car buyer program that attracted new members who didn't have high credit scores—many of them young members who will qualify for more loans as they progress through life.

Visions' also overhauled its incentive plan, which had been paying a simplified, flat 1% rate. It started paying a higher incentive based upon annual origination volume from the dealer, adding tiers that paid 1.25%, 1.5% and a cap of 1.75% of the amount financed.

Dealer feedback also revealed that in New York, dealers only received approximately a $10 incentive to sell add-on GAP policies. Visions' offered those dealers $25 to sell the credit union's GAP policy.

"It doesn't sound like much, just $15 more, but it's a little thing that keeps Visions' top of mind," Novak said.

Visions also organizes special events to thank dealers, such as lunches, golf outings and an annual gathering in which the credit union's president/CEO and other executives would showcase the year's accomplishments and share plans for the future. Visions also dedicated some of its budget toward supporting dealer events, donating money for dealer community campaigns, or for prize drawings.

In response to dealer feedback, Visions also revamped its rate sheets, simplified its policies and pricing models, and updated its loan applications from those that were originally designed to be used in branches.

Most recently, the credit union has launched a lease program in response to dealer feedback regarding increased consumer demand for leases.

"CUDL easily supported that integration as well," Novak concluded.

60%

INCREASE in indirect loan originations the first year on the CUDL Platform

Overall indirect portfolio growth of

610%

over 5 years

1614%

growth in indirect loan originations over 5 years

1,300+

NEW MEMBERS

on average annually

GOING ALL-IN ON INDIRECT

When Visions committed to its goal of originating $100 million in new indirect loans per year, it took an "all-in" approach for three main reasons:

1. It could be used as a strategy to achieve new market penetration
2. It was a way to serve members in a non-branch environment
3. It supported loan growth goals

After five years of strong commitment to indirect lending, Vision FCU's Tom Novak shared these benefits and challenges for credit unions that might be considering a similar approach.

BENEFITS:

// *Increased member and loan opportunities at the point-of-sale*

// *Joint marketing opportunities*

// *Loan portfolio diversification*

// *Strengthen partnerships with community businesses*

CHALLENGES:

// *Success requires an actively managed business with organizational commitment*

// *Flexible program infrastructure is needed to support rapid change*

// *Ability to support a wide range of dealers with varying objectives*

// *It's a competitive space that includes other lenders, captives, manufacturer discounts, etc., vying for dealers and consumer/member loans. That's why organizational commitment is key. Results like those achieved by Visions will require years of active management, flexibility, attention to dealer relationships, a strong financial strategy, and creative marketing.*

NEXT GOAL: $500 MILLION INDIRECT PORTFOLIO

Visions' "all-in" indirect lending strategy has been so successful, the credit union has increased its cap of how much indirect lending it can hold compared to other loan assets.

"It used to be $300 million, and they thought we'd never hit that," Novak said. "But we recently increased it to $500 million, and we're already halfway there as an overall indirect loan portfolio."

ABOUT CU DIRECT

For more than twenty years, CU Direct has been a lending technology leader, helping credit unions fund $209 billion in loans. More than 1,100 credit unions rely on CU Direct's solutions to generate loans, create efficiencies, and grow membership. From CUDL, the industry's number one auto lending platform, to the industry's revolutionary Lending 360 loan origination system, and Lending Insights dynamic analytic tools, CU Direct develops the technology that helps credit unions advance their lending programs and overall portfolio success. 14,000 auto dealers nationwide use CU Direct's automotive solutions to connect with credit unions and their members to drive sales and increase their bottom lines. For more information, visit www.cudirect.com. Connect with CU Direct on Twitter and LinkedIn.

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