The Hidden Risks of the Auto Lending Boom

June 30, 2018
Section 1
What Are The Hidden Risks Of The Auto Lending Boom?

Section 2
What Do We Know About These Risks?

Section 3
How Can Be Done To Counter These Risks?
Auto Sales Have Been on a Tear in Recent Years

Car sales make a strong comeback in 2013

U.S. December auto sales surprisingly strong, 2016 sets new high

U.S. auto sales in 2015 set record after strong December

Auto Loan Balances Are at a Record High

U.S. Total Outstanding Auto Loan Balances

2012-2017 CAGR: 9.4%

Source: CNNMoney, New York Times, Reuters and USA Today

Source: Experian’s State of the Automotive Finance Market – Q4 2017
Credit Union Loan Growth Is Among the Fastest

U.S. Total Outstanding Auto Loan Balances

2012-2017 CAGR
- Finance Co.: 14.5%
- Credit Union: 14.8%
- Captive Auto: 4.3%
- All Banks: 7.5%

Indirect Channel Is Driving Credit Union Auto Lending Growth

CU Indirect Loans CAGR: 20.1%
CU Direct Loans CAGR: 8.7%
CU Total Auto Loans CAGR: 14.8%

Total CU Outstanding Auto Loan Growth: 2012-2017

Source: Experian’s State of the Automotive Finance Market – Q4 2017

Source: CUNA Mutual Group – Economics; Experian
Indirect Share of Credit Union Auto Lending Continues to Increase

CU Indirect Share of Total Auto Loans Outstanding

2012: 43%
2017: 56%
2021: 61%*

*Forecasted growth

Share of Wallet Research Uncovers Hidden Risks

Source: CUNA Mutual Group – Economics
Defining Share of Wallet

It's a marketing metric that represents the percentage of a customer's total spending within a category, captured by a specific brand, store or business.

Have credit unions grown their share of members' auto lending wallets since Q4 2015?
From Q4 2015 to Q4 2017...

CUUs Grew Overall Number of Auto Loans With Members by \( \uparrow 22\% \)

CUUs Grew Number of PFI Member Loans by \( \uparrow 7\% \)

CUUs Grew Number of Non-PFI Member Loans by \( \uparrow 44\% \)

Credit Union Share of Wallet Among Members Is on The Rise

From Oct. 2015 to Oct. 2017, CUUs Grew Share of Member Auto Lending Wallets 4%

Source: CUNA Mutual Group Proprietary Consumer Research: Competiscan
Credit Union Share of Wallet: A Complex Story

While CU PFI member wallet size grew, PFI member SOW decreased by 3 percentage points.

Source: CUNA Mutual Group Proprietary Consumer Research; Competiscan

Credit Union Share of Wallet: A Complex Story

As CU non-PFI member wallet size grew, Non-PFI member SOW increased by 13 percentage points.

Source: CUNA Mutual Group Proprietary Consumer Research; Competiscan
To recap:
Total CU member SOW: +4 p.p., however:

<table>
<thead>
<tr>
<th>CU PFI SOW</th>
<th>CU NON-PFI SOW</th>
</tr>
</thead>
</table>

from Q4 2015 to Q4 2017

Share of Wallet Among PFI Members Should Be Stronger

On average, a consumer’s PFI wins 64% of all their purchases.

Source: Bain 2016
And a booming 88% of CU PFI members intend to give their CU most or all of their future business.

Source: Raddon 2015

Hidden Risk: Share of Wallet Among PFI Members is Lagging Behind Non-PFI Growth. Why?
Introducing the Silent Churn Dilemma

The **Silent Churn** principle demonstrates that while many PFI members maintain existing accounts, they're purchasing additional banking products elsewhere.

Source: JavelinStrategy.com

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What Do We Know About These Risks?
### Price & Brand: Key Drivers of Auto Lender Choice

#### Original Auto Loan – Top Selection Factors

<table>
<thead>
<tr>
<th></th>
<th>Top Reasons BANK Was Chosen as New Auto Lender</th>
<th>Top Reasons CU Was Chosen as New Auto Lender</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low interest rate and fees</td>
<td>15%</td>
<td>21%</td>
</tr>
<tr>
<td>Reputable, trustworthy company</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Ease of application</td>
<td>11%</td>
<td>Likelihood of getting approved</td>
</tr>
<tr>
<td>Likelihood of getting approved</td>
<td>10%</td>
<td>Easy payment methods</td>
</tr>
<tr>
<td>Simple, straightforward product</td>
<td>10%</td>
<td>Reputable, trustworthy company</td>
</tr>
</tbody>
</table>

Source: CUNA Mutual Group Proprietary Consumer Research; Competiscan

#### Credit Unions Have Banks Beat on Rates

### Credit Union Advantage: Lower Interest Rates

<table>
<thead>
<tr>
<th></th>
<th>All Credit Unions</th>
<th>All Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.87%</td>
<td>5.11%</td>
</tr>
<tr>
<td>Used Car Loan (36 months)</td>
<td>2.91%</td>
<td>4.75%</td>
</tr>
<tr>
<td>New Car Loan (60 months)</td>
<td></td>
<td>4.64%</td>
</tr>
<tr>
<td>New Car Loan (48 months)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*National average rate

Source: “Comparison of Average Savings, Deposits, and Loan Rates of Credit Unions (CUs) and Banks”, NCUA, 12/29/17
Strong Dealer Ties: Traditional Driver of Banks’ Success

Top Reasons to Use a Credit Union
1. Provider offered lowest (fixed) rate on the loan
2. I had an existing financial relationship with provider aside from the loan in question
3. Easy application process

Top Reasons to Use a Bank
1. Provider was associated with the car dealership
2. Provider offered lowest (fixed) rate on the loan
3. Provider was recommended by the car dealership

Source: "New Car Loans: Linking Member Satisfaction to Loan Decisions: A Wallet Allocation Rule Approach", Lerzan Aksoy, Professor of Marketing, Fordham University / Filene Research Institute, 2015

CUs Have Chipped Away at Banks’ Advantage with Dealership Relationships

<table>
<thead>
<tr>
<th>Lender</th>
<th>March 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td># of Loans Originated</td>
</tr>
<tr>
<td>CAPITAL ONE AUTO FINANCE</td>
<td>1,060,724</td>
</tr>
<tr>
<td>LARGE INDIRECT LENDING CUSO</td>
<td>1,055,112</td>
</tr>
<tr>
<td>ALLY</td>
<td>981,896</td>
</tr>
<tr>
<td>WELLS FARGO DEALER SERVICES</td>
<td>842,020</td>
</tr>
<tr>
<td>TOYOTA FINANCIAL SERVICES</td>
<td>738,884</td>
</tr>
<tr>
<td>CHASE AUTO FINANCE</td>
<td>697,476</td>
</tr>
<tr>
<td>AMERICAN HONDA FINANCE</td>
<td>504,560</td>
</tr>
<tr>
<td>FORD MOTOR CREDIT</td>
<td>481,296</td>
</tr>
<tr>
<td>BANK OF AMERICA</td>
<td>453,324</td>
</tr>
<tr>
<td>NISSAN INFINITI FINANCIAL SVCs</td>
<td>432,928</td>
</tr>
</tbody>
</table>

*Full list of rankings not publicly available
Source: F&I and Showroom, CUNA Lending Council / CU Direct, Automotive News
Who sends the most auto lending offers to your members?

Conventional Wisdom: Credit Unions Reign Supreme

“My Credit Union” received the most #1 rankings.

“National Banks” came in second.

Other types of lenders* trailed by a wide margin.

*For example: Local/regional banks or other credit unions
Source: CUNA Mutual Group Proprietary Credit Union Research
In Reality, Credit Union Offers Lag The Competition

Auto Acquisition Marketing Targeting CU Members by Lender Type

Credit unions are being out-marketed 3:1 vs. non-CU lenders in terms of auto loan offers* targeting CU members

*Direct mail & email offers
Source: Competiscan

Hidden Risk: Credit Unions Are Being Out-Marketed
How Can Be Done To Counter These Risks?

Four Keys to Greater Share of Wallet

1) Measure & Track Share of Wallet
2) Optimize Your Member Experience
3) Defend Your Share of Wallet
4) Grow Your Share of Wallet
To Grow, We Must First Measure

“You can’t manage what you don’t measure.”

Peter Drucker,
Founder of Modern Management
Share of Wallet Is Measured in Two Ways:

Example #1: **Product Count Basis**
A sugar-crazed consumer purchases six Cokes and four Sierra Mists over the course of a month.

Each soda’s respective SOW is:
Coke – 60%
Sierra Mist – 40%

Example #2: **Dollar Basis**
A dual-wielding credit card spender charges $1,000 to their American Express card and $500 to their credit union’s card over the course of a month.

Each credit card’s respective SOW is:
American Express – 67%
Credit Union – 33%

The Main Challenge of Calculating Share of Wallet

To calculate SOW, you must know how much business members are doing with other lenders.


Source: R. Y. Du (University of Georgia), W. A. Kamakura (Duke University), and C. F. Mela (Duke University)
Gathering Data: Third-Party Firms Can Help

- Data Management Services
- Reporting and Performance Management
- Advanced and Predictive Analytics

Optimize Your Member Experience

Source: AdvantEdge Analytics
Consumer Pain Points When Purchasing a Vehicle

- Digital Channels Have Not Been Fully Integrated Into the Process
- Fear of Getting a Bad Deal on Car and Financing
- Lack of Guidance, Expertise and Control
- Takes Too Long and Is Frustrating
- Lack of Personalization

Preparing for a Digital-First Future

As more members migrate toward digital channels, successful credit unions will:

- Prioritize the user experience (UX)
- Deliver a streamlined, efficient end-to-end lending process
- Offer all the channels members require at each stage of the loan application
- Provide credit union employees with digital tools to help them better meet member expectations
- Continue investing in new ways to provide convenience to their members
High Digital Engagement Can Lead to Higher Share of Wallet

Average Number of Products Consumers Hold With Their Primary Financial Institution

To boost digital engagement, consider:
• Evaluating and improving digital UX
• Improving digital on-boarding
• Responding more rapidly to technological innovation


Defend Your Share of Wallet
Valuable Tactics for Member Retention

- Engage New Members Right Away
- Utilize Predictive Analytics to Identify At-Risk Members
- Monitor Members’ Hard Credit Inquiries
- Target Members With Relevant Offers and Communications

Grow Your Share of Wallet
### Optimize Your Direct Marketing

<table>
<thead>
<tr>
<th>Lender</th>
<th>Subject Line</th>
<th>Open %</th>
</tr>
</thead>
<tbody>
<tr>
<td>USAA Bank</td>
<td>USAA Bank is driving down auto loan rates</td>
<td>52%</td>
</tr>
<tr>
<td>CHASE</td>
<td>Mary, Interested In a Lower Car Payment?</td>
<td>41%</td>
</tr>
<tr>
<td>PENFED</td>
<td>Congratulations on your PenFed loan pre-approval!</td>
<td>35%</td>
</tr>
<tr>
<td>CHASE</td>
<td>Introducing a new car buying experience at chase.com</td>
<td>29%</td>
</tr>
<tr>
<td>USAA Bank</td>
<td>Get a check the day you're approved with a USAA Bank auto loan</td>
<td>29%</td>
</tr>
</tbody>
</table>

Communications with 25%+ open rates featured lower rates, relevant offers or a better experience in the email subject lines.

### Members Demand More Relevant Offers

66% of engaged account holders indicate they’re **not satisfied with offers** they receive from their financial partners.

**Why?**
Because they’re **not relevant**.

**Triggers—or signals—can help you tailor loan offerings to a customer’s needs.**

Trigger examples available through third-party suppliers include:
- A member’s rising income or improving credit score
- A mortgage rate increase
- Paying off debt
- Major life events—marriage, home purchase, etc.
Credit Unions Get Ahead With Auto Loan Recapture

For both bank and credit union PFI members, credit unions captured the largest share of refinanced auto loans.

Maximize Your Auto Loan Recapture Program

- Use Bill Pay and Credit Bureau Data in Predictive Models to Identify Refinance Candidates Among Members
- Focus Messaging on Monthly Payments, Not Rates
- Use Multiple Channels to Reach Prequalified Members and Provide Several Easy Response Options
- Offer Incentives to Encourage Actual Applications

Source: CUNA Mutual Group Proprietary Consumer Research; Competiscan
Credit Union Share of Wallet Opportunity

Auto Loans Outstanding Held by Credit Union Members

Outstanding Auto Loans With CUs: $313B
Outstanding Loans With All Other Lenders: $432B

Will Credit Unions Seize The ‘Share of Wallet” Opportunity?

Source: CUNA Mutual Proprietary Research; Experian’s State of Automotive Finance – Q4 2017
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