How to Develop a Successful Auto Lending Strategy for 2020 Considering Tomorrow's Tighter Margin Environment

By George Monnier, *Founding Partner Stellar Auto Loans*

How great would it be to have a crystal ball that accurately predicts the future? What might it foresee when it comes to strategic planning and budgeting for auto lending in 2020?

Available on the market are a myriad of "future analytic" programs that predict tomorrow's business world with reasonable accuracy. But as to the extended future, that accuracy diminishes rapidly. Lending for automobile purchases involve some level of risk. Every credit union tries to establish best practices to help ensure a member's reliability to pay back loans. And, there are many models to consider today:

- Risk-based pricing models adjusted with historical data
- The 5 C's of credit worthiness
- The latest "prognosticators" available from the credit bureaus
- Insurance for less than perfect credit
- GPS tracking to monitor the "assets on wheels"
- A combination of any or all the above

The objective is for the reward of income to outweigh the risk of loss due to lack of reimbursement and sound equity in auto lending.

So much emphasis is put into credit worthiness and sound repayment that a primary part of the overall equation is being ignored. That is: How to get more dollars of profit from these members to help offset the risk of loss, especially in a marginally-squeezed, automotive lending world.

Credit Unions must take a long term look at their auto loan portfolio mix — even beyond 2020 budget planning. They need to not just rely on any new loan, but also focus on increasing their member mix to include long-term relationships. One of our credit union lending partner's Vice President of Lending likes to point out the need to "not just rely on *loaners* but increase their member mix to include *lifers.*" After all, "lifers" use their credit union

as their PFI (Primary Financial Institution). They look at the credit union as a resource, not just for their current loan, but more likely for future financial services and guidance as well.

Currently, many credit unions have a large part of their loan portfolio dedicated to indirect lending. With dealerships demanding more, margins are continually being squeezed, while risk continues to grow. The risk is not only on the quality of the loan but comes with more potential legal issues as well — in which the financial institution could be held culpable.[1]

In addition, nationally less than 5% of these "indirect loan" members have a second relationship (other than the member service fee) with the credit union.[2] Without additional relationships, there is no additional revenue that can help balance the profit vs. loss associated with the new member.

Many credit unions are now trying to rebalance their loan portfolio with more direct loan relationships. Direct loans generate more cross-selling opportunities, which in turn, increases overall member profitability. This helps reduce the risk in a reduced margin world. Here at Stellar Auto Loans, our credit union partners are averaging an additional $411 in non-interest income from GAP, MBI, AD&D, loan insurance, etc. per loan.

NOTE: Our experience, in the auto recapture world, is 27% of these new members open a checking account. The checking account is the *primary relationship* most consumers have with their financial institution. Our clients have historically averaged $143.30 per year in net fee income from each checking account. Plus, an additional $91 yearly in debit card interchange.

It's worth noting 80% of auto loans are generated at dealerships.[3] Most loans signed at the dealership by consumers average several hundred basis points higher than what most credit unions charge for the same credit score.[4] AND, many charge a misappropriate higher amount to minorities[5] and women.

Dealerships are continually adjusting their loan interest rates...and generally at a faster pace than the current market. This means that credit unions with a strong recapture program will be able to generate a higher pool of consumers — prospects that are more likely to benefit from a direct relationship with the credit union. Credit unions that have community charters to "help serve the underserved" or a special association that allow consumers the ability to become a member (outside belonging to an established SEG group) have a rare opportunity.

As with any opportunity, it's essential to develop a strategic plan that can produce significant results. Consumers are busy. Consumers are smart. Simply broadcasting "best rates" will not bring the "best" results. Sure, consumers will respond. But, if the need is to undercut the competition to cut through the thousands of marketing messages broadcasted every day, it will dramatically reduce overall profit.

There is a large amount of data available for research to help marketing departments take a more targeted approach. Geo-specific data is available from US Census numbers. Credit bureau data is continually being updated at the household and individual level. In 2020, the use of technology and online platforms (digital, social media, mobile, online applications, etc.) will become even more critical to a successful auto lending marketing strategy.

Understanding the wealth of data and resources available, and how to procure those variables to best target an audience, may be as important as the marketing message itself. No single source has 100% of the information needed for 100% of the target audience. Most marketing departments do not have the tools to do this type of research...yet it is a critical component for success.

Predicting the future is never an easy task, and unfortunately, no crystal ball is going to point you in the right direction. Therefore, when it comes to an extremely competitive environment heading into 2020, it is VERY important to target potential members that provide the highest rate of return, as well as better long-term relationships. This is more easily achieved when having a strong direct lending strategy, instead of simply relying on indirect only.

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1 *Claconnect.com: Fair Lending Compliance for Financial Institutions' Indirect Auto Loans: 10/7/2015*

2 *CUNA.org: 2017 Lending Outlook, This Month in Credit Union Magazine: 11/2016*

3 *Responsiblelending.org: The State of Lending in America & its Impact on U.S. Households: 12/8/2012*

4 *Responsiblelending.org: Car Trouble: Predatory Auto Loans Burden North Carolina Consumers: 4/30/2019*

5 *USNews.com: How Dealers Cheat Borrowers with Interest Rate Markup: 2014/02/27*

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Finding the Optimal Multi-Channel Marketing Approach to Grow Your Primary Deposit Accounts in 2020

By Jennifer Brooks, *Chief Marketing Officer*

In today's banking world, *multi-channel marketing* isn't just a buzzword anymore — it's a necessity for marketing success.

Banking is moving from in-branch to on-device, and your marketing efforts should reflect that shift. People are utilizing more devices daily with more frequency than ever before. Consider this statistic, the benefits of multi-channel marketing can create a 15-35% revenue lift… and a 49% increase in conversions[1]. That's a compelling reason to start strategizing on a multi-channel approach.

But, *how do you start and where do you start?* This article will explore five key channels to consider when it comes to the lifeblood of banking success — growing new primary deposit accounts. As we know, having an account holder think of you as *their bank* makes it that much easier to interact and gain share of wallet. As more (and more sophisticated) technology players enter the banking space, driving new checking accounts will be key for long-term success.

1. Direct Mail

To steal from Mark Twain, I like to joke that the death of direct mail has been greatly exaggerated. Mail offers a direct, non-intrusive way to reach consumers that currently do not have a primary relationship with your institution.

However, there have been some notable changes over the past few years. With digital/on-demand print capabilities, generic mass mail (with generic marketing creative and messaging) has seen a fall in response rates. Instead, we are introducing more personalized branch-level marketing messages with highly targeted mailing locations. In addition, we can utilize personalized maps showing the location of *your* nearest branch mapped to the recipient's address. Pretty cool, right?

Also, factor in which competitors to target. If you're a bank, don't make the mistake that "banks" are your only competition. If you're a credit union, the same idea applies. It's important to consider what competitors are vulnerable, and how to position your institution to gain market share.

Consider geographic targeting as well. A simple 3 or 4 mile radius around each branch is an outdated strategy when it comes to direct mail. It's important to drill down further to analyze trends as to where new checking accounts are more likely to be opened. Although distance is certainly an indicator of convenience, a radius fails to account for driving patterns and other factors.

So…is direct mail dead? Absolutely not. It is still a fundamental driver of many strategic campaigns.

2. Google Search

What makes Google Search such a great platform is the direct connection to people online **actively** searching for a specific product or service. However, the number of factors you need to consider is enormous: from keywords, to ad copy, to run times, to geographies, to exclusions, and so on and so forth. Because of the large number of variables, Google Search is not an easy platform to master. However, if you are looking for actual conversions online, Search has outperformed other platforms on generating actionable leads and conversions.

From a deposit acquisition point-of-view, institutions that are able to open new accounts and/or memberships online definitely have an advantage over those that do not. But if you do not have that capability yet, there are options to capture and convert new business (covered under 5. Landing Pages/Form Capture).

3. Display Ads

Display ads, though not necessarily conversion drivers, are good for one major reason – brand awareness. If you have a branch opening in a new market with little brand recognition, display ads can provide you with a less expensive means to serve thousands of impressions in a designated area. Whereas Search is intent-driven, display ads are a way to drive awareness about your institution, product or service. This is the major reason why fewer conversions are typically generated from display ads compared to Search.

There are many platforms offering display ads (and I am including Facebook in this category as well). We are consistently testing different platforms to ascertain if one performs better than another. Our testing so far tends to lean toward Google Display and Facebook. Google has a broader and deeper reach, but Facebook ads tend to achieve higher engagement on the checking acquisition side. Both platforms offer retargeting, which is arguably the most basic (and most important) type of display ad to add to your marketing mix. After all, people who visit your website or landing page once *usually* have a higher propensity to move from awareness to conversion.

4. Email

Email can be one of the most effective methods to communicate with your current account holders. If you have emails for non-checking account holders, it makes a lot of sense to cross-sell to that group in order to win their checking business. One, they already have a relationship with you (so it's more likely to be read and responded to) and two, it's super economical.

But…is that true when it comes to generating new deposit relationships?

The difficulty here is finding a reliable email source. Much like buying phone numbers, there is a lot of BAD email addresses, no matter which vendor you utilize. If you have a relevant landing page or account opening platform, emails still make sense. As with direct mail, having the expectation that all emails sent should be delivered, and more importantly read, is not the variable to measure for success. In reality, the overall cost of an email campaign does not need *that many* new accounts to pay for itself. It's the ease of reading an email, combined with the ability to immediately act by clicking a link, that can make email very effective.

5. Landing Pages/Form Capture

These days, sending consumers to a website's home page from marketing efforts is not a successful approach. Dropping a consumer on your home page from your "checking account" search ad means they have to look for the relevant information. Many will abort if your online account open form or offer details are more than one click away. Google and other platforms analyze how relevant your "landing page" is to the ad copy and keywords. If there is a disconnect, you can bet your ads will be less effective and more expensive.

This is where developing offer specific landing pages is critical to your success. They need not be complicated; and can certainly link back to the relevant information on your website where applicable (like locations, detailed product descriptions, etc.). It's important to include a call to action; such as a form fill to capture lead information or link to an online open account form.

Consider the power of PURLs (Personalized URLs) that pre-populate with known responder information to make the process as quick and easy as possible. It's extremely critical today that your website and/or landing page is created with *mobile first* best practices. Currently, we see nearly 90% of our ad responders coming from a mobile device. Pre-population and drop-down menu options make it much more convenient for cell phone users.

Creating a multi-channel marketing approach need not be overwhelming. But for many institutions it is…23% of marketers site lack of time and resources as a major barrier to implementing multichannel marketing.[2] Attempting to research, learn, test and master all direct mail and digital marketing options available today can certainly exhaust one or more full-time employees.

It may be worth it to consider finding a marketing partner to offset the time and resources it takes to be successful with a multi-channel approach. We understand many community banks and credit unions rarely have the internal staff to do so on their own.

Equally important is finding a partner well-versed in banking strategy. Otherwise, the time spent getting your vendor up to speed can be as agonizing as not having a vendor in the first place. After all, it should be about finding the optimal way to reach your 2020 deposit acquisition goals with both internal and external resources.

Does Offer Matter?

Yes and no (depending on competition). The fact you do not have "free checking" may not matter in your market. If your fees are much lower than competitors with higher market share, messaging on that point can be quite successful. If you do not have a free account and most of your major competitors do, it's going to be a steeper hill to climb.

Do cash or other incentives work? Generally…yes, as long as they do not drive up attrition rates (e.g. opening an account only for the bonus) and/or dip significantly into profitability. For example, look at three clients currently utilizing Google Search ads for deposit acquisition:

In the following graph, CPC (Cost Per Click) was certainly acceptable for each client. But conversion costs paint a very different picture. Besides geography, the ad copy and keywords were very similar for each client. The main difference between Client A, B and C? Clients A and B offered a $10 incentive to fill out an online form (which would be deposited to a new account once opened). Client C did not offer any incentive.

	Cost Per Click	Conversion Cost
Client A	$2.95	$26.38
Client B	$1.39	$12.75
Client C	$2.89	$63.67

As a community bank or credit union, you still have an opportunity to position yourself against many of the bigger banks successfully. When it comes to mergers and acquisitions, this factor is multiplied in markets where this is occurring. If you are in a market affected by the BB&T/SunTrust merger, there is going to be higher-than-average transition over the next year or two. Your approach to tackle this opportunity should be top on your list for the rest of 2019 and 2020.

[1] *Alford, M. (May 2019). How does a multichannel marketing strategy improve revenue, retention, and conversion? Source: clickz.com.*

[2] *Saleh, K. (n.d.) The Importance of Multichannel Marketing – Statistics and Trends. Source: invespcro.com.*

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