STELLAR

# INSIGHTS

Quarterly Newsletter about Banking and Finance by Stellar Strategic Group

SPRING | 2020


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### About Stellar Strategic Group

*Achieving strong, long-lasting relationships with our clients is our top priority. Simply stated, we continually evolve our product line to meet the ever changing market demands our clients face. Plus, we work to deliver the projected ROI promised, and treat your budget as if it's our own. The bottom line is that we care about each of our clients and it shows in how we partner with you to achieve your goals every step of the way.*

STELLARSTRATEGIC

## Welcome to Our Spring Edition of *Stellar Insights*

This year COVID-19 has taken a major toll on most families and businesses. During these uncertain times, we've had to adapt our business models and our lives in order to survive. I'm confident that soon after this is over, we'll all be back better than ever. To those who've lost loved ones, you are certainly in our thoughts and prayers.

After speaking with clients and following the community banking industry on LinkedIn, I've realized that I couldn't be more proud to be a part of this industry. Institutions and their employees have shown tremendous resiliency by continuing to keep their services available to their customers and communities. In many cases, institutions have gone far beyond just servicing their customers by supporting their local communities. Several institutions have gone beyond the call of duty by coordinating food drives to support those affected by the virus. On a personal note, I would like to thank all of our employees who never missed a beat supporting our clients. I look forward to seeing many of them in the near future.

At some point soon, this quarantine will end, and we will try to return our lives back to normal. This will take a lot of hard work, planning, and reflection. We will ponder how we've had to adapt the way we conduct business and support our customers. I firmly believe, from a business standpoint, that we will learn from this experience, and will become not only better corporate citizens, but better members of our respective business communities. I can assure you that we will spend a significant time internally discussing and working to be better business partners to our clients. We will soon be entering a period of opportunity and optimism that will make us all better long-term. Hang in there and enjoy this edition of *Stellar Insights!*

## We Want to Hear from You!

At Stellar Strategic Group, we value your input.
Is there a topic you want to read about? Or would you like to share your own insights with our readers?

Submit your ideas and articles for our newsletter to **info@stellarstrategic.com.** If your submission is chosen for a future issue, you will receive a **$50 Gift Card!**

# Increase Brand Awareness with *No Marketing Cost?*

**BY GEORGE MONNIER**
*Founding Partner | Stellar Auto Loans*

## How Can You Increase Brand Awareness?

Many credit unions advertise through multiple mediums to try to measure "brand impression rates". The goal is that with increased brand recognition and traffic your sales will grow in markets with increased impression rates. The key to increasing brand recognition is by the frequency of messaging. The more often the consumer hears/sees the message, the better the chances they will recognize the brand.

Research has shown that an institution's name must be mentioned three times in conversation to be recognized. Many memorable speeches are so successful because they reinforced a message several times. The Aristotelian saying "Tell them what you are going to tell them, tell them, then tell them what you told them" reminds us that you have to reinforce you message at least three times for an audience to remember it.

## Making an Impression in a Competitive Market

In any given day, consumers are bombarded by thousands of marketing messages on TV, radio, social media, etc. Savvy institutions use specific branding standards to help increase recognition of messaging across several platforms. Brand standards are used to visually distinguish a company from their competition. These standards can include exact brand colors, taglines, fonts, and so on. By repeating their consistent message on multiple platforms, the hope is that there will be a multiplied effect and an overall increased impression rate.

Unfortunately, each platform has a cost…and these costs add up.

**What if, you had a business partner that created brand awareness and only charged for success?**
Stellar Auto Loans is such a partner.

## An Ideal Method to Boost Awareness

Through our Auto Loan Refinance program, we pay for all of the up-front costs to advertise to new potential members that reside in your charter footprint. Best part, you'll only pay for the loans you refinance!

You pay nothing out of pocket until the new member responds. You'll start out with a pre-qualified list of potential members from your pre-defined zip-codes utilizing your pre-defined credit criteria. Multiple marketing strategies ensure great response rates. We use direct mail, telemarketing, online application sites, reminder mail, and digital marketing. Again, you'll pay nothing out of pocket, until a new member responds. Even if they choose not to complete an application, your institution has been brought to the forefront of their attention and has made a lasting impression. Applications that are completed are submitted to your lending team to approve or deny the loan.

If you need more assets in your books and would like to increase brand recognition, give me a call and we can have a **free** high-level discussion.

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*George Monnier has spent over 18 years helping financial institutions generate new deposits and loans. He is a founding partner of Stellar Auto Loans, a division of Stellar Strategic Group, which offers pay-for-performance auto refinance programs to the banking industry.*
*To learn more about Stellar Auto Loans[sm], please contact* ***george.monnier@stellarstrategic.com or 402-708-2425.***

# Is Your Auto Portfolio Well Balanced?

**BY CRAIG SIMMERS & GEORGE MONNIER** *Founding Partners | Stellar Strategic Group & Stellar Auto Loans*

Credit Unions have been helping members finance vehicles ever since they were first established. Over many decades, CU's have grown their indirect auto loan portfolio with aggressive rates and technology upgrades through dealership financing relationships.

Unfortunately, when all is said and done, margins have begun to shrink. Some dealership relationships actually generate negative margins when all costs are accounted for. We have seen this happen far too often. We know of a well-run $1.6 billion-dollar credit union only reported a .7% profit margin.

In addition, COVID-19 has dramatically changed the buying habits for most consumers. Shelter in place guidelines have almost completely shutdown new auto sales at dealerships, which in turn has reduced indirect loan volume to all-time lows.

Dealerships and Captives are advertising: "No Payments for 90 Days", "Shop Online and Save", "Free Pickup and Delivery", but are still not getting the pre-pandemic volume.

Most Americans are quite aware of the downturn in the economy. They're not only worried about their 401Ks, but now their next paycheck. With a record 25 million consumers applying for unemployment between mid-March and mid-April, households are looking for ways to save money now more than ever.

Refinancing current auto loans and saving a substantial amount of money each month is extremely attractive to most consumers. Auto payments are typically among the top three expenses each month for most families.

One of our largest clients with a national presence, commented that last month was the first-time the number of refinanced loans exceeded indirect loans for their institution. We firmly believe a well-balanced auto loan portfolio that includes both indirect and direct auto loans is essential to grow the overall profitability of the portfolio and serve as a hedge in a market downturn in auto sales. The more profitable direct loans also reduce the churn of loans, as they typically retain a rate three times that of indirect loans. We like to refer to direct loans as lifers versus loaners.

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# STELLAR THOUGHTS:
## When it Comes to Marketing, Persistence is Key

**BY CRAIG SIMMERS** *Founder | Stellar Strategic Group*

### Dedication Leads to Success

Over the past 20 years of working with community banks and credit unions, we have witnessed first-hand how high-performing institutions strategize to improve their marketing efforts. As simple as it sounds, the number one trait all these institutions have is a persistency and commitment to executing long-term initiatives that produce results.

Another trait we see in high-performing institutions is the dedication to make decisions based on hard data. There are several factors that we see over and over again that drive effective and successful long-term strategic marketing plans. They are as follows:

- **Where can you grow geographically?**
  Not all branches or areas within your branch footprint have the same growth potential. Analyzing growth and trend potential is key.

- **Are there factors related to account attrition that impact your ability to grow?**

- **What is the profitability of each account offered?**

- **How can you establish long-term relationships?**
  Direct vs. indirect auto loans is a prime example when it comes to establishing long-term relationships. Incentivizing sticky checking account products (think direct deposit, e-statements, mobile/online banking) creates a stronger relationship from the beginning.

- **Can every marketing initiative be graded on its effectiveness related to your bottom line?**
  This is important. As much as an institution "thinks" its marketing is working, it comes down to proving that it does actually work.

- **Can you deal with the natural rise and fall of your marketing efforts while staying dedicated to a long-term plan?**
  It's not always easy but remaining dedicated and persistent will help you achieve your goals. Being adaptable to interest rate changes or consumer spending habits should be a consideration in the short-term. Just make sure you don't completely derail from your long-term goals to do so.

## The Downside of Indecisiveness and Built-In Disruption

Institutions that struggle with retail growth typically don't have a clear direction or strategic marketing plan. They tend to make decisions "on the fly" as opposed to being dedicated to a planned approach. The most consistent phrase we hear from struggling institutions is "I know it's working but we want to try something different."

On another note, there are a few companies that require long-term and lengthy contracts to grow their account base. In some cases, institutions are required to change their existing checking account line-up. Our company does not require multi-year contracts or drastic changes to your checking products. There are two reasons for this:

- First and foremost, we have determined from our experience that the key driver to response is who and where you target based on several data points versus unique product features. We have seen clients that were forced to change their product mix twice in a three year period to accommodate a change to a unique checking product feature. We refer to this as "built-in disruption" which never has positive long-term growth benefits. ***We focus on the key data points that drive growth, not individual product features.***

- Second, by not requiring multi-year contracts we don't force clients to think in a fixed period of time. Thinking and planning long-term is a clear advantage for any business that wants to experience sustained long-term growth, and so is having flexibility to adapt. In the event that a vendor requires a multi-year contract, think beyond the term of the proposed contract to ensure you don't create disruption for your customer base. This is especially true if you are using a vendor's proprietary checking product.

The bottom line to growing your retail business is ***to develop a long-term strategy based on hard data, stay committed to it, and be confident in your plan.*** You'll have an advantage over most institutions that struggle with retail growth. Community banks and credit unions that have a dedicated and persistent approach will always outperform those that do not.

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*Craig Simmers is Founder of Stellar Strategic Group. Craig can be contacted via email at* ***craig.simmers@stellarstrategic.com or call 410-990-0172.***

### MIDWEST CREDIT UNION
$1.2 Billion Assets, 15 Branches

| | March 9, 2012 | | |
|---|---|---|---|
| **Account Type** | **Number** | **Gross Balance** | **Avg. Balance** |
| Checking | 28,594 | $141,843,908 | $4,961 |
| Savings | 62,193 | $86,677,566 | $1,394 |
| **Grand Total** | **90,787** | **$228,521,474** | **$2,517** |
| **TOTAL ASSETS** | **$598,833,503** | | |

| | April 1, 2020 | | |
|---|---|---|---|
| **Account Type** | **Number** | **Gross Balance** | **Avg. Balance** |
| Checking | 50,737 | $195,007,980 | $3,844 |
| Savings | 96,811 | $218,217,931 | $2,254 |
| **Grand Total** | **147,548** | **$413,225,911** | **$2,801** |
| **TOTAL ASSETS** | **$1,205,496,948** | | |

| | Lift | | |
|---|---|---|---|
| **Account Type** | **Number** | **Gross Balance** | **Avg. Balance** |
| Checking | 77% | 37% | -23% |
| Savings | 56% | 152% | 62% |
| **Grand Total** | **63%** | **81%** | **11%** |
| **TOTAL ASSETS** | **101%** | | |

*Remarks: 7.3% annual checking account growth (assuming constant compound growth)*

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### SOUTHEAST BANK
$804,000 Assets, 7 Branches

| | September 19, 2011 | | |
|---|---|---|---|
| **Account Type** | **Number** | **Gross Balance** | **Avg. Balance** |
| Checking | 13,483 | $53,257,768 | $3,950 |
| Savings | 5,364 | $21,105,711 | $3,935 |
| **Grand Total** | **18,847** | **$74,363,479** | **$3,946** |
| **TOTAL ASSETS** | **$494,079,000** | | |

| | February 28, 2020 | | |
|---|---|---|---|
| **Account Type** | **Number** | **Gross Balance** | **Avg. Balance** |
| Checking | 23,598 | $168,111,491 | $7,124 |
| Savings | 6,933 | $51,441,418 | $7,420 |
| **Grand Total** | **30,531** | **$219,552,909** | **$7,191** |
| **TOTAL ASSETS** | **$804,903,000** | | |

| | Lift | | |
|---|---|---|---|
| **Account Type** | **Number** | **Gross Balance** | **Avg. Balance** |
| Checking | 75% | 216% | 80% |
| Savings | 29% | 144% | 89% |
| **Grand Total** | **62%** | **195%** | **82%** |
| **TOTAL ASSETS** | **63%** | | |

*Remarks: 6.9% annual checking account growth (assuming constant compound growth)*

# How to Serve the "Underserved"

**BY GEORGE MONNIER** *Founding Partner | Stellar Auto Loans*

Most credit unions started "life" as a SEG based institution. Many were designed to meet the banking needs for employees of specific businesses by financing loans, open savings accounts, and even transactional accounts through payroll deductions.

80% of all auto loans are financed through auto dealerships. The F&I (Finance and Insurance) department at the dealership is responsible for over 50% of the dealership's total profit. The greater the interest rate charged and the higher number of add-on's to the loan drive, the more profit the dealership receives. Based on data from the credit bureaus, we are seeing financed rates that range from 200 to 600 basis points higher than what most credit unions would charge for the same dollar loan, credit score, and term. It's safe to say, if you financed your car at the dealership, you probably have a much higher interest rate than you should.

### Assisting the Underserved Member

Over the years, credit unions have grown organically through mergers. More recently there's been a change to address the banking needs of underserved households. By working with the NCUA, credit unions have been able to form *community charters*. This classification is certified proof that the credit union is reaching out to this underserved community and assisting them with their banking needs.

There are large numbers of potential members residing in these community charters that could save a substantial amount if they were to refinance with most credit unions. **Stellar Auto Loans** applicants that fund loans with our partnering credit unions are saving over $80 each month, and more than $4,000 over the life of the loan.

Our contingency based programs uses credit bureau data to find consumers that are paying substantially higher interest rates than what the credit union charges. We show the households their potential savings and do so with **NO MARKETING COSTS** charged to the credit union. Stellar pays for 100% of the marketing and the credit union only pays a small success fee for loans funded via our efforts.

## These new members that have new loans become real members, opening additional services and products, unlike most indirect loan members.

The mailing list is tangible evidence to the NCUA that the credit union is reaching out to those in need and do so in a very responsible way. These new members that have new loans become real members, opening additional services and products, unlike most indirect loan members.

We would be happy to help your institution determine the number of households within your charter footprint that could save $50 or more if they were to refinance with you. Please fill out our **FREE Refi Market Analysis** to learn more.

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*(Continued from Page 3 – Is Your Auto Portfolio Well Balanced?)*

To expand upon the premise of a well-balanced auto portfolio, we rarely see clients and prospects working to make the households associated with each indirect loan more profitable. We believe this is a tremendous opportunity waiting for a solution. To that end, we have been developing a comprehensive approach to dealing with this issue. The approach will ultimately have a data driven component combined with very targeted marketing efforts to drive profitability and retention of these valuable households. **We will be launching our new product, Stellar Indirect Tool Kit mid-summer once beta-testing is completed.**

In the meantime, as the economy begins to return to a more normal state, we encourage all institutions to give thought to how this pandemic has and will continue to change the way we approach business. We see focus changing on a number of fronts that in many ways will enhance our client's ability to service their customers. As long as we all view this period in time as an opportunity, we believe good things will develop.

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## DID YOU KNOW?

**Members with direct auto loans are many times more likely to purchase their next vehicle with their current credit union than indirect loan members.**

# *Success Stories*

**Interra Credit Union — Goshen, IN**

*"Interra Credit Union is proud to partner with Stellar Strategic Group since 2011. The team's professionalism and data capabilities help to support the validity of using Stellar to reach new membership goals."*

***— Meegan Siegwarth,*** *Vice President of Marketing*

**Oklahoma Educators Credit Union — Oklahoma City, OK**

*"Stellar's unique strategy provides an opportunity to capture current performing loans. Since the program allows direct communication with the potential members, stronger underwriting capabilities are more easily maintained and the ability to cultivate deeper relationships with borrowers is accelerated...our Stellar Auto Loans relationship helps us to obtain LIFERS instead of just LOANERS."*

***— Trent Vaughn,*** *Senior Vice President*

**Bragg Mutual Federal Credit Union — Fayetteville, NC**

*"I wanted to create a competition among our lenders for increased loan production. We are a small credit union and our lenders were not used to making sales calls or quick loan decisions, therefore our loan prospecting was lethargic at best. Stellar Strategic was an easy choice. We and the folks at Stellar planned the marketing message. Stellar put it together, spent the marketing money, and then the loan request landed in the in-box of our lenders. We have had a very nice increase in auto loan refi's even during the COVID-19 pandemic. In fact, our last four months have been our best auto loan production months in the past 18 months. Stellar did a great job of helping us market our name, and increase loan productivity, which of course increased asset size and profitability. Is there an expense? Yes, but we believe we would have paid more for a less effective marketing plan without the results. The plan from Stellar Strategic brought us exactly what we needed."*

***— Steve Foley,*** *President & CEO*

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