



# The Hidden Risks of the Auto Lending Boom

**2019 Illinois Credit Union Connect**

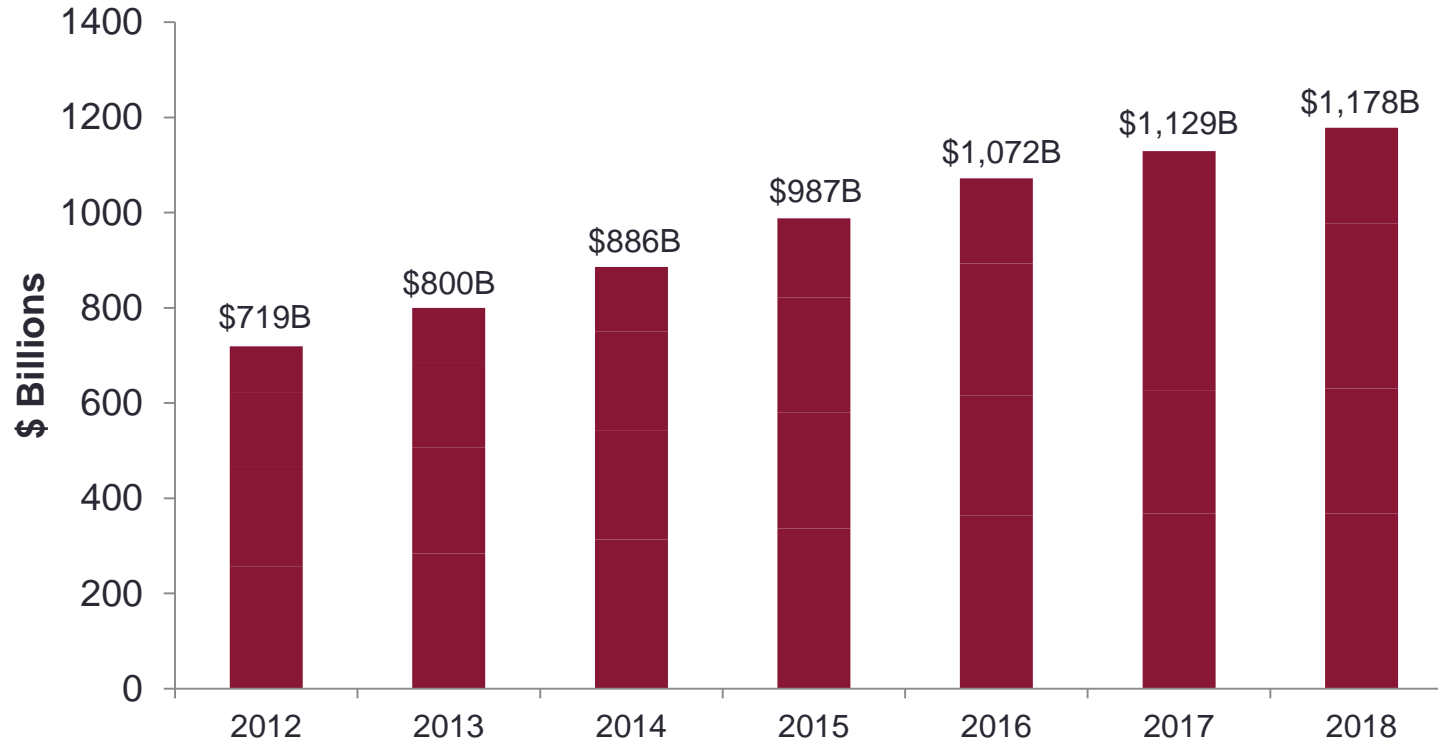
November 2019

# 1

# The Auto Lending Boom

# Auto Loan Balances Are at a Record High

## U.S. Total Outstanding Auto Loan Balances



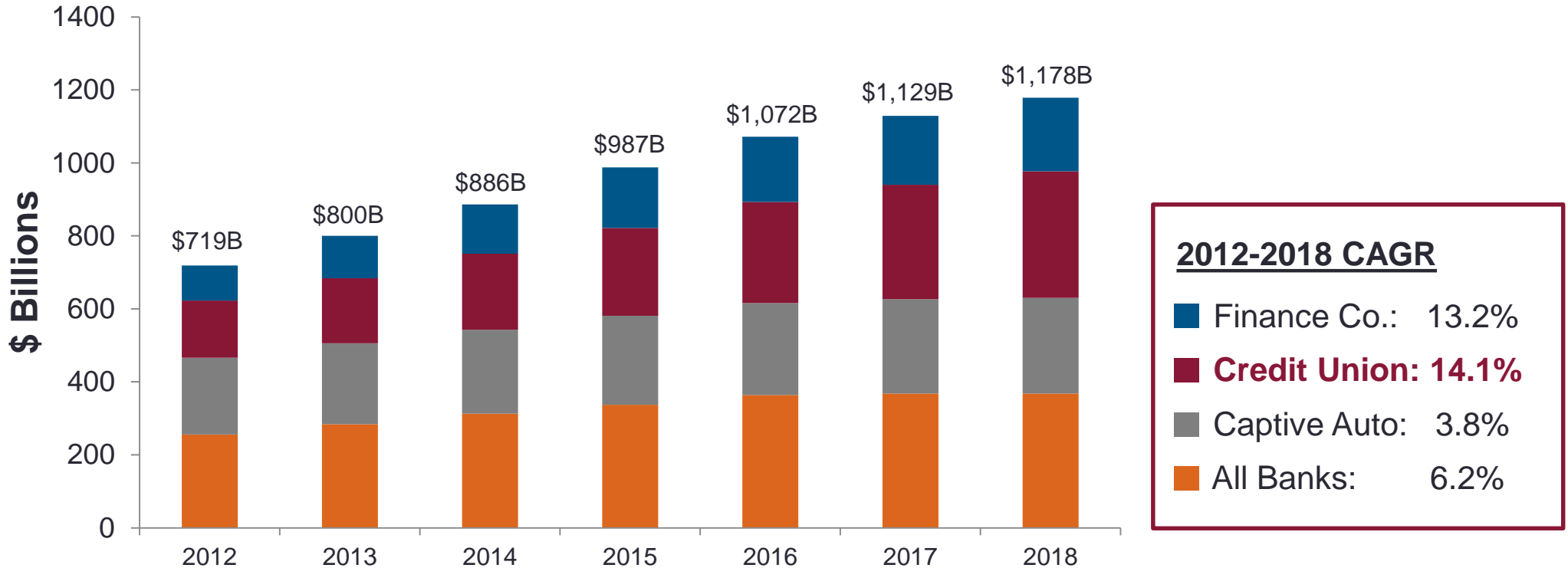
**2012-2018 CAGR:**

**8.6%**

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

# Credit Union Loan Growth Has Been the Fastest

## U.S. Total Outstanding Auto Loan Balances



Source: Experian's State of the Automotive Finance Market – Q4 2018

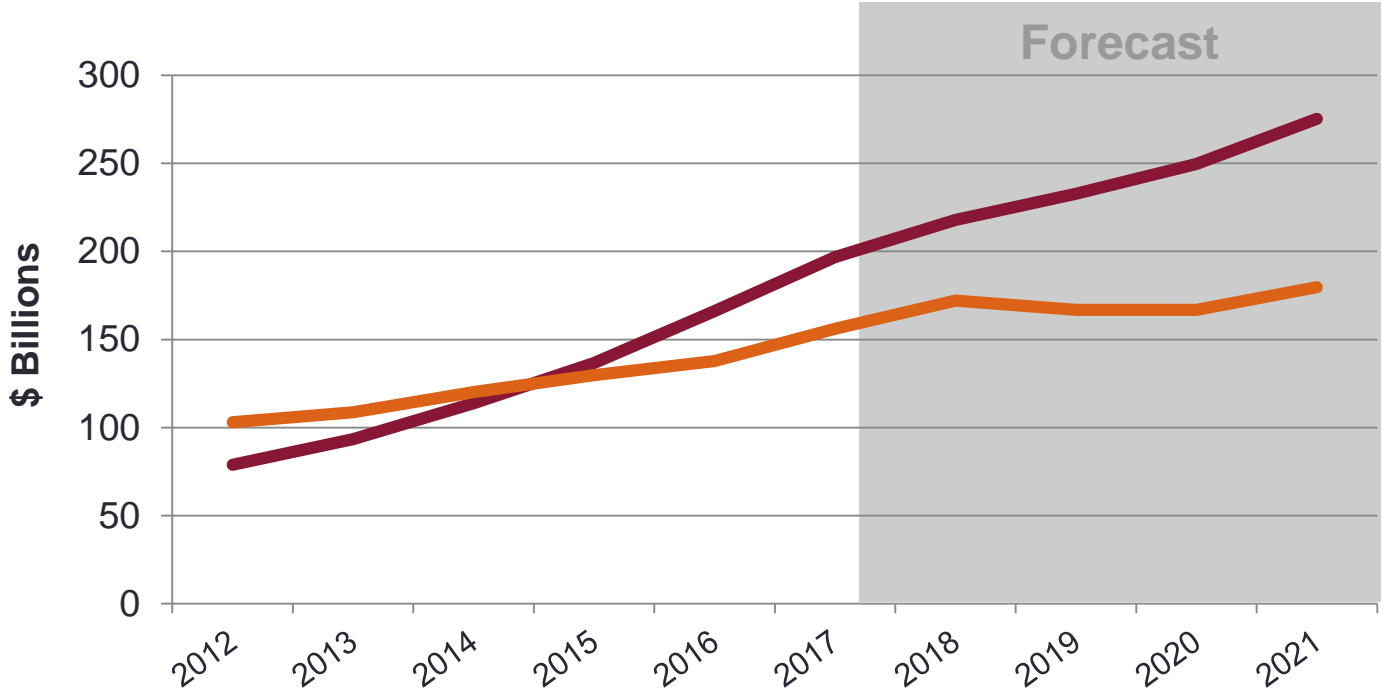
# Indirect Channel Is Driving Credit Union Auto Lending Growth

**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: CUNA Mutual Group – Economics; Experian



# Share of Wallet Research Uncovers Hidden Risks

# Defining Share of Wallet

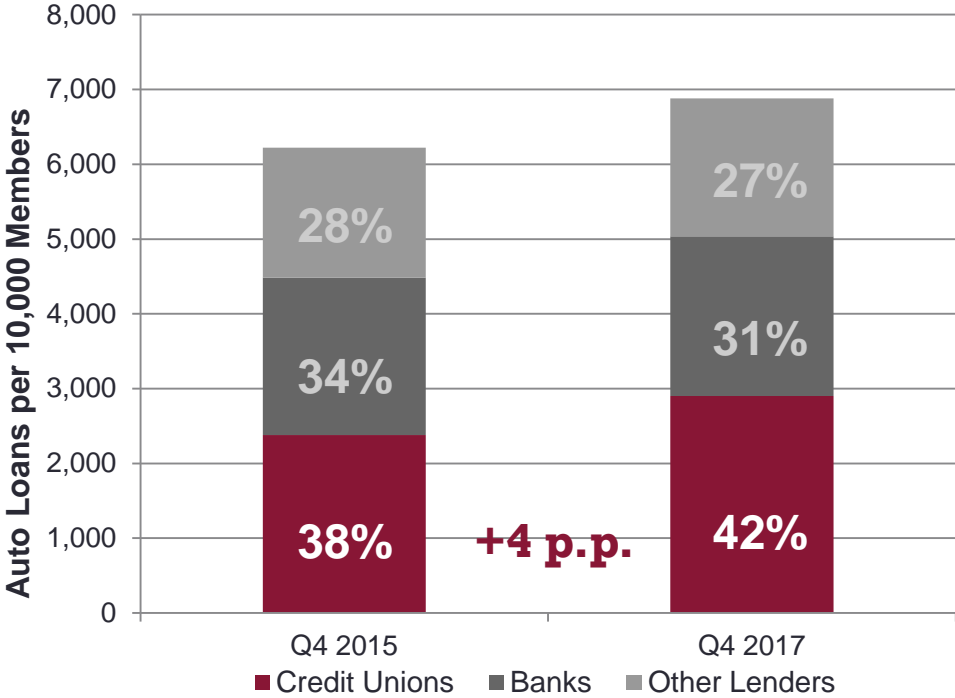


It's a marketing metric that represents the percentage of a customer's total spending within a category, captured by a specific brand, store or business.



# Credit Union Share of Wallet Among Members Is on The Rise – ALL CU MEMBERS

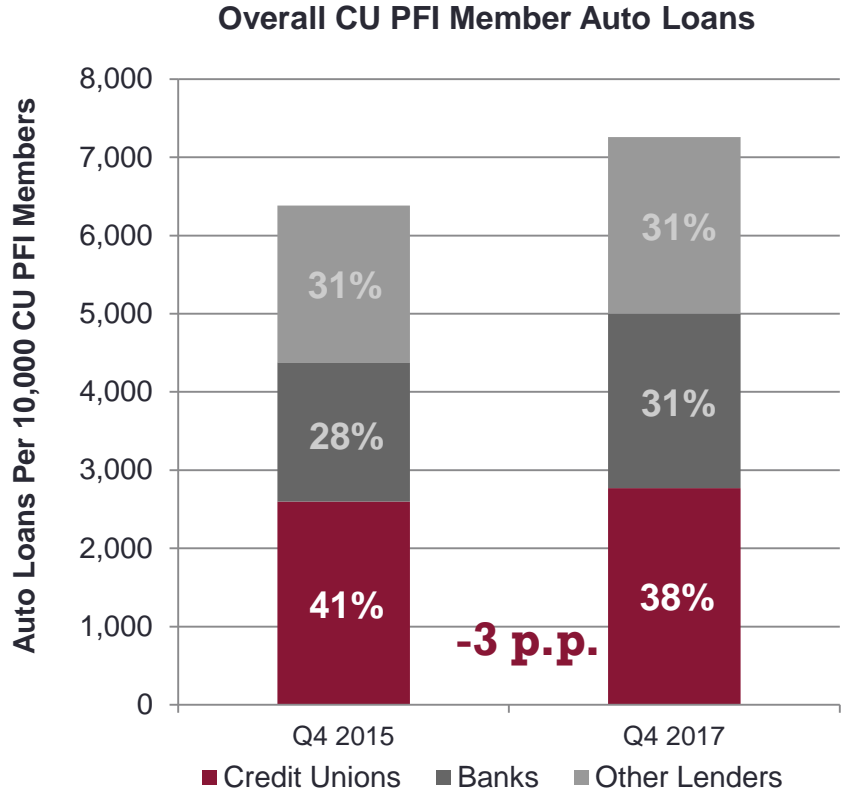
From Oct. 2015 to Oct. 2017, CUs Grew Share of Member Auto Lending Wallets 4 Percentage Points



Source: CUNA Mutual Group Proprietary Consumer Research; Competiscan



# Credit Union Share of Wallet: PFI CU Members



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: NON-PFI members

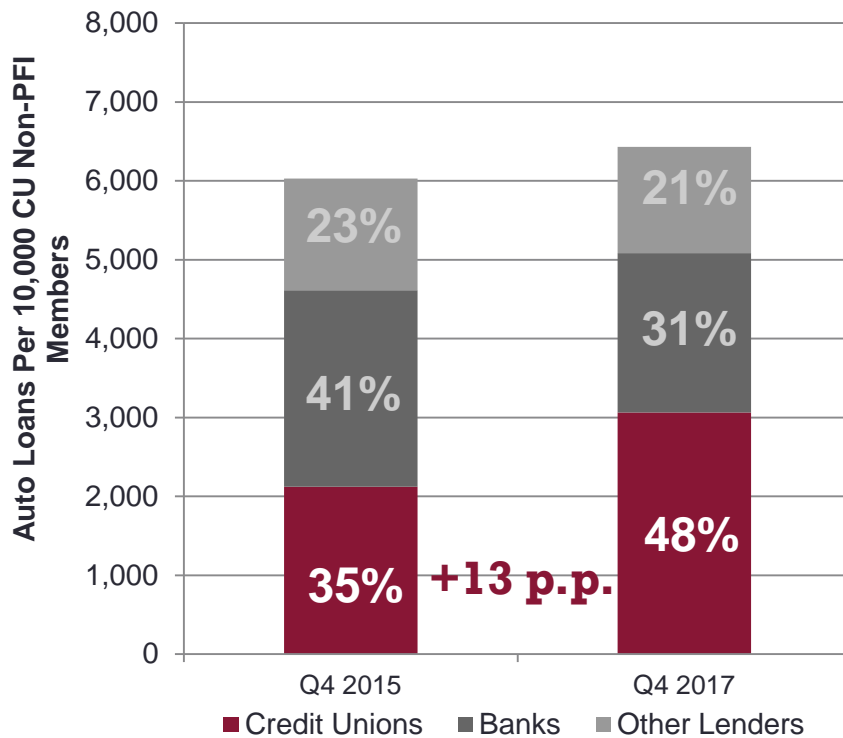
As CU non-PFI member  
wallet size grew,

**Non-PFI member  
SOW increased by**

**13**

**percentage points**

Overall CU Non-PFI Member Auto Loans



Source: CUNA Mutual Group Proprietary Consumer Research; Competiscan

# Credit Union Share of Wallet: A Complex Story

**To recap:**

**Total CU member SOW: +4 p.p., however:**

**CU PFI SOW**

 **3 p.p.**

**CU NON-PFI SOW**

 **13 p.p.**

from Q4 2015 to Q4 2017

Source: CUNA Mutual Group Proprietary Consumer Research; Competiscan

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## What Are the Risks of the Auto Lending Boom?

**Hidden Risk #1:**

**PFI Member Share of Wallet  
Growth Has Been Negative.**

**Share of Wallet  
Among PFI  
Members  
Should Be  
Stronger**



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

*Source: Bain 2016*

**Share of Wallet  
Among PFI  
Members  
Should Be  
Stronger**



**And a booming**

**88%**

**of CU PFI members intend  
to give their CU most or all  
of their future business.**

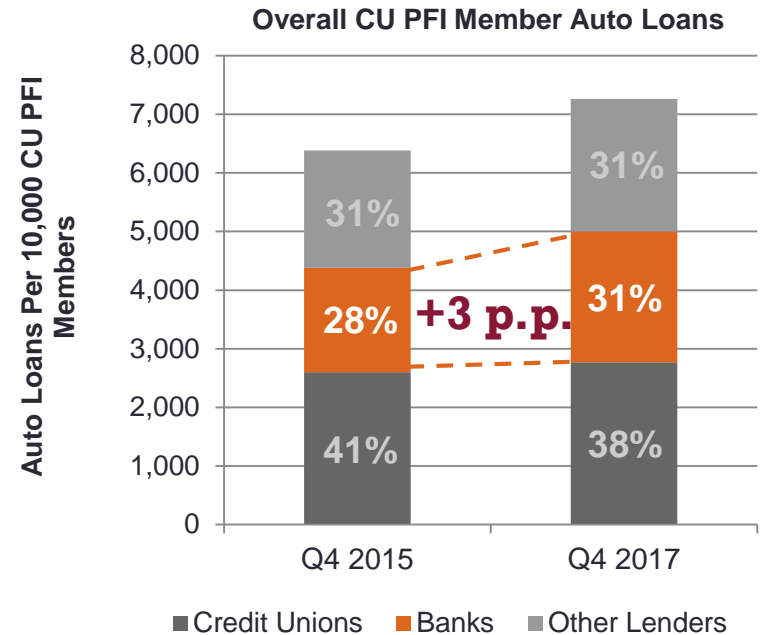
*Source: Raddon 2015*

# 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



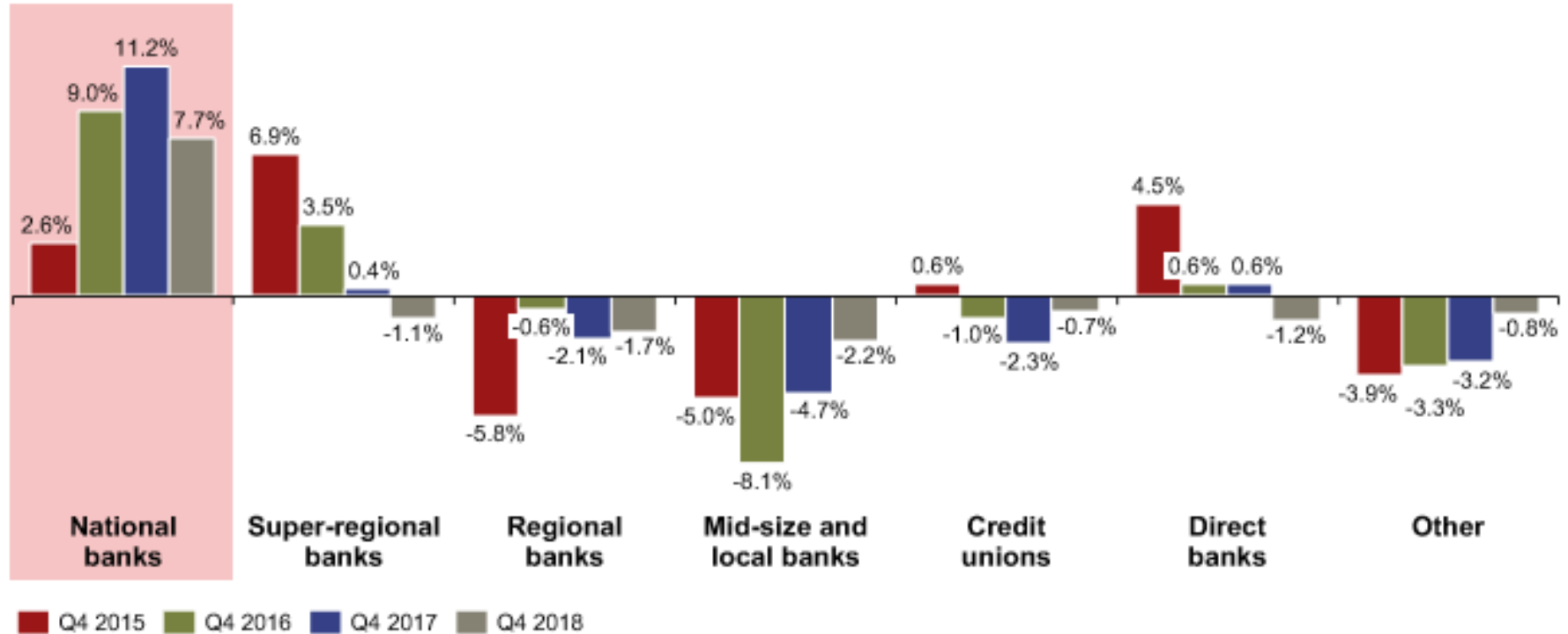
Source: CUNA Mutual Group Proprietary Consumer Research; Competiscan



# Silent Churn Can Lead to Loss of Entire Member Relationships

## Net share of switchers capture

Share of new primary bank minus share of prior primary bank among banked consumers who switched in the past year, by primary bank type

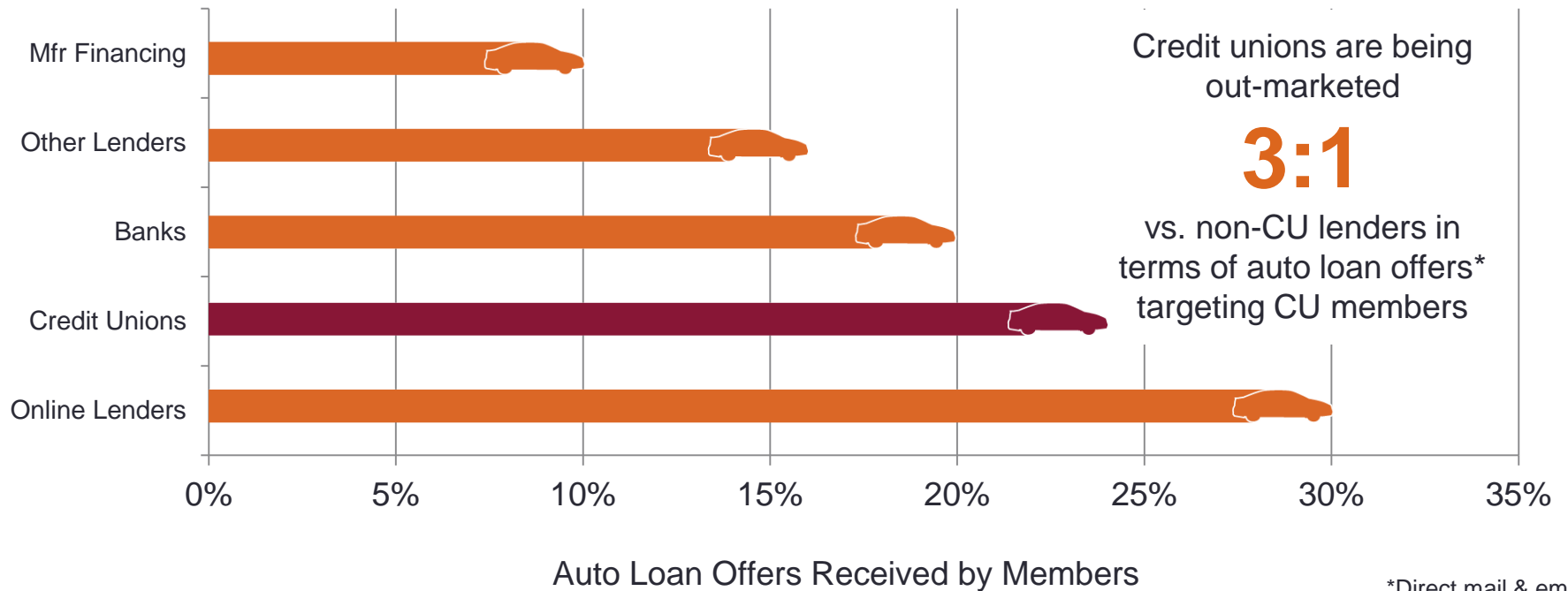


Source: A.T. Kearney Banking & Payments Study, March 2019

# **Hidden Risk #2: Credit Unions Are Being Out-Marketed.**

# In Reality, Credit Union Offers Lag The Competition

## Auto Acquisition Marketing Targeting CU Members by Lender Type



\*Direct mail & email offers  
Source: Competiscan

# 3

## What Can Be Done To Counter These Risks?

# Three Keys to Greater Share of Wallet

**1) Defend Your Share of Wallet**

**2) Grow Your Share of Wallet**

**3) Optimize Your Member Experience**

# Defend Your Share of Wallet

# Valuable TIPS for Member Retention

**Engage New Members Right Away**

**Use 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

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

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

Source: Competiscan

# 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**.

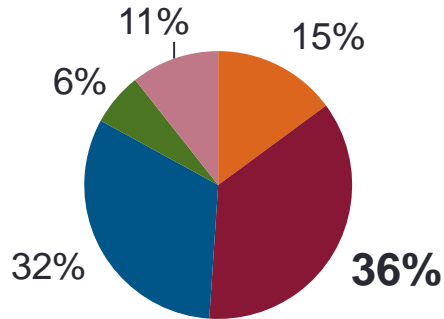
## Triggers—or signals—can help you tailor loan offerings to a customer's needs.

**Trigger examples available through third-party suppliers include:**

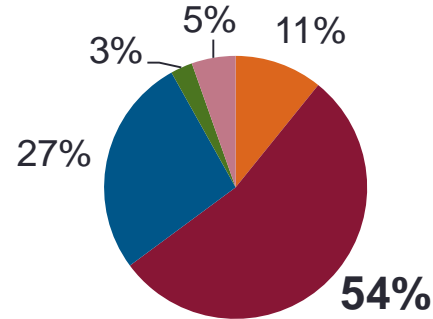
- A member's rising income or improving credit score
- A mortgage rate increase
- Paying off debt
- Major life events—marriage, home purchase, etc.

# Credit Unions Get Ahead With Auto Loan Recapture

### Bank PFI Auto Loan Refinance



### Credit Union PFI Auto Loan Recapture



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



Source: CUNA Mutual Group Proprietary Consumer Research; Competiscan

# Maximize Your Auto Loan Recapture Program

**Use Bill Pay and Credit Bureau Data in Predictive Models to Identify Refinance Candidates Among Members**

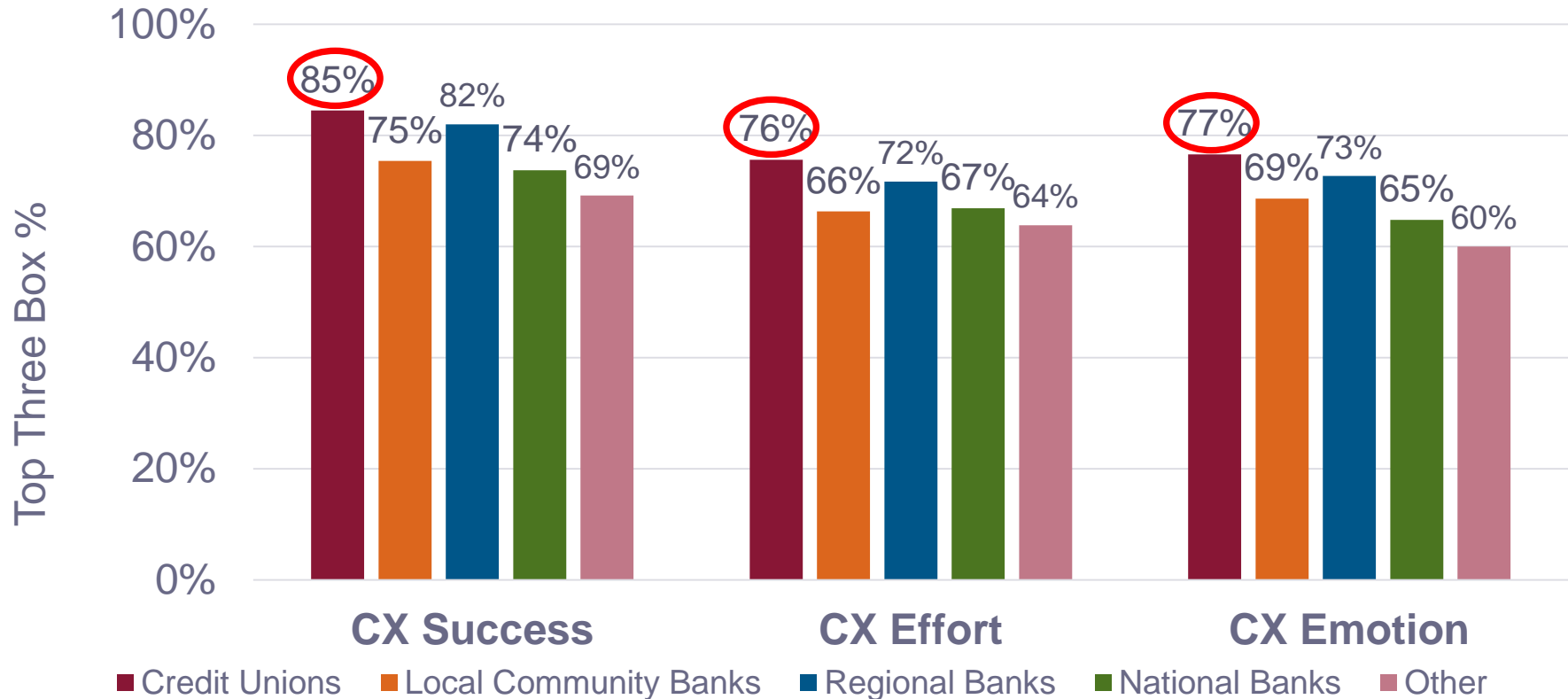
**Focus Messaging on Monthly Payments, along with your low Rates**

**Use Multiple Channels to Reach Prequalified Members and Provide Several Easy Response Options**

**Offer Incentives to Encourage Actual Applications**

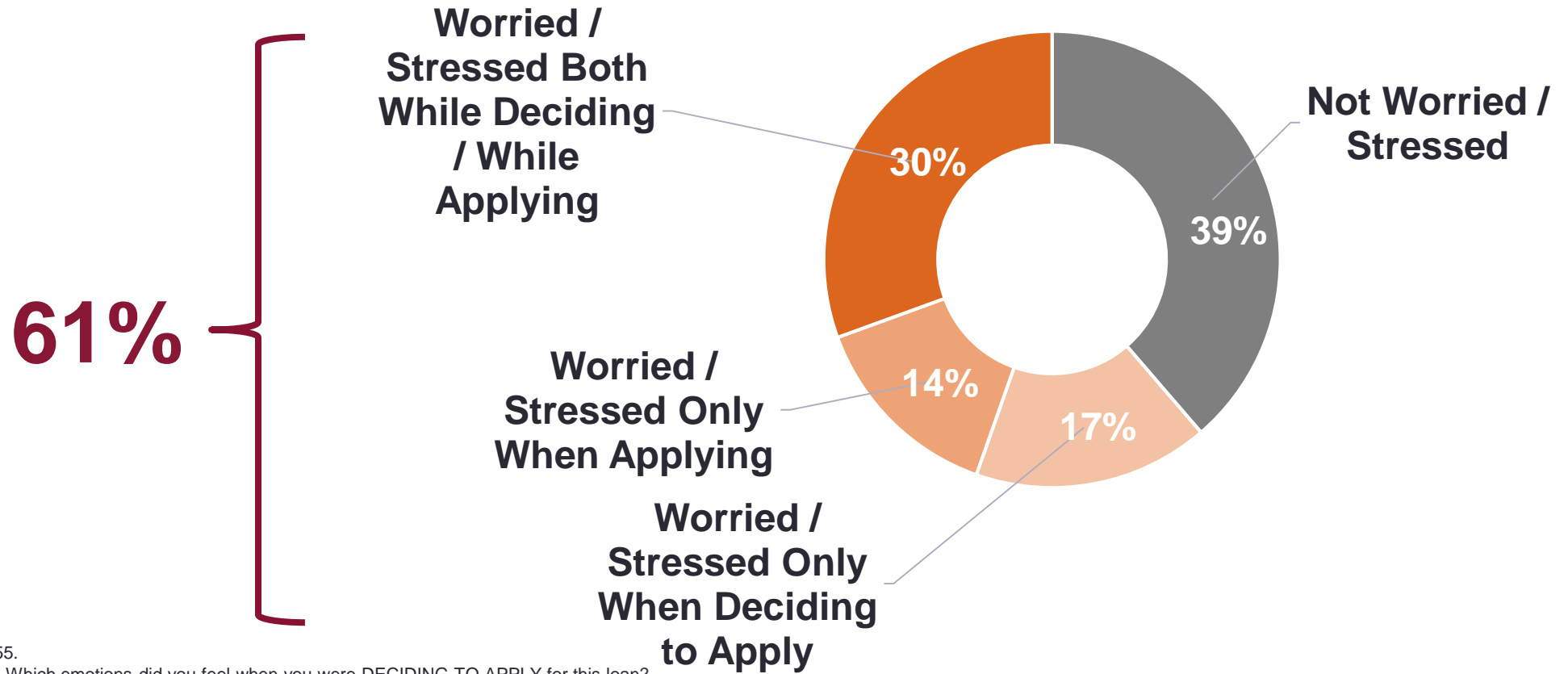
# Optimize Your Member Experience

# Credit Unions Beat Competitors on Key CX Metrics



N= 1,005.  
CX Success. Thinking of your most recent interactions with your primary financial institution, to what degree were you able to accomplish what you wanted to do? [Select one]  
CX Effort. Thinking of your most recent interactions with your primary financial institution, how easy was it to interact with them? [Select one]  
CX Emotion. Thinking of your most recent interactions with your primary financial institution, how did you feel about those interactions? [Select one]  
Source: CUNA Mutual proprietary consumer research conducted March 2019

# Most Consumers Are Worried/Stressed Out When Borrowing



N=455.

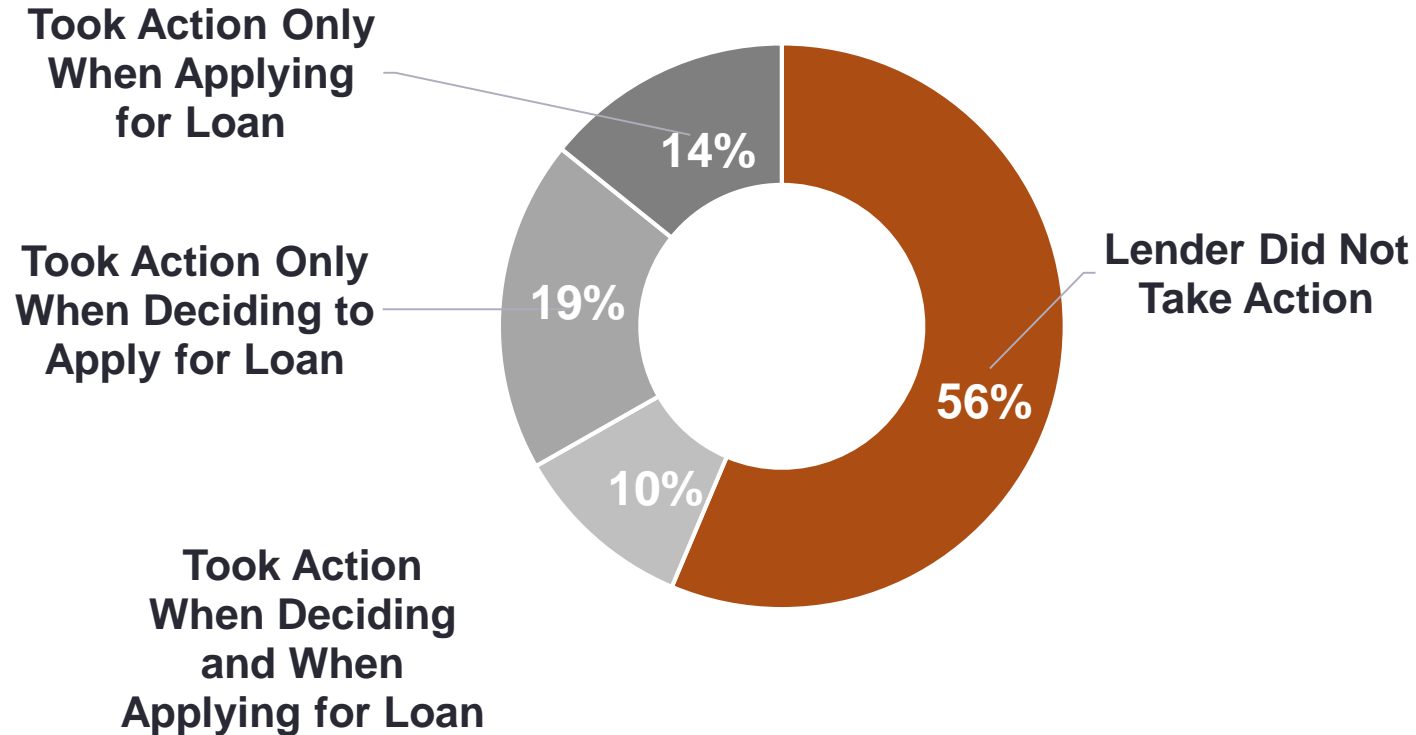
M20: Which emotions did you feel when you were DECIDING TO APPLY for this loan?

M28: Which emotions did you feel DURING THE LOAN APPLICATION PROCESS?

Source: CUNA Mutual proprietary consumer research conducted March 2019

Note: Does not sum to 100% due to rounding.

# Most Don't Experience Any Lender Actions to Reduce Worry/Stress



N= 279.

M24: Did your lender take any actions to reduce your level of stress or anxiety WHEN YOU WERE DECIDING TO APPLY FOR THIS LOAN?

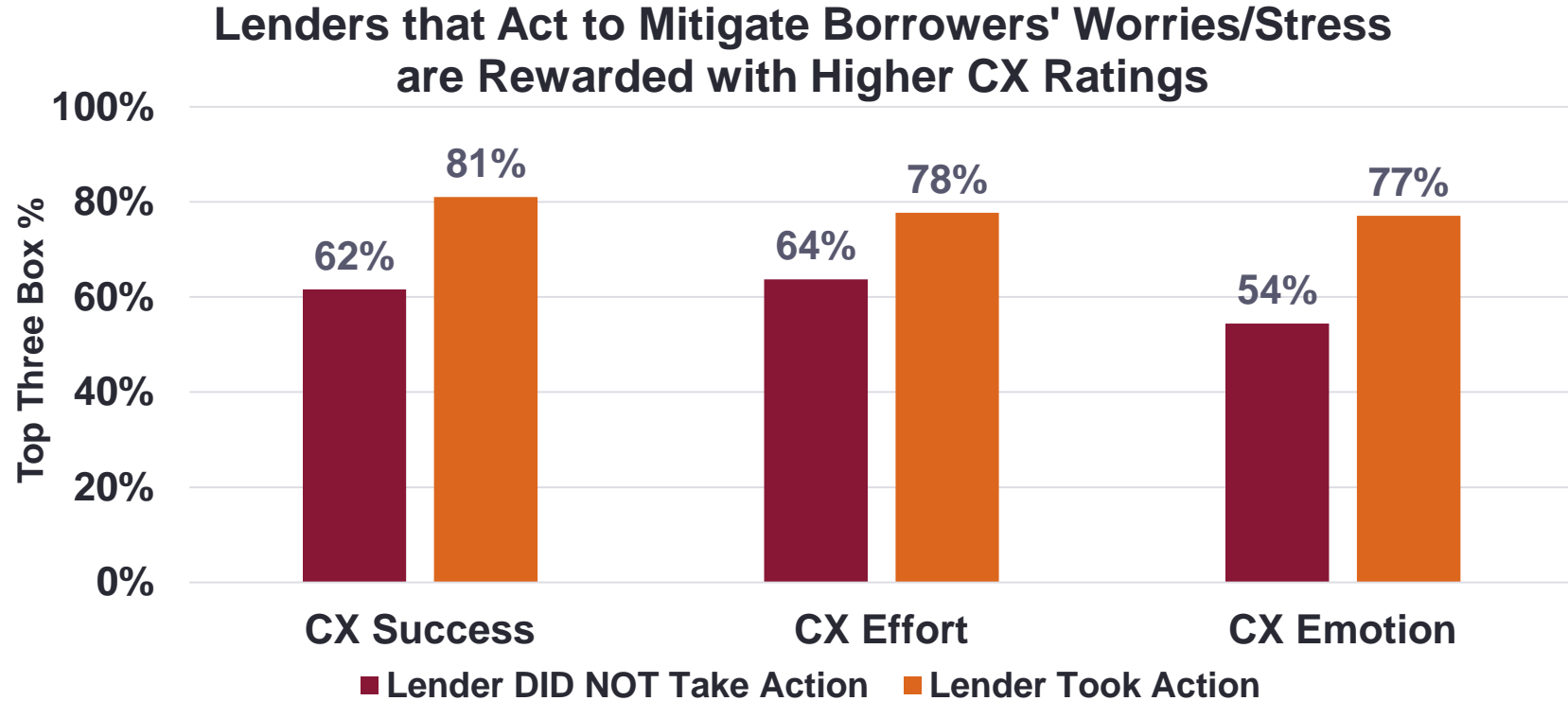
M32: Did your lender do anything to reduce your level of anxiety DURING THE LOAN APPLICATION PROCESS?

Source: CUNA Mutual proprietary consumer research conducted March 2019

Note: Does not sum to 100% due to rounding



# Acting to Reduce Worries/Stress = Higher CX Ratings



N= 279.

M24: Did your lender take any actions to reduce your level of stress or anxiety WHEN YOU WERE DECIDING TO APPLY FOR THIS LOAN?

M32: Did your lender do anything to reduce your level of anxiety DURING THE LOAN APPLICATION PROCESS?

CX Success. Thinking of your most recent interactions with your primary financial institution, to what degree were you able to accomplish what you wanted to do? [Select one]

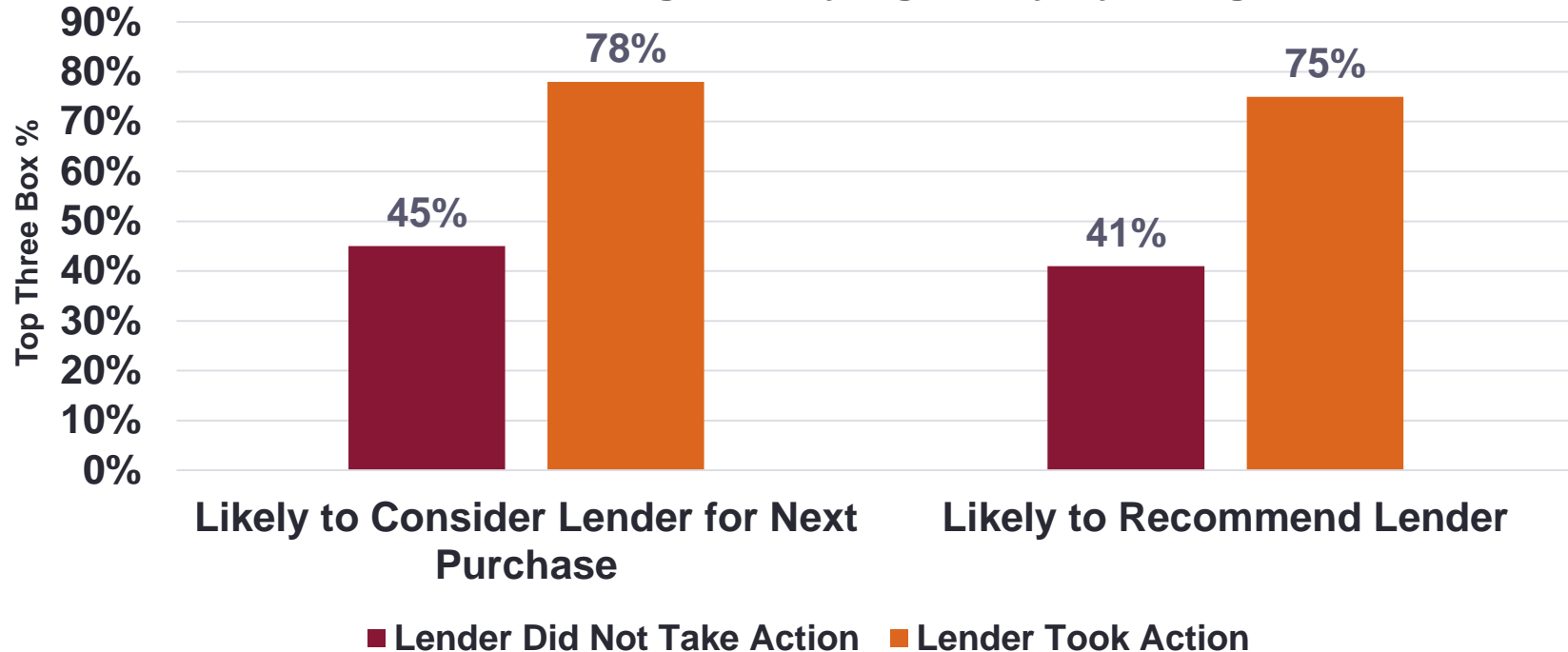
CX Effort. Thinking of your most recent interactions with your primary financial institution, how easy was it to interact with them? [Select one]

CX Emotion. Thinking of your most recent interactions with your primary financial institution, how did you feel about those interactions? [Select one]

Source: CUNA Mutual proprietary consumer research conducted March 2019

# Acting to Reduce Worries/Stress = Higher Loyalty Ratings

Lenders that Act to Mitigate Borrowers' Worries are also Rewarded with Significantly Higher Loyalty Ratings



N=203.

M24: Did your lender take any actions to reduce your level of stress or anxiety WHEN YOU WERE DECIDING TO APPLY FOR THIS LOAN?

M32: Did your lender do anything to reduce your level of anxiety DURING THE LOAN APPLICATION PROCESS?

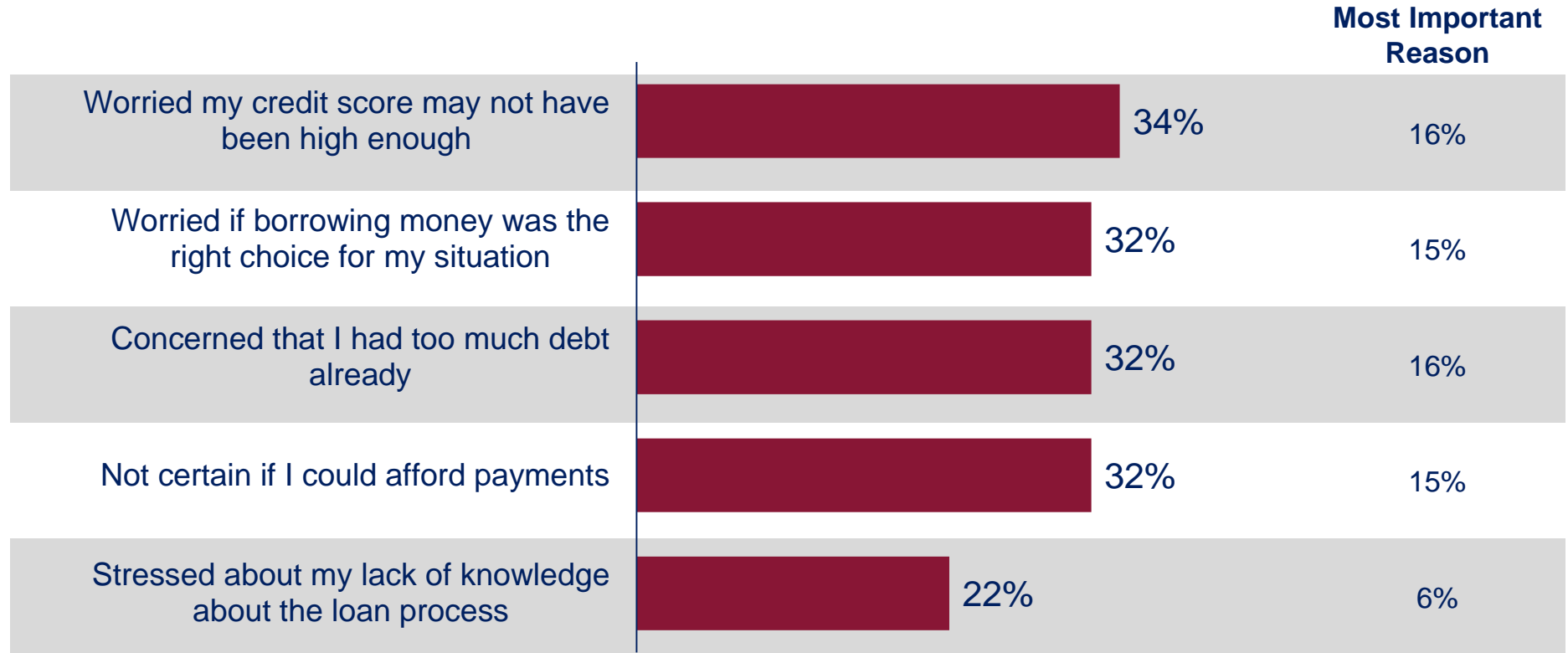
M36. How likely would you be to consider this financial institution for your next product or service?

M37. How likely would you be to recommend this institution to a friend or family member?

Source: CUNA Mutual proprietary consumer research conducted March 2019

# What is Causing Anxiety When Deciding to Apply for a Loan?

## Sources of Anxiety When Deciding to Apply for a Loan



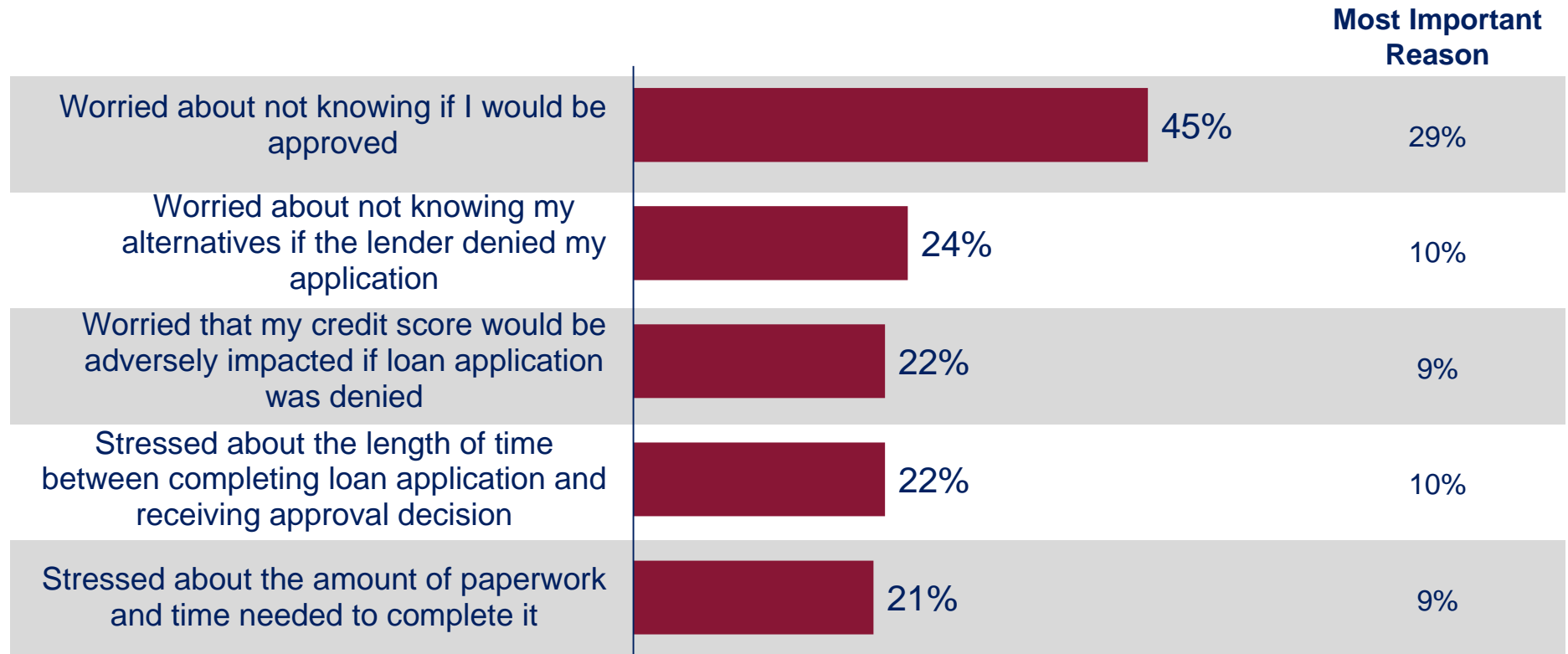
N=230

M21. What caused the stress or anxiety you felt when you were DECIDING TO APPLY for this loan? M22. What is the single most important reason you were stressed or anxious?

Source: CUNA Mutual proprietary consumer research conducted March 2019

# What is Causing Borrowers' Anxiety While Applying for a Loan?

## Sources of Anxiety During the Loan Application Process



N=215

M29. What caused the stress or anxiety you felt DURING THE LOAN APPLICATION process? M30. What is the single most important reason you were stressed or anxious?

Source: CUNA Mutual proprietary consumer research conducted March 2019

## Sources of Anxiety Suggest Focus Areas:

# “Worried My Credit Score May Not Be High Enough”

Some financial institutions now offer credit scores to their customers

The screenshot displays the UW Credit Union web branch dashboard. On the left, there is a navigation menu with sections for Accounts, Dashboard, and Transfers & Payments. The Accounts section lists: Checking (\$6450), Savings (\$800.00), Joint Savings (\$5,000.00), Mortgage (\$150,000.99, \$1,074.13 DUE JUN 1), Investment Services, and Visa Credit Card (\$500.00). The main dashboard area is titled "Dashboard" and features several widgets: "Recent Activity" (LAST 5) showing transactions like "Zelle Test 800-533-6" (-\$6.00) and "ACH:TEST" (-\$3,871.47); "Scheduled Activity" (NEXT 1) showing a "Mortgage Payment" of \$1,000.13; "Credit Score" (819, LAST UPDATED 4/2/2019) with a link to learn more; and "Savings Goal" (47% complete, \$14,305 of a \$30,000 goal). A red callout bubble points to the credit score widget with the text "Credit score featured on web branch dashboard". The right sidebar includes user information (Test Member, Log Out), Help, Contact Us, and Locations, along with a calendar for May 2019.

Courtesy of UW Credit Union

## Sources of Anxiety Suggest Focus Areas:

# “Worried My Credit Score May Not Be High Enough”

**Score Simulator**  
Current Score: 817 Simulated Score: ---  
[Reset all parameters](#)

Add a Credit Card	Raise the Balances on All Your Cards
<input type="checkbox"/> ON <input checked="" type="checkbox"/> OFF \$ 0	<input type="checkbox"/> ON <input checked="" type="checkbox"/> OFF \$ 0
Add a Loan	Lower the Balances on All Your Cards
<input type="checkbox"/> ON <input checked="" type="checkbox"/> OFF \$ 0	<input type="checkbox"/> ON <input checked="" type="checkbox"/> OFF \$ 0
Add Credit Inquiries	Maintain a History of On-Time Payments
<input type="checkbox"/> ON <input checked="" type="checkbox"/> OFF 0	<input type="checkbox"/> ON <input checked="" type="checkbox"/> OFF 0 month(s)
Raise the Credit Limit on a Card	Transfer Balances to a New Card
<input type="checkbox"/> ON <input checked="" type="checkbox"/> OFF \$ 0	<input type="checkbox"/> ON <input checked="" type="checkbox"/> OFF \$ 0

Allow One Monthly Account to Be Delinquent	Allow Every Monthly Account to Be Delinquent
<input type="checkbox"/> ON <input checked="" type="checkbox"/> OFF	<input type="checkbox"/> ON <input checked="" type="checkbox"/> OFF
Eliminate Your Card Balance on All Cards	Cancel Your Oldest Card
<input type="checkbox"/> ON <input checked="" type="checkbox"/> OFF	<input type="checkbox"/> ON <input checked="" type="checkbox"/> OFF
Add Public Record: Foreclosure	Add Public Record: Child Support
<input type="checkbox"/> ON <input checked="" type="checkbox"/> OFF	<input type="checkbox"/> ON <input checked="" type="checkbox"/> OFF
One Revolving Account Goes Into Collections	Add Public Record: Wage Garnishment
<input type="checkbox"/> ON <input checked="" type="checkbox"/> OFF	<input type="checkbox"/> ON <input checked="" type="checkbox"/> OFF

**817** Current Score Simulated Score: ---  
[Reset all parameters](#)

**Simulate**

*“The member response has been off-the-charts positive!”*

- EVP / Chief Credit Officer  
UW Credit Union

A few even offer simulators to test impact of different scenarios on your credit scores

Courtesy of UW Credit Union

# **Will Your Credit Union Succeed in Winning The “Share of Wallet” Opportunity?**







**CUNA MUTUAL GROUP**

