Loan Zone: Why Dealers Pick One Lender Over Another

GrooveCar's survey finds that rate, turnaround time, and dealer-institution communication are key to getting indirect loans.

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By David Jacobson

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The age-old question confronting indirect lenders, whether credit unions, banks, consumer finance companies, thrifts, or third-party providers, is why automobile dealers select one over another.

In the past, we could offer a number of discernible differentiators as easy answers to why dealers might choose a particular financial institution. Poor credit on the part of the borrower was always the main reason why financial institutions would process an application and not fund it. This is called the "Look-to-Book" ratio.

Today, many credit unions and other lenders receive applications with just a small chance of actually booking it. This is not only due to loans rejected because of poor credit, but also to new technology available in the marketplace.

Such applications as DealerTrack and RouteOne have made it easier for dealers to submit applications to multiple lenders simultaneously. At first glance it may appear they have leveled the playing field, since it permits faster decision-making, however, the same technology that suggests one size fits all has been causing grief for the lenders.

Ultimately, only one financial institution will get the loan. So how can a credit union stand out among the crowd and get loans it wants? Quite simply, by having effective representation systems—i.e. a financial intermediary that communicates well about your needs and wants when talking to dealers; rates that are attractive to both dealer and borrower; real customer service; and a marketing support effort, you are well on your way to realizing a steady and growing stream of loan applications.

Dealer Research

The place to start is to find out what the dealers had to say about the top five reasons why one lender bests another. Groovecar recently canvassed more than 200 auto dealerships in the metro New York region

Perhaps to no surprise, the No. 1 reason an auto dealer selects one lender over another is rate; however, new car dealers are more concerned about rate than used car dealers, who typically see more challenged credit.

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The actual time to submit an application and receive a final disposition from the lender—known as "turnaround time"—rated second, while the "advance"—the dollar amount a lender is willing to commit on a particular vehicle—ranked third.

Further down the list in the decision-making, were fewer stipulations, which rated 4th, followed by the quality of the relationship and ease of contacting and communicating with the lender by dealer/credit union interface or telephone.

The survey underscored that dealers are less likely to send applications to lenders that consistently ask for stipulations, such as pay stubs to support income claims or copy of a deed to prove home ownership, when other lenders do not.

Overall, the respondents felt the "relationship" between the dealer finance manager and CU representative plays an important role in the overall quantity and quality of the applications submitted. In fact, most lending institutions rotate analysts to preclude any possible conflict of interest with dealer F&I (finance and insurance) managers. The study also reinforced that dealers are apt to submit applications to those lenders who respond quickly to questions as well as those who can be contacted by telephone to discuss a particular application.

Interestingly, the results showed that used car dealers were more concerned about the "advance" and "fewer stips" (stipulation) than turnaround time, which relates to credit quality. A dealer will wait longer for a credit decision on a poor credit applicant. Why? Because there is less competition for the loan. Therefore, the dealer will wait.

Credit unions must also have an experienced team to maintain those all-important relationships and should never underestimate the power of communication. Constant awareness of the credit union is essential. In many cases, the CU may offer the better rates, but not the best terms, while in other cases, the financial institution with the best rates and terms may fly under the dealer's radar screen. However, providing incentives for dealership finance managers to do business with your credit union plays a key role.

Case in point, GrooveCar held its "Dealer Challenge" earlier this year.

Conducted from Jan. 1-March 31, the goal was to help credit unions and dealerships begin the New Year with solid performance figures and to provide an extra incentive for dealer finance and insurance managers to achieve peak performance goals. Over 260 auto/motorcycle dealers in the GrooveCar network on Long Island, Brooklyn and Queens, participated in the three-month contest. Further, almost $250 million in applications were processed, including $40 million in the last 10 days of March alone.

Other lending institutions, such as JP Morgan Chase, responded by offering $50 to dealer finance managers for every funded deal for the month of June.

David Jacobson *is founder and president of GrooveCar Inc., a leading Long Island, N.Y.-based financial intermediary that has been serving credit unions since 2000 and has developed a network in excess of 300 auto, motorcycle, ATV and marine dealers..*