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Driving Loans Directly to the Auto Dealership

By Diane Franklin

"One-stop shopping" is a key phrase that defines convenience for busy, time-pressed consumers. It explains the popularity of massive "super stores," which allow consumers to buy groceries, clothes and household items in one location and thus avoid the hassling of driving, parking and standing in checkout lines again and again. It should come as no surprise, then, that these same time-pressed consumers find it extremely attractive to be able to shop for an automobile and an auto loan at a single location.

"Ten years ago, there were only a handful of credit unions offering auto loans at the point of sale," states David Jacobson, president/founder of GrooveCar Inc., a Long Island, N.Y.-based auto-lending consultant that serves 20 credit unions in the New York metro area. "Today, there are many more credit unions doing so. A key reason is that people want the immediate satisfaction of choosing a car and being able to finance it on the spot. In addition, there are an increasing number of credit unions that have converted to open charters, allowing them to serve an entire community, and there have been advances in technology that make quick financing decisions at the point-of-sale possible. All of these things have come together to increase the number of credit unions [that are] involved in this type of lending."

Jacobson points out that the potential car buyer may already be an existing member of a credit union, but oftentimes he or she is not. In that case, the auto dealer can arrange financing through a credit union, which results in a gain of not only a new loan but also a new member.

Founded in 2000, GrooveCar Inc. currently serves 20 credit unions in the New York area by facilitating automated loan approvals at more than 300 metro auto dealers. Using Apptrack, GrooveCar's proprietary auto lending system, auto dealers send the loan applications to individual credit unions on a one-at-a-time basis. "If a potential car buyer is already an existing member of a credit union, the loan application goes there first," Jacobson explains. "If the car buyer is not a credit union member, the auto dealer sends the loan to a credit union, which either accepts or rejects it. If it's rejected, the loan application is sent to another credit union. All of this is done with the press of a button."

This is in contrast to several other online application systems, which Jacobson notes use a "shotgun approach" to various auto electronic financing options. "When the loan application is shotgun to five different lenders, each financial institution has only a 20 percent chance of getting the loan," he explains.

Jacobson stresses that credit unions getting involved in loans made through an auto dealership should have a clear strategy. "They need to ask themselves what their goals are and whether they have the internal resources necessary for this type of lending," he says. He adds that they also need to do their homework by researching various car dealerships in their area. They can do this research on their own or they can use the resources of an auto-lending consultant such as GrooveCar.

"When a credit union makes an auto loan directly to a member, then the auto dealer is irrelevant," Jacobson says. "When the loan is made indirectly through the auto dealership, then the dealer is everything. Credit unions need to know [the answers to the following two questions]: Is the dealer truthful? Is the information they are providing to the consumer correct? The credit union almost becomes responsible for the transaction. Just because the credit union has expertise in making auto loans directly to their members doesn't mean that they have the necessary skills to undertake this type of lending themselves."

Teachers Federal Credit Union, based in Farmingville, N.Y., is among those using GrooveCar's services to facilitate auto lending at the point of sale. "It works as a tremendous convenience for our members, being able to conduct the entire transaction at a dealer without making a visit to our branch network," states Nancy Orlando, VP of lending at the $2 billion credit union that serves 165,000 members.

In addition, Orlando points out that providing auto loans at the point of sale means that Teachers FCU is less likely to lose the loan to automotive financial companies or banks. "Previously, our members may have opted to go with one of those other options simply because of the convenience," Orlando states. "Now, our members can select us as a financing option at the dealership whereas before they could not. This has been a tremendous asset to us, and we've been able to grow our auto loan volume tremendously since we started with GrooveCar in March 2002."

However, Orlando cautions that it's still important for credit unions to provide verification of all auto loans that have been booked through a third party. "You need to do the follow-up with members and check the funding package to ensure the accuracy of the information," she says.

Credit Union Direct Lending, based in Rancho Cucamonga, Calif., also offers a solution that allows credit unions to capture the auto loan at the point of sale. Jerry Neemann, SVP/COO for CUDL, acknowledges that POS lending does deny a personal contact with the member at the credit union. "But what is lost in personal service is easily offset by the convenience you are providing the member," he says.

Using the CUDL Dealer Portal, potential car buyers will have a response on their loan application in a matter of seconds (though additional follow-up, such as proof of income and other documentation may be needed to finalize the deal). However, speed and convenience are not the only factors that determine whether the credit union gets the loan. "It's not only a matter of getting an answer back quickly, but how competitive you are on the rate and the terms," Neemann stresses.

Founded 10 years ago and jointly owned by 77 credit unions across the country, CUDL has grown to encompass nearly 600 credit unions and more than 8,000 auto dealerships in 42 states. The sheer numbers generated through CUDL are quite impressive. In the month of June alone, $1.5 billion in auto loans originated through CUDL.

With the emergence of open charters, Neemann acknowledges that some credit unions are using the auto dealership venue as a way of picking up new members. In these instances, the auto dealer makes the loan and then sells it to the credit union. "The credit union is purchasing an asset from the auto dealership, and as a result is getting a loan and picking up a new member," Neemann explains.

Neemann adds that it all comes down to the overall auto-lending strategy of the credit union regarding whether to purchase these loans. "While this may bring in new members, the credit union still has the challenge of turning them into active members," he observes.

At $405 million San Francisco Fire Credit Union, which has two offices in San Francisco, CUDL has brought member convenience and a resultant surge in auto loan volume. "We've tripled our car loan volume because of the convenience that CUDL brings to our membership," reports President/CEO Diana Dykstra.

SF Fire CU became part of the CUDL network two years ago so that its 20,000 members would be able to obtain an auto loan without stopping in at one of the credit union's two San Francisco branches. "Our members are firefighters in the city of San Francisco who work one full day and are off four," Dykstra explains. "Many of them live more than 50 miles away. There are even some firefighters who live as far away as 250 miles. So, it's not always convenient for them to drive in and out of the Bay area, where our offices are located. By being a member of CUDL, we can give our members the option of getting the car loan near where they live."

Dykstra affirms that some credit unions – particularly mid-size organizations that have converted to community charters – may use their connection with CUDL to build membership. "We're getting some new members because of CUDL, but our main focus is on serving our existing members," she says.

For those who are considering making auto loans at the point-of-sale auto dealership, Dykstra affirms the need to be diligent. "Any time you involve a third party in any process, the credit union shouldn't advocate responsibility. Car dealers want to sell cars. The credit union still has the responsibility to understand the relationship, nurture the relationship and check the relationship. By that, I mean verify documentation and make sure it's done right."

It is possible for credit unions to establish point-of-sale auto loans without the use of an intermediary like CUDL. However, Neemann cautions that considerable expertise is required to do so. "There's a lot of work involved in matching up the information on the credit applications with what was promised at the auto dealership," he reports. "That's where credit unions get in trouble, because they weren't prepared for all of the work required on the back end."

In addition, CUDL saves the credit union all of the legwork involved in establishing relationships with auto dealerships. "The credit union doesn't have to sign 8,000 contracts with 8,000 auto dealers," Neemann explains. "Those relationships are already in place. We go out to auto dealers on behalf of our entire credit union network. We're leveraging the power of 600 credit unions." **CUB**

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