

Times Are A Changin'

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It's been almost two decades since credit unions first decided to offer indirect auto lending. At that time, most credit unions entered the market by offering conventional auto loans. After all, this was the natural place to start.

Times have changed, however, and the times still are a changin'.

Over the past two decades, credit unions have become more significant in the financial lives of their members. Having the ability to finance through the credit union directly at the dealership has created a new demand—a demand for alternative financing products at point of sale.

There are many reasons to consider expanding your auto lending products.

Competition for conventional loans is fierce, forcing lenders, including credit unions, to drop rates to unprecedented levels in order to compete. Even more critical is the fact that 25% to 30% of all new vehicles are either leased or purchased on a balloon note. Some high-end dealers, such as Mercedes and BMW, can lease up to 70% of all new car sales. Since most credit unions do not offer these products, members unequivocally are left with no option other than to leave the credit union and seek another lender.

Most credit unions stick to offering conventional auto loans because it's what they know and the culture they grew up in. Therefore, instead of offering nonconventional lending options, they have chosen to compete by offering extended terms on conventional loans.

But extending terms does not necessarily fill the void and can come with a plethora of new challenges.

The benefits of offering a full line of auto lending products are extraordinary. Its potential is only limited by the lending appetite of the credit union. For example, since a good portion of lease customers will not consider a conventional loan, this should be incremental loan growth for the credit union. Offering leasing and balloon financing not only will build stronger dealer relationships but will result in an increase in conventional loan business.

If increasing membership is in the credit union's master plan for 2011, offering additional auto lending products is a great way to accomplish this.

There is no question that offering leasing and balloon financing will satisfy the needs of more members at all credit unions.

Members are savvier than ever and demand the very best from their financial institutions. Providing mainstream lending products such as leasing is no longer a luxury, but a necessity.

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