

## Nonconventional Auto Financing Offers Opportunity Without Extra Risk

Standing out from the crowd usually requires some risky behavior. However, when it comes to auto financing, nonconventional does not necessarily mean more risk.

In today's lending environment—the toughest that the auto lending industry has ever seen before—many lenders, including credit unions, understandably have taken a defensive position in order to protect themselves from what is, in many cases, the unknown. Even many well-capitalized credit unions have reined in auto lending over the past 10 months.

The same economic climate that has caused many lenders to retreat is the same one that continues to provide fantastic opportunity. Even with auto sales at a 30-year low, many credit unions have sustained or increased

reduced risk.

Make hay while the sun shines.

It's clear that most educated consumers recognize the value of nonconventional financing. Depending on the market and manufacturer, leasing and balloon loans can make up nearly 60% of total car sales. The big news to credit unions is that in addition to reduced risk, the spreads on these loans are larger than those of conventional financing.

Case in point: Last August, Chrysler announced it would no longer offer leasing on its vehicles. While this announcement shocked the industry and scared most lenders out of their boots, there was an auto lending opportunity of a lifetime hovering just below the surface.

Since leasing was critical to Chrysler and Jeep vehicles, the automaker had to rely on third-party financing to pick up the slack. And, in order to stay competitive, Chrysler offered rebates of up to \$10,000 and even offered credit union members a balloon and lease incentives.

Keith Donnelly, who owns several Chrysler and Jeep dealers in the New York metropolitan

area and is one of the nation's largest sellers of Jeep vehicles, currently places 70% of his loans through credit unions that participate in the GrooveCar program. Leases or balloon loans make up nearly 80% of those loans.

In markets such as metro New York, credit unions like Teachers FCU on Long Island have been using nonconventional financing to gain market share and fill a much-needed void. As a result, Teachers FCU has become a full-service auto lender to its members and is currently ranked as the No. 2 noncaptive lender in one of the most competitive regions in the country.

It's clear that risk and return would be different if General Motors, Ford, Chrysler, and more than 15

other competitors were still in the game. But, this is not the case, and therein lies a great opportunity for even the most conservative of credit unions.

But the benefits of lease and balloon loans to credit unions go well beyond the desirable increase in interest income. Due to the nature of the product, nonconventional financing also results in higher credit quality and large rebates drastically reduce the loan-to-value ratio, placing the credit union in a rare and favorable equity position from inception.

Credit unions are generally very conservative. Therefore, it's not unusual for credit unions to shy away from nonconventional financing, let alone seek it out. However, there are resources that credit unions should tap into, which, at minimum, can educate them about the current lending landscape. As with any successful business, ignorance is not bliss.

The fact that many credit unions had bad experiences with nonconventional financing cannot be ignored. As a matter of fact, they need to be talked about.

But it's also important to remember that some of the greatest products and businesses in history were the result of an innovation on an old idea.

There are many new general components of leasing and balloon loans now in place to reduce risk that simply did not exist years ago. For example, a money market account is opened at each credit union GrooveCar does business with. This account is established to hold money in escrow for each vehicle and cannot be withdrawn until the credit union is made whole. This is in addition to residual value insurance.

In the quarter century that I have been in the retail automotive and finance industries, there have been some very difficult times and some very fruitful times. Yet, each one of these cycles provided opportunity for those who dug beneath the surface. For credit unions that have the ability to lend, these are the nonconventional golden ages in which to seize the moment.

### GUEST OPINION



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their conventional loan volume. This is the result of fewer lenders vying for member loans, which ultimately earns credit unions a larger piece of the auto-lending pie.

If you look below the surface of conventional financing, this is where you can find a world of opportunity that has never been available to noncaptive lenders, such as credit unions.

Nonconventional financing can be risky during conventional times; however, it is critical to understand that the opposite is also true. During nonconventional times, such as what we are currently experiencing, nonconventional auto financing, balloon loans and leasing can provide unprecedented opportunity along with