



# CREDIT UNION JOURNAL

LENDING

## How the West Was Won...by Credit Unions

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With record-breaking auto sales in the U.S., it's no wonder that credit unions were able to boost their auto lending marketshare to 16.5% nationally—but Western states boast numbers that more than double that figure.

According to yearend data from credit union consultancy Callahan & Associates, credit unions have seen auto loan marketshare gradually rise—with two small dips—over the last six years. In 2010, CUs nationwide snagged 15.1% of the auto lending market, reaching 16.5% at yearend 2015.

But in some states, credit unions have grabbed so much of the local auto loan market, that they now dominate the business. For example, according to the Callahan data, in three far western states – Utah, Idaho and Oregon – credit unions have 52.6%, 47.8% and 41.9% of the regional auto financing market, respectively. In three other western states, Washington (39.2%), Colorado (34.4%) and New Mexico (31.4%), credit unions also enjoy a better-than average share of the auto loan business.

Why have credit unions in this region secured such a significant chunk of auto loan? Part of it has to do with the relatively sparse population of these areas. Idaho, Utah and Oregon – which together occupy an area larger in size than the entire nation of France – have a combined population of only about 8.5 million (or about equal to the total population of New York City).

Marcie D. Belles, VP of auto finance at Royal Media Group, a company that provides information and media services to the financial services industry, speculated credit unions may be able to dominate the auto lending markets of small-population states like Utah, Oregon and Idaho due to the fact that the big banks just can't have as many "boots on the ground" in states with such small loan volumes.

"A state like California probably does more than ten times the loan volume of a state like Utah, so lenders would tend to focus more resources on the states that offer the larger volumes," she told Credit Union Journal. "Many credit unions, on the other hand, often do all their business within smaller footprints."

For instance, she noted, America First Credit Union, a \$7.2-billion institution based in Riverdale, Utah – which accounted for 23% of Utah's auto loan volume in December 2015, according to AutoCount – is focused solely on the Utah and Nevada markets.

Might banks be relinquishing this part of the loan market, thereby giving credit unions more room to operate and expand?

"I haven't seen much evidence of banks pulling out of the auto finance sector," Belles cautioned. "I think the [overall auto loan] market has expanded – the record new-car sales are a testament to [this] growing market. And with more cars being sold, there's a greater need for financing."

### Utah: What's In The Salt Water?

Still, the huge market share enjoyed by Utah credit unions can't be discounted – leading to other possible factors at work.

Scott F. Simpson, president and CEO of Utah Credit Union Association in Salt Lake City, pointed out that Utah has one of the highest – if not the very highest – concentrations of credit union membership in the country.

"There is very deep market penetration here [in Utah], so it stands to reason that auto loans would follow," he said.

Indeed, Bill Meyer, a spokesman for CU Direct, a CUSO that helps credit unions generate loans nationwide, said in Utah credit union penetration is extremely high, with 72% of the population being credit union members, compared to 32% of the U.S. population as a whole.

Oregon and Idaho also boast higher-than-average membership figures at 40% and 44% respectively, but still not close to the percentage in Utah.

Simpson also attributed the state's buoyant auto loan market to how Utah's economy recovered so well from the recession. Indeed, since reaching 8% in 2010, the jobless rate in the state is now only 3.4%.

"As such, Utah credit union members were in a better position to upgrade their vehicles post-recession," he stated. "Utah credit unions have always been very strong auto lenders, [while] Utah banks have had an on-again, off-again relationship with auto lending."



Prior to the recession, Simpson indicated, Utah banks generally ignored auto lending. "When other lending markets stalled, they [banks] began to dip their toes again [into auto loans]," he said. "There is more lucrative lending than auto loans in a strong economy – so if history is a way to predict the future, banks will again drift away from auto lending as we continue our strong local recovery."

#### **Oregon: No Cascades Here**

Credit unions in Oregon have also made a rather large footprint in the auto loan business.

According to Lynn Heider, vice president of public relations and communications at the Tigard, Ore.-based Northwest Credit Union Association (which represents credit unions in Washington state and Oregon) said that in 2015 more than 110,000 automobiles were financed by credit unions in the state – adding in excess of \$511-million to their balance sheets, a 16% increase over the prior year.

Indeed, the credit unions' share of the Oregon auto loan market was almost double that of banks (23.8%); and far exceeded corresponding figures for captives/dealers (15.9%); and finance/market lenders (9.4%).

Keli Myers, VP of retail lending at Advantis Credit Union, a \$1.2-billion institution based in Portland, Ore., said at her credit union auto lending has been doing "extremely well" for the past three years. Advantis, she noted, experienced its biggest year ever in auto lending in 2015, and in 2014 nearly doubled its volume in 2013.

"The credit union re-designed its auto lending program in 2013 in an effort to meet the needs of more members, and make it easier for members and dealers to do business with Advantis," she said. "This re-design was largely based around longer [loan] terms and larger over-advances, and the ability to provide favorable terms on pre-owned, luxury model vehicles. We essentially created specialty products that met specific dealer needs and allowed us to help more members."

All this has been accomplished, she added, without relaxing their underwriting standards.

Myers also noted that local banks are not pulling out of Oregon – in fact, quite the opposite is happening.

"They [banks] have become more aggressive and have lowered rates to compete with credit union rates," she said. "However, credit unions have been able to compete against banks by introducing programs that make purchasing vehicles easier and more affordable."

#### **General Trends: North by Northwest**

John Vincent, an automotive consumer advice writer and board chair of Oregonians Credit Union, a \$300-million institution based in Milwaukie, Ore., said that in a broader context, what he hears when he talks to credit unions is that much of their loan success is based on local relationships with auto dealers.

"Each party knows what the other is looking for (and not looking for), in terms of types of loans, borrowers and terms," he said. "Much like credit union member relationships, the relationship with credit unions and dealers needs to be one that is mutually beneficial."

Vincent noted that this goes beyond the "generic" CUDL relationship into personal relationships between credit unions and dealer finance personnel.

"Oregon and Washington are home to some large and powerful credit unions," he offered. "BECU [the \$14.5-billion CU originally chartered to serve Boeing Employees Credit Union of Tukwila, Wash.] --which also has many members at Boeing facilities in Oregon -- is so dominant in the Seattle market that they are the title sponsor of the city's auto show."

In addition, Vincent noted, credit unions in the [Northwest] region also seem willing to be "aggressively flexible" when it comes to adjusting loan terms to capture market share.

"Whether that will pan out as a profitable long-term strategy in a rising interest rate environment has yet to be seen," he cautioned.

Another factor to consider, he indicated, is the cooperative nature of credit unions. "Credit unions with high loan-to-share ratios or those approaching concentration limits are often willing to negotiate participations with credit unions with low loan-to-share ratios, or [those that have] room under their concentration limit caps," he stated. "In this way, the rising tide lifts all credit union boats. Such cooperation amongst banks is rare."

While banks are not pulling out the auto loan sphere, Vincent said they're not "aggressively asserting" their place in the marketplace either.

"Of course, there are some [banks] that are working hard for the [auto loan] business, but their pricing is still significantly higher, and their policies more inflexible," he said. "The big banks don't have pricing structures and flexibility that allows them to be nimble enough to compete with smaller, scrappier competitors."

Vincent cautioned that credit unions need to be careful going forward, making sure that their lending terms and policies are well-rooted in sound asset-liability management policies.

"Super-long loan terms and excessive payments to indirect lenders and dealers can make it easy to make loans, but are they in the best long-term interest of your credit union, the credit union industry and the member," he asked. "While a member might want to finance a vehicle for 96 or more months, with a loan-to-value [ratio] of 100% or greater, should a credit union make that loan? Is it really fair to the member? Or should the credit union be taking the opportunity to do financial education with the member?"

Meyer of CU Direct takes a more sanguine approach to the subject.

"Credit unions have been very successful at building beneficial relationships with dealers in their local communities," he said. "Credit unions'

ability to significantly improve turn-around times on loan approvals over the last decade have also been a key factor in increasing their market share.”

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