CREDIT UNION UPDATE

Are Your Indirect Auto Loan Yields Sufficient?

Over the years, I have heard several credit union executives lamented the fact that their institution's indirect auto lending program generates such minimal yield they wonder if it's even worthwhile to continue to pursue this segment of the loan portfolio. When I hear this, I always delve a little more into the specifics of their programs, as my experience indicates that these programs should not only help the institution meet its yield needs, but also enhance loan portfolio and membership growth.

In these discussions, I always recommend that executive management teams keep the following in mind when evaluating their indirect auto lending program:

- Are interest rates set to be both competitive and provide sufficient yield after cost considerations?
- Are our interest rates stratified by risk tier and take into consideration other risk areas such as loan-to-value ratios and debt levels?
- Can program fees be increased, yet remain competitive with other lenders?
- Are add-on services such as GAP or mechanical breakdown insurance, extended warranties, service contracts, etc. provided?
- Are approvals automated or manual?
- Will automated approvals lead to reduced turnaround time and origination costs?
- Are automated approval guidelines (credit score, number of trade lines open/active, debt ratio, unsecured debt level, etc.) sufficient to minimize risk of loss?
- Are lending policies and guidelines overly strict (are only A+ and A risk tier borrowers being approved)?
- Can more risk be taken by approving loans to near prime borrowers? Do we have the tools and experienced staff in place to identify borrowers in the B and C risk tiers that are acceptable risks?
- Is there too much focus on subprime borrowers? Are losses from E and possibly D risk tier borrowers dragging on yields?
- What are tolerable loan-to-value ratios?
- Are there cost effective lender protection insurance programs available?
- Have direct and indirect costs of generating these loans been identified and minimized?
- Are dealerships being monitored to determine which relationships are best for the credit union?
- Are adequate collections resources allocated to this portfolio of loans?

Author: David T. Rudischum
Senior Assurance Manager

Are Your Indirect Auto Loan Yields Sufficient? (cont.)

Even after these areas are discussed and relevant strategies implemented, periodic monitoring and adjustment are necessary to ensure the long-term success of the program. If implemented properly, these programs are great opportunities for credit unions to meet member needs and achieve strategic goals.

The Credit Union team at GBQ can assist our clients in answering these questions and tailor their programs to meet the institution's strategic goals and objectives.

About GBQ Partners LLC

GBQ has a team of professionals that exclusively serves credit unions with a combined 100 years of industry experience. Our team assists credit unions through accounting, compliance, regulatory, IT and a number of other complex areas. Our IT professionals have already been using the FFIED Cybersecurity Assessment Tool to assist our clients evaluate and implement risk monitoring tools. Our compliance professionals are up to date and accredited and our accounting professionals work with credit unions every day. If you have questions or need assistance please do not hesitate to contact us.