Non-prime Auto Lending

Good for members!

Good for the credit union!

Mark Lynch
REAL Solutions Field Coach

National Credit Union Foundation

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The Challenge Facing Members

86% of Americans need a car to get to work

2009 Census

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The Challenge Facing Members

- Members with low or no credit scores need a car to get to work
- Most credit unions are not making auto loans to these members
- These members are forced to use sub-prime auto lenders and pay high interest rates

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The Challenge Facing Credit Unions

- How can credit unions do non-prime auto loans for members with low or no credit?
- At a better interest rate than sub-prime lenders!
- In a way that does not place the credit union at risk!

Why should credit unions do non-prime auto loans?

- Because it is “serving people of modest means”
- If done properly, it is good for the credit union
- Lots of people with low or no credit scores have not mismanaged their finances in the past and most likely won’t in the future

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Share of non-prime auto loans

- Sub-prime lenders – 60%
- Banks – 30%
- Credit Unions – 5%

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Impact of the economic crisis?

Many economists believe that since people have to get to work, they will do what they can to keep their cars.   They can always rent a place to live!

"Borrowers absolutely have to have their car,"

Adam Levin, president of the lead generator Credit.com, Inc.

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Non-prime auto lending – the CU Way

- Pricing
- Underwriting
- Reliable Autos
- The Credit Union Close
- Using on-time repayment incentives
- Insuring Risk
- Close Monitoring

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Marketing

- To existing members who until now don’t qualify
- To members who could refinance their current auto loan with the credit union
- To potential members

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Partnerships

- Enterprise Rent a Car
- Auto Dealers
- Community Organizations
- Churches
- Employers

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Average Risk Based Interest Rates

FICO® score	APR [?]	Monthly payment
720-850	3.211%	$292
690-719	4.563%	$298
660-689	6.797%	$308
620-659	10.912%	$327
590-619	15.641%	$350
500-589	17.269%	$358

Location National Avg. Loan amount $10,000

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University
FEDERAL CREDIT UNION

	A+	A	B	C	D	E
Current Rate*	3.65%	4.20%	5.15%	7.15%	12.90%	15.65%
Cost of Funds	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%
Gross Spread	3.35%	3.90%	4.85%	6.85%	12.60%	15.35%
Loss Rate	0.06%	0.12%	0.43%	1.56%	2.62%	3.62%
Net Spread	**3.29%**	**3.78%**	**4.42%**	**5.30%**	**9.98%**	**11.73%**
Origination & Maintenance Cost	0.68%	0.68%	0.67%	0.74%	1.05%	1.20%
Spread After Costs	**2.61%**	**3.10%**	**3.75%**	**4.56%**	**8.93%**	**10.53%**

* Assumes a 60-month term.

Freedom First CU - Responsible Rides

- 192 New Vehicle owners
  - Average car sold for: $10,534
  - Average yearly income of RR car owner: $18,415
  - Average Credit Score: 556
  - 86 % were female car owners
  - 50% were single parent households, representing as many as 265 dependent children

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