

Developing Members from Indirect Borrowers

Lessons Learned

Jim Jerving



**Marketplace Challenge:
Turning indirect members
into profitable members**

Indirect auto lending represents both an opportunity and a paradox for credit unions. While it has been a source of membership growth in recent years, the members who join credit unions via indirect channels are typically reluctant to purchase additional products. They are overwhelmed by the car purchase and the monthly payments; the thought of a checking account or credit card is the last thing on their minds. In some cases, they are unaware that they just joined a credit union; they become “one and done” members who are rarely heard from again.

Auto financing has traveled from the credit union to the dealership in the past decade. Consumers no longer want to haul paperwork back and forth between the dealer and the credit union. And who can blame them? If the car purchase and financing can be completed in one-stop shopping at the car dealership, most consumers will favor that option. Consumers are part of today’s instant gratification culture; they want products, services, and financing immediately.

Both membership and auto lending growth have been increasingly tied to indirect lending in recent years. But marketing campaigns to persuade indirect members to fully participate in their new credit union have often failed.

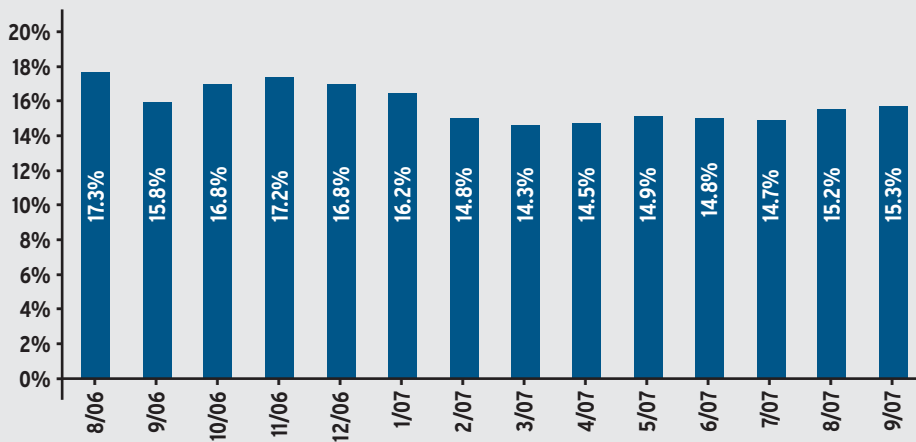
This white paper presents CUNA Mutual Group’s Indirect Borrower’s Pilot Project, which focused on helping credit unions deepen product relationships with indirect members in an effort to turn them into profitable members. This was accomplished with a pilot project of 13 credit unions, which began during the fourth quarter of 2007 and concluded on April 4, 2008. The white paper includes the following:

- The Indirect Lending Environment
- Indirect Borrower’s Pilot Project
- Pilot Project Results
- Participating Credit Union Profiles
- Conclusions

The Indirect Lending Environment

Credit union auto lending market share has been slowly declining since 2006. It reached 17.2% in November of that year and has dropped in most months since then as shown in Figure A.

Figure A Credit Union’s Auto Lending Market Share



Callahan & Associates’ Peer to Peer

In fact, many credit unionists would be surprised to note that mortgage loan volume has now moved into first place in the lending portfolio. Auto lending no longer is the traditional mainstay of the credit union portfolio.

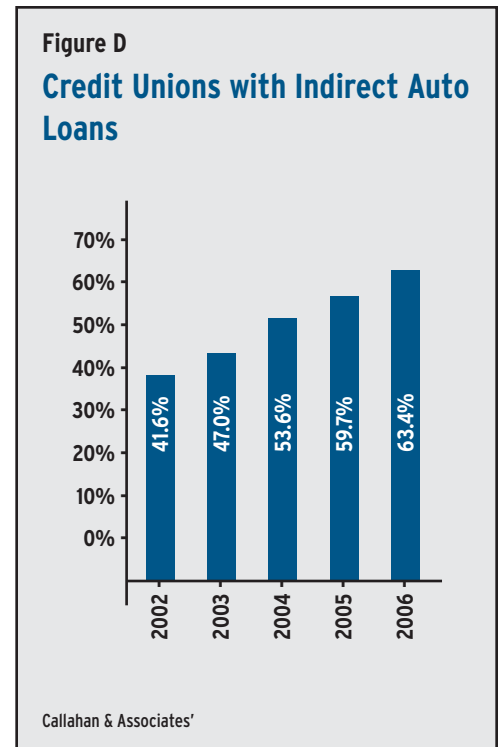
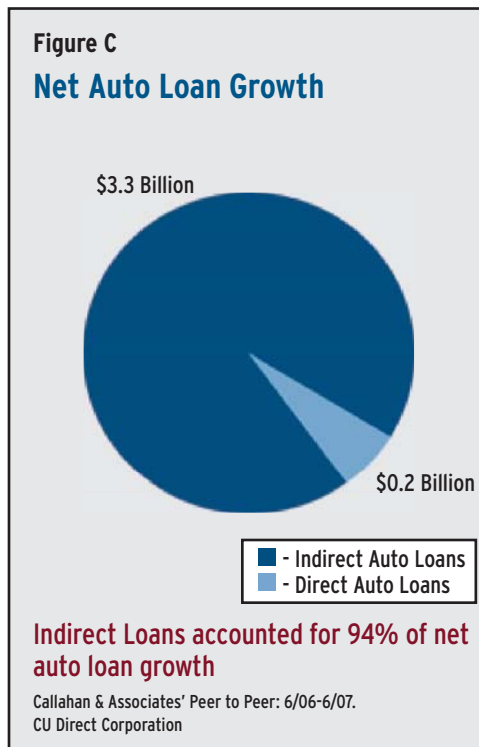
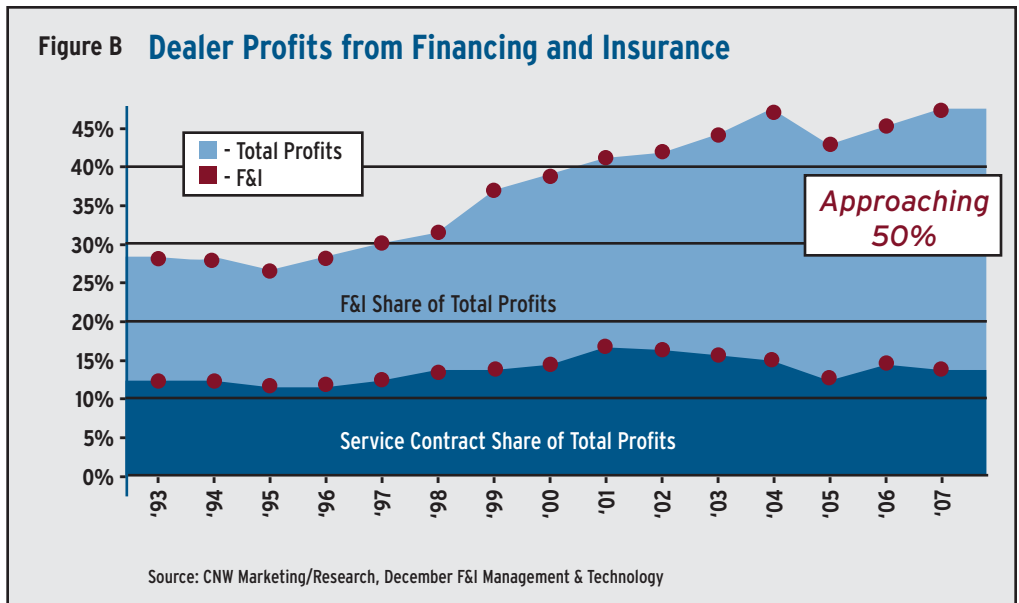
Credit unions picked up a greater share of the auto financing market in the third quarter of 2007, according to Callahan and Associates. Although that share is below the 15.8% share captured in September of 2006, it is higher than the 14.8% realized in June 2007.

Financing and insurance are major components of auto dealer profitability, as indicated in Figure B. This has important implications for credit unions: it indicates that indirect lending will continue to grow and prosper. Dealers will also aggressively fight to increase their market share at the expense of direct lenders.

Credit unions will face increased competition from auto dealers. Through indirect lending, dealers are both credit union partners and competitors in the auto lending business. Some credit unions have withdrawn from indirect programs, which have appeared to outsiders to be successful programs. A \$1.2 billion-asset Midwestern credit union pulled out of their indirect program because the organization failed to develop additional relationships with indirect borrowers.

Most credit union auto lending growth derives from indirect lending. As shown in Figure C, indirect lending contributed \$3.3 billion of the \$3.5 billion in auto loan growth from June 2006 to June 2007.

Even though the auto lending market share is dropping, more credit unions are entering indirect lending as indicated in Figure D. In 2002, about 40% of credit unions with \$50 million in assets or more offered indirect auto loans; that increased to more than 60% in 2006.



Indirect lending contributed \$3.3 billion of the \$3.5 billion in auto loan growth from June 2006 to June 2007

Indirect lending becomes more important in the loan portfolio. It brings new members into the credit union

Slowing Membership Growth

If we examine the average annual membership growth rates from 1970 to the present, the numbers are steadily declining as shown in Figure E.¹

From 1997 to 2007, the number of credit unions declined from 11,652 to 8,443, and membership increased from 73.5 million to 89.5 million. But the rate of membership growth has slowed considerably in recent years.

Figure F shows that 60% of indirect borrowers are new members to the credit union and 40% are existing members.

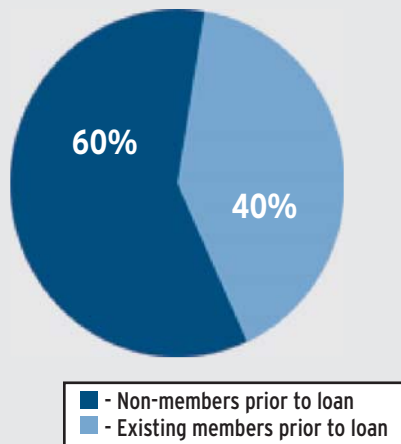
For this reason, indirect lending becomes more important in the loan portfolio. It brings new members into the credit union. While indirect lending can be a challenge, it behooves credit unions to examine their individual situation and the role that indirect lending plays in their overall business and growth strategy.

Figure E
Declining Membership Growth

Time Period	Average Annual Growth Rate
1970-1979	6.7%
1980-1989	3.9%
1990-1999	2.5%
2000-2005	1.9%
12 months ending 12/06	1.4%
12 months ending 12/07	1.2%

Source: CUNA Economics & Statistics, and Bob Hoel, Filene Research Institute Fellow

Figure F
Who is Buying at the Dealership?



CU Direct Corporation

Indirect Lending in 2008 & 2009

As the economy downshifts in 2008, credit union lenders are likewise adjusting their expectations. As Figure G indicates, new car sales dropped 3.6% from February 2007 to February 2008, while used car sales increased 2.5% during the same time period. Indirect loans also decreased slightly from \$70.9 billion in 2006 to \$70.6 billion in 2007.

The slowing economy will have a significant effect on indirect lending in 2008 and 2009, according to Bill Klewin, Associate General Counsel at CUNA Mutual Group. "There'll be decreased demand, a lower rate of auto sales, and increased competition," he said. "This will result in lower rates, reduced profitability, and increased competition from dealers, making a much tougher environment for credit unions."

As the economy weakens, credit unions need a reality check concerning indirect lending. Klewin agrees with industry observers who hold that credit unions have unrealistic expectations of turning indirect members into profitable members at the time of vehicle purchase. It is often a matter of bad timing since the member is preoccupied with obtaining a vehicle and doesn't want to be bothered with decisions about additional products. This is backed up by recent research conducted by Raddon Financial Group.

Indirect Borrowers Present Challenges

Raddon reports that credit unions were almost 2.5 times less likely to cross-sell an additional product to an indirect household than a direct household in the first six months of a relationship. In addition, they report that indirect borrowers are three times more likely than direct-borrower households to leave a financial institution.

Figure G
New and Used Car Sales
Feb 2007-Feb 2008

New Car Sales	-3.6%
Used Car Sales	2.5%

Source: Bill Klewin, CUNA Mutual Group

¹Jervling, Jim, "Ten Years Later, the Lackluster 'M,'" Credit Union Journal, March 3, 2008

Direct households were cross-sold an additional product 14.0% of a time, vs. 5.8% for indirect households, according to the Raddon study. The study did not include savings accounts of less than \$100 as a cross-sale. It excluded the nominal savings accounts that are typically used to qualify indirect members for membership. Cross-sales included more substantial products like checking accounts, home equity loans, credit cards, money market accounts, and business accounts.

Indirect borrowers are valuable and potentially profitable members as indicated in Figure H. Indirect borrowers are in the prime borrowing years and have favorable income demographics. They are fee driven and credit driven,² as the figure shows.

Indirect Borrower's Pilot Project

To help credit unions find a way to make indirect borrowers more profitable members, CUNA Mutual Group developed a unique pilot project. The project was designed to:

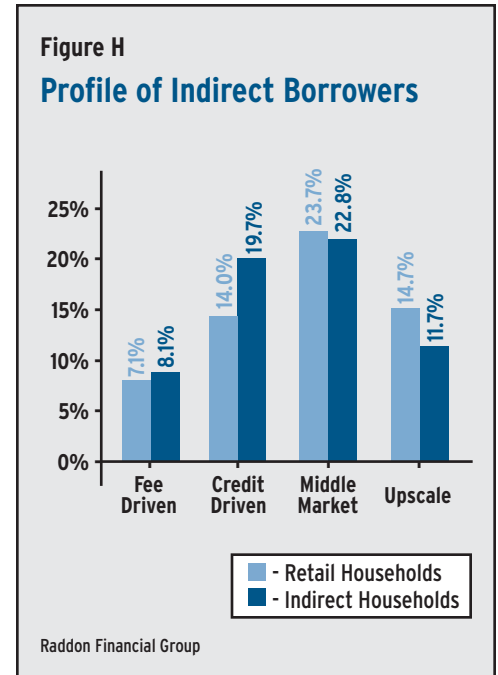
- Identify the next best credit union products to cross-sell to new indirect borrowers.
- Help credit unions deepen relationships with new indirect members.
- Execute additional product sales on behalf of credit unions using specially trained call center representatives.
- Increase credit union loan balances and non-interest income.

The project began with due diligence in April 2007, followed by research to design the pilot. The first credit union partner, Amplify Federal Credit Union of Austin, Texas, joined in October 2007. Amplify was helpful in designing the pilot from a credit union perspective.

CUNA Mutual conducted additional research to identify best practices with credit unions and the financial services industry for enhancing relationships with indirect borrowers. The research indicated those practices that enhanced relationships with indirect borrowers included:

- Outbound calling.
- Calls linked to recent automobile purchases.
- Mining of indirect borrower information to identify the next best product to sell.
- Lending products represented the best cross-sell opportunities.
- Advice on saving money on products the borrower already purchased.

The project's design was efficient yet compatible with the project's objectives. The new member buys a car via an indirect channel and takes out a credit union loan at an auto dealership. The new members' data were aggregated and sent to CUNA Mutual Group. Then CUNA Mutual received and aggregated data from all credit unions and sent the data to Experian, the credit bureau used for the pilot. Data was screened by Experian and sent back to CUNA Mutual, which in turn loaded the pre-screened data into its call center systems for sales representatives to initiate and track the outbound call.



²Raddon Financial Group customer segments referenced are defined as: (1) Fee Driven: ages 18-44, income under \$30,000 (2) Credit Driven: ages 18-34 income \$30,000 and higher (3) Middle Market: Ages 35-54, income \$30,000 - \$99,999 (4) Upscale ages 35 or older, income of \$100,000 or more.

The outbound phone representative called and welcomed the member to the credit union, verified information about the indirect loan and cross-sold the appropriate credit union product—an auto refinance on another auto in the household, credit card, or line of credit. Payment protection was cross-sold on auto refinance opportunities. Separately, MEMBERS® Auto and Accidental Death & Dismemberment insurance offers were sent via direct mail to members of select credit unions. The insurance offers thanked the member for their business, welcomed them to the credit union, and then positioned the insurance offer as another benefit of belonging to the credit union.

Under ideal conditions, the initial call to the member with the offer would be followed by a closing—all in one sales call. This was impractical for logistical reasons in the pilot project. CUNA Mutual handed the “closings” back to the individual credit unions. The best option would be to close the offer at the time of the sale.

The thirteen pilot credit unions were chosen on the basis of asset size, indirect lending program volume, and lending philosophy. The credit union participants are listed in Figure I.

Figure I
Indirect Borrowers Pilot Project
Participating Credit Unions

Credit Union	Location	Assets* (Millions)	Members*
Alliant CU	Chicago, Illinois	\$5,000	211,631
Bayport CU	Newport News, Virginia	\$930	97,325
MECU of Baltimore	Baltimore, Maryland	\$834	86,542
University of Iowa Community CU	Iowa City, Iowa	\$619	51,554
First CU	Chandler, Arizona	\$503	59,096
BWCU	Wichita, Kansas	\$550	53,606
Collins Community CU	Cedar Rapids, Iowa	\$458	57,301
Amplify FCU	Austin, Texas	\$465	40,166
Hughes FCU	Tucson, Arizona	\$391	48,406
AEA FCU	Yuma, Arizona	\$340	48,621
Member One FCU	Roanoke, Virginia	\$335	52,755
Heritage Trust FCU	Charleston, South Carolina	\$339	51,097
Neighbors FCU	Baton Rouge, Louisiana	\$328	48,250

*As of 12/31/2007

remaining balance of \$5,000. The FICO minimums for the credit card applicants were similar, 619 to 720, while the current revolving debt of the consumers ranged from \$20,000 to \$35,000. Auto loans were given first priority, credit cards and lines of credit followed in importance. If a member met the criteria, a firm offer for a credit card, auto loan, or line of credit was made.

Credit Pre-screening

Participating credit unions provided data from new indirect members who purchased vehicles and obtained credit union loans at dealerships during the previous four months. The new borrower data from all of the pilot credit unions were aggregated for pre-screening at a credit bureau. This information included basic member information: name, address, and phone number, as well as details about the loan such as amount, term, payment, and payment due date.

The program had a base level of pre-screening criteria, with some customization based on individual credit union underwriting needs. The FICO screening minimums for the auto loan offer ranged from 600 to 720, while most typically ranged from 640 to 680 with a minimum

Call Center Operations & Management

A CUNA Mutual call center with outbound sales representatives was used to make the offer. Call centers were chosen because they are a common thread of successful credit union indirect lending programs. Outbound calling provides an opportunity to validate loan information and addresses, and it gave a personal touch—well-suited to the credit union philosophy of “people helping people.”

The sales representatives chosen for this call center had a diversified set of skills, according to Lois Zajac, Director of Product Management for CUNA Mutual Group. “We were looking for sales, finance, and entrepreneurial skills,” she said.

During the interviews, each of the applicants was asked to sell something—be it a pen, a tie, or something left to their imaginations. The rationale for this role-playing exercise was to ascertain if the applicants were able to be sufficiently outgoing and bold to ask for the sale. But they also preferred an educated service call as opposed to an aggressive sales call. The sales philosophy requires assertiveness balanced with credit union values.

It is important to hire sales representatives who have experience in outbound calling, Zajac noted. There is a temptation to use down times for inbound representatives to execute outbound call programs, but this should be avoided. Outbound and inbound skills sets are vastly different. Outbound representatives should be salaried, so the motivation for incentives doesn’t cloud member service.

Call center staff members were given explicit expectations for performance. They were salaried with additional incentives to meet productivity goals. They were expected to make 20 calls per hour and maintain a 20% cross-sales rate, with a quality assurance goal of 85%. They also received extensive training on credit unions, products, and effective needs-based selling.

The representatives spent several minutes preparing for each call by reviewing the member’s data and understanding the details and possible positioning of the product offer they would make on behalf of the credit union.

The call center representatives were assisted by a variety of technologies. CUNA Mutual’s existing Lead Management System was modified to provide a summary of the member’s information as shown in Figure J. The Credit Union Dashboard, Figure K (next page), contained links to all pertinent credit union information and helped better represent credit unions and answer questions. Representatives were also helped by an Integrated Web calculator and a Loan-to-Value calculator.

Outbound calling provides an opportunity to validate loan information and addresses, and it gave a personal touch—well-suited to the credit union philosophy of “people helping people”

Figure J
CUNA Mutual Group Indirect Borrowers Pilot Program
Leads Management System

Figure K
CUNA Mutual Group Indirect Borrowers Pilot Program

Sales representatives followed a script that started with a welcome to the credit union and continued with congratulations on buying a new vehicle. The representative then verified the address and the due date for payment. At that time, some members would request to be set up on automated payment.

The representative probed member needs and tailored the offer to meet those needs. Members were offered a pre-approved auto loan, credit card, or line of credit. If the member accepted the offer, the representative completed the call with a reminder on instructions to contact the credit union. Finally, the accepted offers were sent to the credit union by secure e-mail for credit union follow-up and closing.

Indirect Borrower Program - Credit Union Dashboard	
Credit Unions	
Amplify Federal Credit Union 042-1684-5	
Loan Calculator	loanliner for Amplify FCU
Auto Rate Sheet	Rates & Terms Amplify FCU
Credit Life/Credit Disability Insurance (CD/CL)	Amplify FCU Product Sheet 11-20-07 - FINAL.pdf
Line of credit offer	Amplify LOC offer
Credit card offer	Amplify c.c. offer
CU FAQ's	goamplify.com/about/faq/index.cfm
Branch Locator	goamplify.com/contact/locations.cfm
Operating Hours	goamplify.com/contact/locations.cfm
Contact Information	goamplify.com/contact/index.cfm
Project Forms	
IDB Complaint Log Email	
IDB Opt Out Agreement Email	
IDB Response Worksheet	
Project Tools	
Credit Card Payment Calculator	
NADA Value Finder Link	
Kelly Blue Book Link	
Project Updates	
Article content here.	
Project Metrics	
Article content here.	
Call Scripts	
Auto Script < 3 mo.	
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Line of credit script.doc	

In summary, the pilot call center flow can be summarized as follows:

- Positioned call on behalf of the credit union.
- Welcomed member to the credit union.
- Validated and updated member information.
- Probed member needs.
- Tailored offer positioning to meet member need.
- Made the offer.
- Received offer acceptance.
- Wrapped up call with reminder on how to contact credit union.
- Thanked the member for business.
- Sent accepted offers to credit union via secure e-mail.

For credit unions endorsing CUNA Mutual's Accidental Death and Dismemberment (AD&D) and Auto insurance programs, a subset of members were targeted for direct mail offers. Campaigns were initiated in November 2007, as well as February and March 2008. Letters recognized the recent vehicle purchase, welcomed and thanked the member for their business and then introduced the insurance offer. There were a total of 1,281 auto insurance mailings and 1,247 accidental death and dismemberment insurance mailings.

Program Results

Given the difficulties of turning indirect members into profitable members, the results of the pilot project were encouraging as Figure L shows (*next page*). The project started with 7,665 total leads, which were new indirect leads sent to CUNA Mutual for the pilot. This included up to four months of potential opportunities. Of that number, 3,240 were qualified—leads that met the criteria for one of the pre-approved product offers and were loaded to the contact system. And of the qualified leads, 2,848 were workable, which were leads with valid phone numbers.

A total of 13,217 outbound call attempts were made to all lead opportunities; this also included calls to invalid phone numbers. About five attempts were made—an average of 4.6 per workable lead—to reach each member. Qualified leads were leads that met the criteria for one of the product offers and were loaded into the contact system.

Some 6% were pre-approved for auto loans, which was lower than expected—a function of the pre-screening and pre-approval. Twenty percent were pre-approved for credit cards and 16% were pre-approved for a line of credit.

Forty-seven percent of the workable leads were contacted. The overall sales rate was a robust 21%, which is an average of the percentage of contacted members that accepted an offer for the different product types. The most successful product offered was the line of credit, which had a 28% sales rate; auto refinances had a 15% sales rate; credit cards a 17% sales rate. The average loan amount for the auto loan was \$16,140; credit cards, \$5,005; the line of credit, \$2,098. The loan amount for the credit card and line of credit are the credit limit extended, not a balance used by the member.

The phone call was found to have a relationship building effect. This was evidenced by listening to the recordings between the member and the sales representative. Most members thanked the representative for the call, even if they failed to purchase an additional product. Outbound calls have the potential to close new business or revisit old loans. Somewhat surprisingly, 10% of the phone numbers were found to be incorrect. This could be viewed as a wake-up call for credit unions to check for the accuracy of member phone numbers.

The best time to reach members was found to be Monday through Thursday, from 3 to 7 p.m. and during the day on Saturdays. The home phone is the best number to use, and recording the phone call is advisable. The average talk time during the pilot program was about six minutes.

When members were given the opportunity to save \$20 a month or more, the success ratio in closing auto loans improved. The credit card offers that targeted members with higher credit quality were more difficult to close.

Offering a competitive rate was crucial for success. Differing credit union philosophies will have an effect on how aggressive the offers are. For example: building relationships vs. building additional product sales.

The most successful product offered was the line of credit, which had a 28% sales rate

Figure L
Program Results

Metric/Definition	Result
Total credit union leads <i>Total credit union new indirect leads sent to CUNA Mutual for pilot.</i>	7,665
Qualified leads <i>Leads that met the credit pre-screening criteria for one of the product offers and were loaded to the contact system.</i>	3,240 (42%) 6% pre-approved auto loan 20% pre-approved credit card 16% pre-approved line of credit
Workable leads <i>Leads on the system with valid phone numbers.</i>	2,848
Total call attempts <i>Total number of outbound calls across all lead opportunities.</i>	13,217
Call attempts per workable lead <i>The number of call attempts per workable lead.</i>	4.6
Contact rate <i>Percentage of qualified leads that were contacted.</i>	47%
Sales rate <i>Percentage contacted who accepted the offer.</i>	21% total 15% auto refinance 17% credit card limit 28% line of credit limit
Average loan amount <i>Average loan amount (auto) or limit (credit card and line of credit) for applications taken.</i>	Auto loan: \$16,140 Credit card limit: \$5,005 Line of credit limit: \$2,098

Participating Credit Union Profiles

The following credit unions participated in the pilot program. They represent different management approaches and philosophies to indirect lending programs as well as diverse markets.

Amplify Federal Credit Union

\$465 million assets

Austin, Texas

Indirect lending is robust in the Austin market, according to Pierre Cardenas, Senior Vice President of Retail. Amplify is a prime player in the market; it held the number one spot for credit unions in 2005 and 2006. Similar to other markets in the United States, indirect lending in Austin is cyclical, however in the Austin market the megabanks like Chase and Capital One are willing to buy market share regardless of the cost, said Cardenas.

Amplify's lending strategy is based on four pillars." They are direct, business, mortgage, and indirect lending. "Indirect can be a quick fix, since we can work closely with the dealer and can get strong volume but with a tight yielding portfolio," said Cardenas. "But problems arise when other credit unions start paying 2% dealer's reserves when everybody else is paying 1%; then if something happens in the auto industry, like gas prices rising, then there is a problem maintaining the volume."

In 2005 and 2006, 75% of Amplify's new members originated from indirect channels. In 2007, 50% of the new members originated from indirect and 50% came from direct channels. This is better organic membership growth for the credit union but we still have 50% of brand new members coming from the indirect channel.

How do you get indirect members to take more products?

"That's the Holy Grail of lending; our responsibility is to show the value we have as a credit union," said Cardenas. "We have to become visible to those indirect members that we are invisible to."

Amplify previously had an outbound program that focused on new members within a three to five mile radius of the branch. "We have two outbound people doing more in loans—\$800,000 to \$1 million a month—more than a single branch with 4-5 lending staff," said Cardenas. As a matter of fact, they had one outbound call center staff member who brought over \$1.2 million in new loan business in one month that included both autos and home equities. They call and ask, 'We understand that Amplify has financed your car, can we help with other services?' We've tried with deposits but we were not as successful as we were when we focused on offering to pay off other auto loans and save them money.

"The CUNA Mutual pilot program we participated in was outstanding as the program dedicated valuable resources that helped manage and track the program, most credit unions could not afford a call center of that size," said Cardenas. "It is a huge undertaking. You need to get true sales people

"The key to the process is to demonstrate the value of becoming a member and giving them a compelling offer for a second product"

Pierre Cardenas, Vice President of Retail, Amplify Credit Union

who are motivated by incentives; you have to have a good offer and more importantly, a committed approval.”

“The key to the process is to demonstrate the value of becoming a member and giving them a compelling offer for a second product—pay off or refinance another loan, direct deposit, checking account, or bill pay,” said Cardenas. “You need to gain their trust by truly looking after their best interests. If you can save them money or lower their payment then you go for it. If not, thank them and move on.”

There are considerable benefits to the business model that the pilot program has provided. “The credit union becomes proactive instead of order takers,” said Cardenas. “We become a true financial advocate to a time starved community that otherwise may not have had the opportunity to make a wise financial choice.”

“Outbound calling exposes potential new members to what a credit union is,” he said. “The outbound person has authority to make deals—lower rates, structure loans, make decisions on the spot. Indirect also brings in young members.”

Credit unions need an outbound business model to reach new members. “Raddon research shows us that the level of wallet share you obtain from a member within the first nine months to a year, is very close to what they will look like 5 years later” said Cardenas. “Outbound is part of our future and I believe it will be a much larger part of the credit union industry’s future as a whole.”

First Credit Union

\$503 million assets

Chandler, Arizona

The indirect lending challenge for First Credit Union was similar to most credit unions in the United States—trying to persuade new members to take additional products. The credit union would follow up with a phone call to ask if they received their loan payment coupons and their switch kits for checking accounts. A second phone call would be made within 60 days.

“It is hard to get in touch with members; we would have their home phones, not their work phones,” said Lori Gallegos, EVP/COO. “It was difficult trying to get a new member to understand that we offer other products than car loans. Some didn’t understand that they were members of the credit union.”

First Credit Union would be able to connect with about 50% of the new indirect members. Of those, they would be able to sell a second product to 18%. The credit union joined the pilot program during the second week of February 2008. “We’ve been offering a line a credit with the pilot program and it has been very successful—we’ve closed on 32% on those members contacted.

One of the unexpected benefits has been the members internal data derived from the program. “It’s

On the internal data derived from the program:
“It’s an opportunity to package two or three products simultaneously, for example, checking and line of credit together”

Lori Gallegos, EVP/COO,
First Credit Union

an opportunity to package two or three products simultaneously, for example, checking and line of credit together," said Gallegos. "We can look where members are financing their autos and look at direct deposit and the credit report a little more thoroughly."

With this intelligence, the credit union representative is able to approach the member with tangible information. "You are trying to do more with the call, sign up on the call and not waiting for the mail to come," said Gallegos.

First Credit Union has an electronic branch that combines Web Member Service Reps (MSRs) and outbound calls. The Web MSRs are responsible for indirect loans, online loan applications, and chat rooms that work with members online in real time. The e-branch is open from 8 a.m. to 6 p.m. Monday through Friday and 9 a.m. to 1 p.m. on Saturday.

First Credit Union also has a full-time representative visiting dealers in the area to maintain and deepen relationships. The credit union uses CUNA Mutual Group's Lenders Protection to close on more "C" and "D" paper, which in turn is bringing more "A" and "B" loan opportunities.

Boeing Wichita Credit Union (BWCU)

\$550 million assets

Wichita, Kansas

The credit union was originally formed for employees of Stearman Aircraft Company, which was bought by Boeing in the 1940s. BWCU now has a community charter consisting of 46 counties in Kansas. Before joining the pilot program, the credit union was averaging about 175 to 200 new indirect members monthly.

"We had an in-house on-boarding program during the summer of 2005 and averaged two products per household," said Zac Spear, Marketing Coordinator. "In December 2007, those same members were averaging 2.5 products per household."

BWCU still faced challenges with its indirect program, though. Many of the new indirect members didn't understand the difference between a credit union and a traditional bank, or that the credit union offered checking accounts, CDs, and savings accounts, according to Spear. The key challenge was to educate and retain the indirect members.

The credit union decided to join the pilot program to obtain learnings that it could employ in its own on-boarding program. They also used the pilot as an opportunity to reach new members who had not been contacted. The original purpose of the pilot program wasn't training, but BWCU used the approach utilized in the pilot to train its existing on-boarding program employees. "We taught new employees how to offer additional products such as 2% off their current loan if they refinance through BWCU and complete the application over the phone, as well as a pre-approval for a credit card offer," said Spear. The credit card offer was more popular than the auto loan.

"This pilot program proved to be an effective business model by using the member's credit information to its maximum potential...We'll continue to do some form of this program with possibly more products—mortgages, home equity loans, IRAs"

Zac Spear, Marketing Coordinator, Boeing Wichita Credit Union (BWCU)

The benefit of the pilot program was the ability to reach large numbers of members in a small amount of time. "CUNA Mutual could call 500 members with a fully staffed call center," said Spear. "We have two employees who could effectively reach 200 members in a month."

The pilot program could be streamlined if one phone call could close the deal, according to Spear. This was a comment echoed by the other participants. Members have busy lives and are difficult to reach, especially by phone. When contacted by a third party, the credit union isn't always sure what is said to the member. "We are relying on an outside source," he said.

"This pilot program proved to be an effective business model by using the member's credit information to its maximum potential—analyzing debt-to-income ratios, credit card types and balances, home equity loans, mortgages—and then matching their needs to our products," said Spear. "We'll continue to do some form of this program with possibly more products—mortgages, home equity loans, IRAs."

Alliant Credit Union

\$5 billion assets

Chicago, Illinois

Alliant has branches in Chicago, San Francisco, Los Angeles, Denver, and Dulles, Virginia. The eighth-largest U.S. credit union was originally formed to serve employees of United Airlines, but has since expanded to serve SEGs and qualified community groups.

The credit union started indirect lending towards the end of 2003. During the first full year of indirect lending, the credit union made \$50 million in loans. In 2005, indirect lending reached \$150 million a year. At that time, there were higher loan losses than expected, margins were tighter, and it was more difficult to convert indirect members, so Alliant changed pricing and stopped indirect lending in California.

Alliant has a unique business model. Even though the credit union has reached high volumes with indirect auto loans, mortgages are the main thrust of the loan portfolio. They don't push checking accounts. Many of their members have a primary financial relationship with another financial institution.

"First mortgages are 65% of our loan portfolio," said Jerry Anderson, Director of Lending.

"Convenience for our members is the phone and Web. If our members have a checking account, it is with another financial institution. Only 20% of our members go to a branch.

Prior to joining the pilot program, Alliant used outbound calling for every indirect loan made. This "quality call" was made three days to a week before funding the loan to a dealer. This validated that the person driving the car was the person signing the loan papers. It also ensured that it wasn't a "straw" loan, whereby the borrower was buying the car for another individual, such as a mother buying a car for a son or an aunt buying a car for a nephew.

The key advantages of the pilot program were the pre-screening and the outbound calling, according to Jerry Anderson, Director of Lending, Alliant Credit union

The key advantages of the pilot program were the pre-screening and the outbound calling, according to Anderson. “Pre-screening provides the sales representative with a strong call,” he said. “You have the ability to make an offer to the member with pre-screening. CUNA Mutual had a sufficient volume to get economies of scale to get a good price on pre-screens to make it cost effective.

“We find it more difficult to do outbound calls than inbound,” said Anderson. “It is hard for someone to hear a member or a consumer say ‘no.’

“You try to probe the needs, listen to what the member is saying. It’s a harder sell. Our inbound goals are double of what our outbound goals are, because the latter are so much harder,” said Anderson.

Conclusions

Indirect lending represents both membership and auto lending growth for credit unions. But new members gained from indirect channels are typically disinterested in additional credit union products during the time of the auto loan. They typically have two things on their mind—the new vehicle and the monthly payments. Some may even be unaware that they have become credit union members.

CUNA Mutual Group’s Indirect Borrower’s Project focused on helping credit unions turn indirect members into profitable members with multiple relationships with their credit union. This was accomplished through a call center staffed with trained and full-time outbound call representatives. Outbound call representatives have different skill sets than their inbound counterparts.

Having the luxury of 13 participating credit unions in a pilot program gives this study the ability to test a business model’s effectiveness through a range of indirect lending experiences. The results were encouraging.

The pilot program produced several important findings:

1. Members welcome phone calls from their credit union. This is not to say they would necessarily welcome sales calls from other vendors. Sales representatives received positive responses from members when they identified themselves as representatives from the credit union. They didn’t report negative responses from members.
2. The phone call has a relationship-building effect, even if the initial call doesn’t deepen the relationship. The recorded phone calls indicated that members welcomed the calls even when they were not interested in an additional product. They were happy to hear from their credit union. Outbound calls have the potential to close new business or revisit old loans. The participating credit unions valued the outbound call center component of the program. Many of the participating credit unions had existing outbound call programs, but not one that could handle the volume that the pilot program accomplished.

3. The participating credit unions reported the pre-screening process to be another benefit of the pilot program. The credit union is able to obtain a member profile with the valuable intelligence—debt-to-income, credit cards, home equity loans, mortgages—which enables the representative to match products to a particular member. It also gives the credit union the ability to develop marketing packages that are targeted to member groups. And it provides the organization the ability to develop more sophisticated marketing campaigns needed in a competitive financial services environment.

4. Of all the products, the line of credit offers were the most successful. There are several possible explanations for this. One is that a line of credit creates a sense of security in the event that something happens. Another is that during the economic downturn of 2008, a line of credit could be viewed as a lifeline for many credit union members for emergencies. It also introduces the option of cross-selling checking accounts.

5. One of the most important findings of the study is that credit unions can be successful with outbound calling in indirect auto lending—a tough environment in which to succeed. This tells us that outbound calling could succeed with other areas in the credit union. It provides a personal touch and is closely allied with the credit union philosophy of “people helping people.”

Key Takeaways For Credit Unions:

1. **Members are receptive to receiving outbound telephone calls**
2. **Additional products can be sold to indirect members**
3. **It is possible to enhance the profitability of indirect borrowers through an outbound calling strategy**

About the Author

Jim Jerving is a financial services writer and author; he is the author of four books and co-author of five additional works. Jerving has worked in editorial and management positions at the World Council of Credit Unions, the Credit Union National Association, Inc., and the University of Wisconsin-Madison, where he received his Master's Degree in journalism. He also served as a journalism instructor at the same school. Jerving is the owner of a writing and communications firm in Madison, Wisconsin, and is chairman of the board of directors for Heritage Credit Union in Madison. His Web site is www.jimjerving.com

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