CREDIT UNION TIMES

Credit Unions Have Ability to 'Crush' Banks on Indirect, says Florida CEO

By Jim Rubenstein

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LAS VEGAS — Credit unions, using their advantage of member loyalty, should be doing a much better job than banks on indirect lending, but it requires "schmoozing" dealers, giving them upfront deals on buy rates and looking more carefully at C, D, and E paper as profitable investments.

That's the advice of John Dolan-Heitlinger, president/CEO of the $200 million Keys FCU in Florida who told a breakout session at the annual National Directors' Convention that his CU has been enjoying robust indirect growth relying on risk-based pricing and focused efforts to understand dealer motivation.

"We should be able to crush the banks," on indirect, but that has not always been the case, said Dolan-Heitlinger noting his CU holds 40% of market share making it the dominant lender in the Keys.

In his remarks to the volunteer audience, Dolan-Heitlinger said money is to be made on C, D and E paper provided the loans "are done right" with adequate safeguards.

That might include larger down payments, relative co-signers, or requiring more information, but there is no reason that CUs should not pursue less than prime paper considering such practices are in line with the CU mission.

The C, D and E borrowers "need the credit union," said Dolan-Heitlinger adding that making the loans to the "platinum borrower is easy." Treating members "like they are all the same" simply does not work since those individuals who have earned high credit ratings deserve to be treated differently, he said. One statistic he said he has gleaned from dealers is that 50% of all cars purchased are "unintentional," that is the borrower had really not planned on buying a car that day, but circumstances prompted a decision.

"It may be the couple was driving around that day and saw a great-looking car they really liked and so they made the decision right then to buy," he said.

As for Keys FCU's relationship with dealers, he said his CU lets dealers mark up the buy rate a maximum 3% with no rate above 18%. The dealer keeps 75% of the total interest difference for the life of the loan up front. The minimum commission is $150 and the average markup is 1.5%.

Checks are cut on a daily basis and there is no 90-day reserve account.

Under the Keys system, each deal breaks down to one-third profit from price markup, one-third from financing commission, and one-third insurance and warranty sales.

Dolan-Heitlinger said dealers who are accustomed to relationships with financing arms of GM and Ford often look on CUs as "untrustworthy and weird" because of "our paternal attitude toward our members." The idea of CU/dealer partnerships fall apart when the relationship becomes adversarial and CUs begin trashing individual dealers.

He said the relationship is much like a marriage with CUs needing to understand the aggressive, "hunter" sales mentality of the dealer versus CUs having the laid-back order-taker attitude. "It's simply our paradigms are different but that doesn't make either of us wrong," he said. Credit union attitudes toward dealers need to change so that CEOs are willing to visit dealer premises to talk over deals.

"Remember there are big egos out there seething with testosterone," said the Keys CEO. Credit union executives should not be treating their dealers as "stepping into the sewer," but as true partners.