Credit Unions Can Ignore the Auto-Buying Disruptor Hype and Keep on Lending

As June closed, USA Today reported that sales had increased slightly over prior months, so credit unions can't count auto lending out, even as overall sales are expected to go down over the course of the next year.

Alain Nana-Sinkam, vice president at ALG (a TrueCar Company), recently said during a NAFCU event that most challenges in the market will not be new disruptors. Customer vehicle preference, the economy, manufacturer incentives, and used car inventory continue to be the largest driving factors.

The Wall Street Journal reported earlier this year that light-duty vehicle sales (trucks, SUV's, Crossovers) remain a growing segment compared to cars. Additionally, Nana-Sinkam added that customers care more about the monthly cost of the vehicle than the overall purchase price, forcing companies to compete based on longer loan terms. America's love for expensive trucks and SUV's has driven loan terms to 84 months, according to Bloomberg. These longer terms add additional risk for lenders, and some are counteracting this risk by requiring larger down payments according to Forbes.

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According to Auto-Remarketing, used car demand is still growing during a time of year when it normally slows down. With the high number of lease vehicles entering into the used car inventory, customers are taking advantage of the relatively new vehicles at deep discounts compared to new vehicles.

Nana-Sinkam touched on this in his presentation, stating that the increase in lease vehicles over recent years is making the secondary/used market much more attractive to buyers. These vehicles are coming in at lower costs than their new counterparts, and customers are taking advantage of these savings.

But what about ride-sharing, electric vehicles, autonomous vehicles?

What about them? It won't necessarily drive down sales, according to Moody's Analytics. Individual vehicles are being driven less, but those used for ride share are on the road significantly more. The increase in mileage means drivers need to refresh or replace their car more frequently, generating additional long-term sales, and that means loans. Furthermore, former ride-sharing vehicles are less likely to become part of the used vehicle inventory, helping to stabilize used car inventory.

Autonomous vehicle adoption may not change sales at all, according to Moody's. Its analysis states that driving habits may not change, and therefore there will be no impact on overall sales. Autonomous vehicles may displace those currently working in ride-shares, but the vehicles will still require replacement.

Nana-Sinkam added that electric vehicles are not currently displacing traditional internal combustion vehicles due to technical limitations, such as charging time and range, and their heftier price tag. As they improve in the short term, they may displace current electric vehicles but will not have a significant impact on the overall sales of vehicles.

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Aside from so-called market disruptors, some are concerned about the recent tariffs and interest rate hikes affecting auto lending. Consumer Reports has reiterated its prediction on the likelihood of increasing car prices this year, largely due to new tariffs on imports and rising interest rates. According to CNN, the growing economy and falling unemployment rate are counteracting these price increases, but these factors should stabilize.

How can credit unions continue auto loan growth in 2018?

Credit unions can take a more targeted approach with their members to continue their auto loan growth throughout 2018.

- Target millennials. CU Times reported that credit unions better match the core values of millennials than large banks, but these customers require some digital transformation.
- Simplify the loan process. Fintech and digital solutions are disrupting the traditional market. According to Pew Research, more than 76% of Americans own a smartphone. Mobile apps can provide a new branch for loan originations and service.
- Be aggressive in the secondary/used vehicle market. While new vehicles are projected to sell about 17M this year, according to Edmonds, more than 10M used vehicles were sold in the first quarter of 2018.
- Know what borrowers want and care about. Customers are far more concerned about their monthly payment than overall cost of a vehicle or loan. Targeted marketing campaigns, such as those offered through Ser Tech's Fetch Marketing, on vehicle financing or refinancing can grow your loan business. NOVA Credit Union is one such example, as reported in CUES' Loan Zone article here.