What Matters Now™:

Car Buyer Insights from Middle-Income Americans

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Overview

Car loan market dynamics have changed greatly in recent years. Auto loan market balances are at a record high, with $886 billion in 2014, and average loan lengths have been on the rise. More than 50% of used car buyers can't realistically afford the auto loans they are signing, and sizable student and car loan payments cloud the financial future for many middle-income consumers. Among other newly changed market dynamics, the consumer's purchase path has moved online. As a result, car buyers today face a confusing array of options from numerous competitors vying to control their purchase journey. And consumers often overlook their credit unions as options.

But credit unions have a unique opportunity to play central roles in members' car-buying experiences. Members need financial guidance when they buy cars, and research shows that they want it from their credit unions. Credit unions are uniquely positioned with pre-existing member affinity and trust, so they can be in members' minds before they even look into car buying—beating competitors to the "mindshare." Credit unions that meet members' needs for car-buying guidance also advance their own objectives of deepening member relationships and capitalizing on the business value presented by today's robust auto market.

Context

The presenters shared insights into the current state of the car-buying market and findings from TruStage's research on the mindsets of middle-income Americans that point out opportunities for credit unions to create value for members.

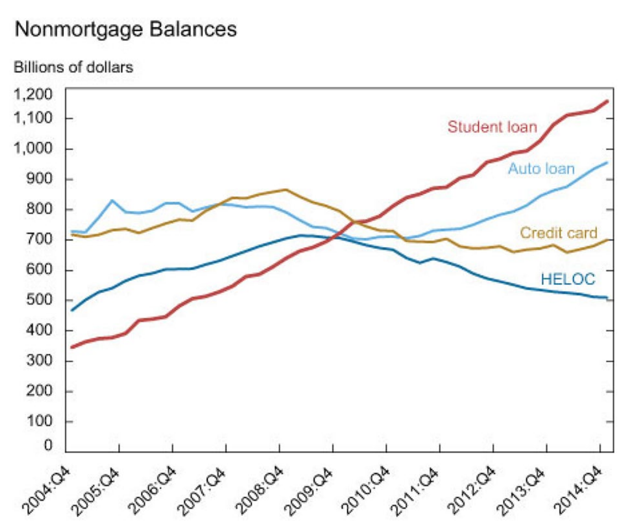
Key Takeaways

Research on the mindsets of today's middle-income American consumers can help credit unions see how best to serve their members. Collectively, the research paints a picture of an auto loan market that has grown dramatically in recent years—and changed dramatically in significant ways.

1. Many people struggle to afford the cars they buy.

The past decade has seen the structure of household debt change dramatically. Since 2010, home equity debt has fallen as credit card debt, auto loans, and particularly student loan debt have risen.

Among people aged 23-35, 39% have student loan debt, and 54% are concerned about paying off their loans (Filene Research Institute). Their balances averaged $33,000 in 2014, up from $24,000 just five years before (representing $100 more per month). Auto loan balances are up too: they hit a record $886 billion last year (Credit Union Times, February 19, 2015). No wonder



Source: Federal Reserve Bank of New York Consumer Credit Panel / Equifax.
Note: HELOC is home equity line of credit.

TruStage's "What Matters Now" research found that 62% of middle-income consumers worry about their family's financial stability on a daily basis.

Moreover, CNBC recently reported that 50% of used car borrowers realistically can't afford their payments. Signs of this hardship abound:

- Auto loan durations have been rising: one-third are as long as six years (JD Power & Associates, CNBC.com).
- More than one-fourth of trade-ins reflect negative equity (27%), leaving those borrowers in the hole by $4,000 on average when they sign their car loans (Edmonds.com, February 2015).
- Many would-be car buyers are turning to leasing instead: leasing represented a record-high 27% of new car transactions in 2014 (The New York Times, January 8, 2015).
- One-fourth of all auto sales are to subprime borrowers (New Republic, February 26, 2015), who pay substantially more than borrowers with excellent FICO scores although they can least afford it ($122 per month more for a six-year $25,000 loan at an interest rate of 12.72% versus a rate of 2.63%). Importantly, subprime borrowing offers a viable second chance to repair credit scores; on the downside, that opportunity comes at a steep cost.

"On the one hand, we have an industry riding high, with robust buying; on the other we have shaky situations with longer loan durations, increased leasing, and negative equity."

– Steve Hoke

2. The auto purchase path has moved online.

Among American consumers, 71% now own smartphones (Nielsen Data, September 2014), and the rising use of mobile devices in shopping is disrupting the traditional car-buying journey. All four stages of the purchase process have moved online: research, applying for a loan, buying the car, and purchasing insurance.

With mobile devices, shopping on multiple dealers' lots is becoming a thing of the past: 40% of car buyers visit only one dealer, and one in six even skips the test drive (Dealer Marketing, April 15, 2015). Also, 40% of CUNA Mutual's loanliner.com® loan transactions now come from mobile devices.

From start to finish, the auto-purchase process typically takes three months, during which time competing offers for financing, leasing, and insurance products inundate buyers. It all happens in a fairly closed ecosystem in which vendors of assorted types—national financial services brands, local banks, local dealerships—vie to control the buyer's purchase path by creating a seamless, end-to-end car-buying experience that discourages comparison shopping.

"The point is not that all these activities take place online but that end-to-end car buying is becoming increasingly seamless."

– Steve Hoke

3. Credit unions have a unique opportunity to play a central role in members' car-buying journeys.

The above facts collectively speak to the complexities of middle-income car buyers' situation, the confusing array of options buyers have, and the need that credit union members have for guidance when they decide to buy a vehicle. It all spells opportunity for credit unions to play a more central and value-added role in the car-buying process. Notably:

- **Members want and need financial advice from their credit unions.** TruStage's "What Matters Now" research indicates that 80% of middle-income credit union members want financial guidance from their credit unions. Members' values align well with credit union values, and they trust that their credit union has their best interests at heart.

- **Unfortunately, members often overlook credit unions as sources of help during their car-buying journeys.** Commercial brands try to ensnare online buyers and keep them moving along the purchase pathway, making it easy to take the next step forward and more difficult to comparison shop. Their goal is to control the entire process at the earliest point possible. Swept along in the process, buyers may forget that their credit union is an excellent alternative to consider.
- **Credit unions have advantages over commercial competitors.** With pre-existing member relationships, credit unions have a chance to grab "mindshare" first, before members even think about buying a car. Moreover, credit unions enjoy affinity and trust levels among members that are out of reach for commercial lenders. Credit unions are uniquely positioned to disrupt the car-buying purchase journey (for their members at least), commanding a central role in the purchase process. In doing so, credit unions add value for members and further strengthen member relationships.

Credit unions are ideally positioned to offer members affordable alternatives and sound guidance to help them make the right decisions for their circumstances. In so doing, credit unions also have an opportunity to maximize the business value created in today's robust auto loan market. Credit unions have been taking market share in a brisk auto-lending market. Consider the following:

- Over 17 million new cars and trucks will be sold in 2015, representing $553 billion, according to research by CUNA Mutual Group.
- Credit unions' auto loans are up 12% this year, and their market share has expanded to over 15%, at the expense of other types of lenders (Callahan and Associates).
- Auto loans now represent nearly one-third (32.4%) of credit unions' loan portfolios (CUNA Mutual Group).
- Credit unions' new-car auto loan balances rose 21% in 2014, the most since August 1995, while used-car loan balances were up 12% (CUNA Mutual Group).

4. Several best practices help credit unions capitalize on auto loan opportunities.

Recommended best practices include:

- **Enter early in members' car-buying journeys.** Promote auto loan and car insurance programs visibly in newsletters, emails, social media, etc. The goal is to gain mindshare before members even start thinking about buying a car. By reaching car-buying members before competitors do, credit unions can leverage their pre-existing relationships to business advantage.
- **Educate members on their options.** Help members see the value of credit union financing versus higher-rate loans offered by "buy-here-pay-here" car lots. Make sure members know how leasing options compare with purchasing.
- **Offer good value for members' money.** Offer an array of competitively priced products, including discounted auto insurance, loan protection products, and financial advising services.
- **Become a complete financial resource for members.** Besides financial products, offer financial advisory services. Personalized guidance can help ensure that members are making decisions they can afford. The goal is not to place the member into any particular product but to create a better member experience that deepens loyalty, regardless of the purchase result.
- **Offer seamless "omni-channel" purchasing experiences.** Increasingly, consumers expect to see integration across all the major channels in which they want to interact or transact, with all of the channels working seamlessly together. Credit unions have the technology to offer members seamless online and mobile purchase experiences, just as major brands do.

"For most middle-income members, the credit union is a trusted resource that enjoys genuine affinity. You can use and build on those attributes. You don't have to be first if you're already there."

– Stephen Arnold

"You can create a better member experience and ensure greater loyalty regardless of what car your member wants to buy"

– Stephen Arnold

RESOURCES TO HELP CREDIT UNIONS HELP MEMBERS

- **Research updates:** What Matters Now. The "What Matters Now" research program is an ongoing opportunity for CUNA Mutual Group to share insights and data with credit unions that will help better serve members.
- **No-cost marketing materials:** TruStage Marketing Highlight Series. This is a series of 2015 marketing campaigns designed for TruStage endorsing credit unions to use to drive member engagement and business results. Easy to use and ready to go, these multi-media marketing materials focus on the ever-evolving needs of credit union members.
- **Online tools to enhance members' digital buying experience.** Examples include CUNA Mutual Group's AskAuto app that helps members shop for a car and a great loan and TruStage's live online chat function to assist members as they work with TruStage for their insurance needs (at www.trustage.com).

> "Marketing can play a big role in reaching members early in the thought process. As a result, we continue to invest in how we're marketing to members and reaching them in different ways."
>
> —Corrin Maier