STELLAR INSIGHTS

Stellar Strategic Group's Strategies On Growing PFI Relationships.

WINTER | 2021

Auto Lending Insights
Gregg Stockdale, Lisa Bundy & Brian Jones talk auto finance.

The Stellar Growth Approach
Learn the three pillars for defining your financial growth strategy.

Hot New Member Acquisition Strategy
A more balanced auto loan approach leads to increased growth and revenue.

Craig Simmers
Founder
Stellar Strategic Group

From Our Founder

Welcome to the Winter Edition of *Stellar Insights*.

As we start the new year, we find ourselves still dealing with uncertainty due to the pandemic. I think we were all hoping by this time we would be getting back to a sense of normalcy. That's the bad news. The good news is that we have all been forced to rethink our business since new opportunities have arisen as a result of the pandemic. There always seems to be a silver lining during difficult times if you look hard enough. We approach this new year with a feeling of great optimism. I hope that's your approach as well!

In this edition of *Stellar Insights,* we are excited to feature several banking professionals that we work with that play a big role in why we are so excited for 2021. This new feature entitled "Key Insights From Industry Experts" will showcase insights from banking professionals that have extensive experience in their fields. The initial concept of *Stellar Insights* was to share the valuable information that we have accumulated having worked with thousands of banks and credit unions over the years. Soliciting thoughts from outside our organization takes that initial premise of sharing information and experiences to another level. We encourage you to consider becoming a contributing author to share some of your expertise and experiences.

In addition, we have included an article on what we call "The Stellar Growth Approach." In short, this was developed by simply paying close attention to our clients that we consider to be "high-performance" institutions. It's uncanny how they all seem to look and operate in a very similar manner. Their core approach is how we've developed our product line over time. In this edition, we'll focus on credit unions. We have big things in the works with our SALcares program. We're very excited to be involved with our clients in giving back to their communities.

Keeping with the theme of focusing on credit unions, our auto refinancing program's founding partner, George Monnier, has completed a case study of how direct auto loans are a perfect compliment to your indirect loan volume. This combination of loans will offer a much more profitable and sustainable auto loan portfolio. By the way, you bank executives out there, our Spring Edition will be focused on banks. While both banks and credit unions are similar in many ways, we think it's important to also address the differences in their business models. To be fair, we flipped a coin to see who went first.

Here's to the start of what we believe will be a great year to be in the banking business. Stay healthy and enjoy this edition of *Stellar Insights!*

4

7

8

9

10

IN THIS ISSUE

STAY UP TO DATE

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About Stellar Strategic Group

Strong, long-lasting relationships with clients is our top priority at Stellar Strategic. Simply stated, we continually evolve our product line to meet the ever-changing market demands our clients face. Plus, we work to deliver the projected ROI promised, and treat your budget as if it's our own. The bottom line is that we care about you and it shows in how we partner with you to achieve your goals every step of the way.

The Stellar Growth Approach

The three pillars for defining your financial growth strategy

Program Commitments are not a Growth Strategy

Stellar has had the opportunity of working with thousands of community banking institutions over the past 20 years. After all these years, we've noticed first-hand the specific attributes "high-performance" community banking institutions consistently have. We take pride in researching which sales and marketing strategies work, for both our clients and competitors. By doing so, we have developed solutions, that when *combined,* are extremely powerful in accelerating the growth of our clients' retail consumer base.

Prior to showcasing what the high-performance institutions do to achieve that status, let's explore what the less successful institutions fail to do. In almost every case, they simply fail to develop and pursue a strategy for growth. **The implementation of programs that require a pre-determined contract period is simply not a strategy.** When we ask about a company's growth strategy, we constantly hear "Well, we've made a three-year commitment to this program." That's great for the vendor, but does it support an ongoing strategy for growth? In many cases it does not.

A Sustainable Growth Strategy is Formulated by Proven Solutions

As a company, we made the decision from day one, not to require long-term contracts. Instead, we work with our clients to put in place practices that are not defined by time, but instead are supportive of sustainable growth regardless of specific strategic initiatives.

We strongly believe the strategy we've built through collaboration with our thousands of clients over time is a basic foundation for growth that can and should be applied by every community institution. We refer to these three basic pillars of growth as *The Stellar Growth Formula.*

Growing Your Foundation and Seizing an Overlooked Opportunity

So, let's discuss what's fundamental to every banking institution: loans and deposits. These two products are the foundation of any institution. Now, let's discuss what we believe is the most overlooked opportunity in community banking today. The ability to expand the relationship and profitability of each and every consumer that banks with you. More precisely, let's focus on auto loan account holders that are completely dismissed from the conversation when it comes to expanding the depth of the relationship with these consumers. There are over **$1 trillion** worth of these loans in the U.S. today. How's that for a market that is virtually untapped!

The Three Areas of Opportunity

1. The top priority in our experience is **Auto Loan Refinancing.** Where else does a consumer at the start of a relationship have such a great positive experience? We don't even refer to these transactions as a sale. We provide a service to these consumers, who have until the point in which we talk with them, had no idea they were grossly overpaying on the auto payment. This first exposure to your institution is extremely positive and lends itself to securing a long-term relationship. In fact, on average 30% of these new customers immediately add a checking account and opt for auto pay. With over $30 billion in loans that need to be refinanced nationally, there's always a substantial market available for any institution.

2. The second most logical and lucrative consumer group are those consumers that already have a relationship with you through an **Indirect Auto Loan**. We consistently ask our clients: *Why do you focus on true prospects with no existing relationship, while practically ignoring this group that already does business with you?* Most common reply: We tried that and it didn't work. I can tell you from experience that if done correctly with a data driven approach, it does work. Having said that, not all indirect auto loan consumers are good prospects for strengthening the relationship. That's where the data comes into play.

3. The third group of consumers are those **True Prospects** in your market. We estimate that in most markets an average of 20% of consumers are prime to change banking institutions on an annual basis. They change jobs, move, become disgruntled with their current banking relationship or find themselves in the middle of a merger or acquisition with another institution.

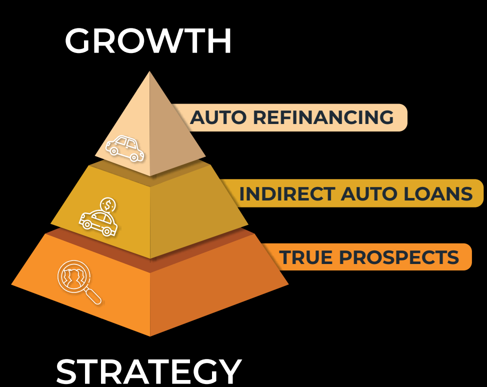
The latter situation is becoming more prevalent in recent years. A question for your institution: *Are you on the shopping list for these consumers?* Another question: *How do you decide which consumers are more inclined to make the move to your institution?*

Careful Planning is Necessary for Your Growth Strategy

Granted, combining all three approaches may not be the best approach for every institution. If not, consider which would be a good addition to what you already have in place as part of your growth strategy. Doing nothing is not an option. Today's banking climate is more competitive than ever. Start with a strategy, one that is sustainable over time, and don't make the mistake of thinking that adding more technology or a new fad program will solve all your growth problems. Take what your market and current client base presents to you as opportunities and build your strategy around it.

Over the past 20 years, we have proven that with the right strategy, tremendous growth is possible. Sitting idly by will not garner your institution any significant portion of this available business.

Craig Simmers is the Founder of Stellar Strategic Group. Contact him at craig.simmers@stellarstrategic.com or 410-990-0172.



Credit unions (more so than banks) rely on auto loans to grow their assets and overall loan portfolios. Prioritizing marketing efforts, along with allocating budget funds in order of highest return on investment is key. The Stellar Growth Approach incorporates all this in an easy to understand, execution process.

SUCCESS STORY

Peoples Bank Of East Tennessee

Madisonville, TN

We have been very pleased with our partnership with Stellar Strategic for the last three years. We have been able to utilize their Deposit Account Acquisition product to grow our core deposits. The marketing material has been very effective in our markets. We are ecstatic to have a marketing partner that uses data analytics to validate our marketing decisions. We see marketing dollars convert to new customers!

— Dustin Atkins
Senior Vice President - COO/CIO
Peoples Bank of East Tennessee

KEY INSIGHTS
FROM INDUSTRY EXPERTS

NEVER Turn Off Demand!

Many credit unions are struggling to achieve a 50% loan to share ratio. Some of those have used indirect or purchased loan participations to enhance their loan/share ratio. Then there's the credit union which has found a strong loan demand...even stronger than the concentration ratio limits would allow for. My advice — NEVER turn off demand!

Instead, your credit union should loan participate out the excess demand. Many credit unions are doing this now and the logic is as follows:

1. Once you shut down a flow of loans, it's very hard to restart the process, especially if 3rd parties are involved.

2. The actual selling of the participation is blind to the member and never affects their relationship with your credit union.

3. The numbers are actually better for the selling credit union than the buying credit union. The seller holds back around 50 basis points for servicing the loans as well as receiving a premium for the actual sale.

GREGG STOCKDALE
Principal Consultant, GS CU Consulting

4. Loan participations can be less intrusive than trying to liquidate investments. As a cash flow and liquidity tool, they are many times, more effective than balancing investments that may have to be sold at a loss or are illiquid. The amount that can be moved is significant. Larger credit unions are selling blocks of $50 million (or more) in loan pools.

5. Most data processors now have a program that supports this process. The internal time and costs are constantly going down for selling credit unions.

6. Some credit unions are collaborating with others in their area and micro-selling parts of a large individual loan that would be silly to pass up on, except that the size is too big for the credit union wishing to make the loan. This allows smaller credit unions to operate well above what their asset size would usually allow.

7. Some credit unions have adopted a "buy to sell" strategy. If they have a dealer relationship and want to expand to other dealers or their indirect supply is strong, then selling off the excess allows the programs to continue.

If your credit union is blessed with loan demand or you have a dealer relationship that needs to be maintained, selling loan participations is another valuable tool to help you better serve your members.

Loan Participations — Never having to say NO to a loan request that qualifies for funding.

Gregg Stockdale is Principal Consultant at GS CU Consulting. He can be reached at 909-318-6000 or gscuconsulting.com.

Auto Participations are HOT, HOT, HOT!!!

LISA BUNDY
Portfolio & Auto Loans

Why? Well several reasons.

One has to do with demand that is being driven by high liquidity of most financial institutions and the hunt for low risk assets that yield a decent premium. Autos have been a great investment as they are deemed a necessity in most economies. While new car prices have risen to levels never seen in the past, the used car market has enjoyed record price highs with little softening on the horizon except for minor seasonal adjustments. Autos also offer a quicker runoff that allows you to take advantage of a changing market condition and move into new areas when the Fed begins to raise their rates.

The other reason is supply. Many financial institutions began exiting this avenue either for more higher yielding assets (commercial, pre-COVID) or due to mergers and consolidations. The shift was mainly because it was a race to the bottom. With the indirect model, volume is great, but your fate is in the hands of the auto dealers, with them determining who gets the loan based on how it benefits them (such as dealer reserve and rate markup). In some markets it was just too competitive to cover production and servicing costs.

According to Experian in their State of the Automotive Finance Market Report for Q3 2020, the percentage of loans originated by banks and CU's decreased while the captive finance increased (see chart below). This further shortened the supply of available auto pools for sale.

NEW AUTO	Q3 2019	Q3 2020
Banks	28.97%	25.13%
CU's	11.59%	10.61%
Captives	54.21%	59.08%

USED AUTO	Q3 2019	Q3 2020
Banks	40.69%	37.83%
CU's	29.42%	29.08%
Captives	8.45%	11.87%

So, where does this create opportunity? Right now, and for the next year, auto pools are going to have more demand than supply, so which one do you choose? Indirect, direct or refinance? Indirect loans can be somewhat unpredictable depending on the market and dealers you work with. As you can see above, the captive finance companies have increased their market share with incentives and dealer requirements. With direct loans, the new borrower begins a relationship with the institution that can grow depending on how it is nurtured. However, with COVID and social distancing, this becomes more challenging and pushes the borrower to complete the process without much personal interaction. With refinance, the value proposition to the new borrower (savings on reducing their interest rate and lowering their payment) sets the institution up to be one that is saving them money rather than charging it. That changes the dynamic of the relationship and hopefully starts them thinking of you on their other purchases; as well as you now have their contact info to continue to market with new offers. Another benefit to the refinance model is the fact that refi pools have shorter lives, allowing the quicker runoff in and out of a set rate environment.

If you find yourself with more auto loans than you want to carry on your books, then you can always sell pools to another institution that would like to have these on their balance sheets without having to actually produce the loans.

If you are interested in pursuing buying or selling auto pools, whole or participation, feel free to give Lisa Bundy a call at 904-472-7930 or email her at lisa@cargirlcapital.com.

Auto Loans: Faster, Better and More Cost Efficient!

BRIAN JONES
CEO, Gravity Lending

THE QUESTION WE HAD TO ANSWER EARLY ON WAS "HOW CAN WE BECOME FASTER, BETTER, AND MORE EFFICIENT, WHILE PROVIDING A BETTER CUSTOMER EXPERIENCE?"

Gravity Lending set out to offer a vast array of consumer lending products, connecting consumers to lenders for the lowest cost loans for all their lending needs. When we launched, we focused on finding and implementing the top technology solutions available in order to give us the quickest funding time, the best response rate from clients, and the highest acceptance and completion rates on offers, all while earning trust and loyalty from both the borrowers and our lending partners. Every business is looking to gain an edge on the competition. The question we had to answer early on was "How can we become faster, better, and more efficient, while providing a better customer experience?"

To provide a better customer experience, our first area of focus was getting as close to 100% digital as possible to maximize operational efficiency, ensure compliance and security and avoid errors. We know customers are tied to their digital devices more than ever and e-signatures are nothing new to the industry, but how do you streamline the signature process while seamlessly and securely requesting and collecting stipulation items at the same time? After some extensive planning and research, we were able to implement an all-in-one mobile e-signature and stipulation request and collection solution. This has provided a 25% boost in completed loans compared to previous methods.

To maximize conversion engagements, it is important to be able to communicate with the customers in the way they prefer to converse. In an increasingly digital world where vast amounts of financial information are available at customers' fingertips, delivering the relevant information quickly and in an easily digestible way is crucial. A carefully planned and tested series of automated responses are combined with our proprietary call center processes to triple conversions.

Our final area of focus that allowed us to launch and scale quickly was our origination platform. We needed a way to communicate with a variety of external partners including lenders in numerous different methods. A big part of our value proposition is that we offer our lending partners an efficient turn-key solution that allows their team to fund far more loans through us than they could internally and at a far less expense. We compounded that success with a robust software stack that has allowed us to customize and integrate with all the right platforms, so our people can be as efficient as possible to drive additional revenue in less time.

By partnering with Stellar Auto Loans proven pre-screened auto refi application generation process, we can add great asset volume to most institutions' balance sheets without increasing FTE's. The lending institution controls the underwriting process, and will benefit from new members' interest income from the start. When we put it all together, we really have created one of the top experiences in the industry, both for our borrowers and our lending partners.

Almost all our reviews have been five stars, and in 2020 alone, we have experienced an increase in revenue over 500%. We will continue to review and improve our processes in 2021, but we would not be where we are today if we had not found and implemented the right technologies for every stage of the process.

Brian Jones is the CEO of Gravity Lending. He can be reached at bjones@gravitylending.com or 512-567-8102. www.gravitylending.com.

Hot New Member Acquisition Strategy

The case for a more balanced auto loan approach

STELLAR AUTO LOANS SUCCESS FEE-BASED AUTO REFINANCING PROGRAM PROVIDES REAL MEMBERSHIP GROWTH THAT IS EXTREMELY PROFITABLE TO THE CREDIT UNION.

New Member Growth Strategies

Most credit unions are typically looking for ways to grow membership, whether they are seg based or have an extended charter footprint. New members need to be added yearly, just to be static, needing to replace members that have left the institution.

With the current days of mergers, acquisitions, new online digital banks, etc., the days of simply hanging a sign, "New Members Welcomed" cannot be used as a long-term strategy for growth. Careful consideration must be balanced with credit union member acquisition costs against the value the member brings to the institution. New members only generate income to the credit union while they are members, so attrition must be part of the overall strategy for total growth. One great example of this are new CD deposits, often referred to as "hot money." These members tend to shop their investment to the next institution with better rates. Another example, offering huge incentives to open a checking account, which in turn are closed once the member has reached any penalty date.

In a recent article published in *The Financial Brand* it was reported that credit unions' cost-per-member average acquisition is $442. This is supported by *The Credit Union 2.0*, which states "Depending on methodology and account type, we see an average cost of acquiring a new member to sit somewhere between $400 and $700."

An old *Callahan & Associates* analysis shows the average community-chartered federal credit union spent an average of $791 net per new member. If that study ran today, I am sure that number would be much higher.

Many executives believe that if you onboard the household checking account, your institution will become their PFI. There is no doubt that a regular transaction account will keep the credit union "top of mind" for other products and services, as long as the member feels they are being treated well, and the account is truly an active account. Depending on the level of penetration, additional accounts will certainly add to the profitability of the new member, and help bring the credit unions' investment back, and eventually lead to a positive ROI.

Loan accounts increase long term profitability and could be used as a new member acquisition growth strategy if well balanced. What do I mean by this? Many credit unions have significant indirect loans based on their dealership relationships. These new “indirect” members are typically generating some modest interest income over the life of the loan. (Most institutions show that spread to be a little less than 1% after all costs and charge-offs are calculated.) The NCUA monitors these “indirect loans”, and historically, these members rarely add additional accounts or services, and once the loan is paid off, rarely come back to the same credit union.

Our Proven Solution

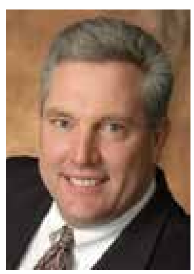
Stellar Auto Loans success fee-based auto refinancing program provides real membership growth that is extremely profitable to the credit union. These new members are acquired at a national average rate of $512. They look and act like your current members. They live in the same kinds of homes, have similar incomes and banking needs, and will act similarly to your current membership account mix.

Our typical gross yield is between 6% - 7%, and net margins around 5%, these new members provide great return on investment! Our average interest income being generated is many multiples of the acquisition cost, with a stellar average of $2,581 in interest income within 30 months, as well as $540 in non-interest income. (GAP, MBI, AD&D, etc.)

But, that is just for the current loan. We are seeing close to a 40% penetration of account transactions accompanying these loans. That’s an additional 30% increase in additional loan activity. Bottom line, balancing new member acquisition costs with member return value must be considered when growing an institution organically. Stellar’s turn-key program brings new members that have proven balanced loan portfolios, creating greater ROI’s, and reducing overall marketing risks.

Stellar pays for 100% of the marketing costs. The credit union pays when loans are funded that can be directly matched back to Stellar’s efforts.

For more information about our program, visit stellarstrategic.com/auto-loan-recapture-program.



George Monnier is a founding partner of Stellar Auto Loans, a division of Stellar Strategic Group, which offers pay-for-performance auto refinance programs to the banking industry. Contact him at george.monnier@stellarautoloans.com or 402-708-2425.

SUCCESS STORY

Railroad & Industrial Federal Credit Union

Tampa, FL

We were looking for a creative partner and comprehensive program to increase loan growth and Stellar Strategic more than delivered. Their program manages to drive in existing and potential new members with loan dollars we would not have otherwise had. They handle most of the heavy lifting all with a reasonable fee and a high return on investment. They took the time to understand who we are as a credit union and gave us a few customizable marketing plans to choose from. Their business model is simple in nature but powerful with results. We wholeheartedly recommend Stellar Strategic.

— Sammy Schomer
VP Lending
Railroad & Industrial FCU

Congratulations To Our
Stellar Auto Loans Credit Union Partners!

During the 2020 pandemic year, our Stellar Auto Loans clients have seen a significant increase in asset growth. Total direct loans have shot up by **83%**, applications for refinancing auto loans have climbed by **97%,** AND the number of funded auto units escalated to **57%.**

Consumer interest in refinancing their vehicle loans went through the roof. We've loved seeing our credit union partners' consistent asset growth, and can't wait to see what's to come throughout 2021!

STELLARSTRATEGIC

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