

STELLAR INSIGHTS

Stellar Strategic Group's Strategies On Growing PFI Relationships.

SUMMER | 2021



CUSTOMER ACQUISITION: THE IMMEDIATE OPPORTUNITIES

The New Normal

How credit unions are adapting to changes caused by the pandemic

Vehicle Pricing is on the Rise

Credit unions can benefit by soaring costs of auto loans

Stellar Auto Loans Case Study

\$2.5 billion midwest credit union results using our auto loan recapture program



Craig Simmers
Founder
Stellar Strategic Group

From Our Founder

Welcome to the Summer Edition of *Stellar Insights*

Welcome to the Summer Edition of *Stellar Insights*. Now that the pandemic is winding down, many companies in our industry are challenged with making up for lost time. This won't happen overnight. Although, I can guarantee those of us on the vendor-side are up for the challenge to assist our bank and credit union clients by making up for lost opportunities, as well as accelerating growth moving forward. I believe that now more than ever, the client/vendor relationship needs to work in unison as true partners to get back to effectively serving the public. I am happy to say that our client relationships have never been better. Hopefully, you can say the same! We should never forget that our successes depend on each other.

In this edition, our East Coast Regional Sales Director, Curt Belaney, has written the article "Is Your Credit Union Adapting to the 'New Normal'?" Curt's article addresses the changes taking place from the consumer's perspective and how financial institutions need to adapt, specifically related to the auto sales industry. We firmly believe that failure to adapt to changes in consumer behavior by financial institutions primarily driven by the pandemic will ultimately render some institutions non-essential.

In keeping with our corporate culture of paying extremely close attention to customer needs and desires, we again highlight one of our call center personnel, Andre Solis. His work ethic, attention to detail, and intense focus on assisting customers have made him stand out as a leader for our Inbound Customer Assistance

Team. This team helps consumers save money on their auto loans, and never by selling them a product.

We're excited to have shot the first three segments of our *Stellar Conversations* podcast. Special shout-outs go to Lisa Bundy from Cargirl.com and Brian Jones of Gravity Lending for carrying me through the shootings. Hopefully, I stayed out of their way and let them share their expertise with our audience. Episodes of our podcast can be found at StellarStrategic.com/Stellar-Conversations.

In closing, we are very excited to be launching our *Market Analysis Portal*. The goal for this virtual marketing site is to allow potential clients the ability to browse our product solutions, pull counts applicable to their market, and literally explore the entire onboarding process at their leisure. The portal will essentially eliminate the need to sit and review a PowerPoint presentation to learn more about The Stellar Auto Loan Recapture Program. It's a form of window shopping that can be done at your convenience.

We'd like to thank all of our clients for their commitment to our programs, even during a global pandemic. Now, let's all work together for a strong close to 2021!





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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.

Is Your Credit Union Adapting to the “New Normal”?

The country is reopening in ways many of us have been eagerly waiting for since the spring of 2020. Many credit unions are realizing the elusive return to “normal” is nothing more than a fantasy. The tangible impact of the pandemic is forcing most to reevaluate their strategic plans for 2021 & 2022. Now is the time to break with tradition by diving into the virtual and online paths to serve members’ needs. 50% of consumers claim they do not plan to return to in-person banking. The forefront of your products and services needs to include platforms compatible with mobile devices to reach the Millennial and Gen Z audience and compete with online banks.

This year, credit unions’ mission of “people helping people” rings in truer than ever and will always be a strong factor when consumers compare credit unions to banks. Being a member-owned financial institution in the communities you serve is still the credit union industry’s leg up on the big banks. Many have considered solar panel loans, member business lending, hybrid/ electric auto loans, and even serving legal cannabis businesses. The lack of new auto sales and inventories depleting due to the microchip shortage has caused many lending executives to pivot their focus towards auto refinancing.

Used Car Sales are on the Rise

This year used cars have been a hot topic in the financial world. In 2020, the *CU Times* reported that the 15 largest credit unions in the U.S. showed a 7.5% increase in auto loans, and the majority of loans were for used cars. Last year, we saw trade-in values sink and virtually no one was buying new cars. Some forecast used cars will account for up to 70% of auto loan activity this year. This is mainly



because of the chip shortages for new cars along with people moving away from congested cities to the suburbs for more space; trading crowded public transportation for operating their own sanitized vehicle. This has caused a 150,000-mile Toyota Camry to be considered high-valued. Even a 10-year-old pickup truck with 100,000 miles can bring in \$20,000. Now, most new auto dealers have been left with limited new car inventory and have shifted their efforts to sell used cars. It’s easy to see why *Automotive News* referred to the used car surge as a “strange moment” for the industry. This spring, used car prices were up an average of 14% compared to the spring of 2020. The average price of a used car is roughly \$22,000 vs. new cars that are averaging around \$40,000.

Alternatives to Buying from a Dealer

Credit unions need to realize that due to the pandemic and the increase in online dealerships that consumers will eventually

buy their vehicles fully online. Even before the pandemic, online car buying platforms like Carvana and Vroom were in full swing enabling purchase, finance, and delivery without leaving home. Online shopping platforms like *CU Direct’s* AutoSMART search engine are not new, but give members an easy path for locating their desired vehicle. With the click of a mouse, members can search for their desired make and model at locations near their zip code, along with the ability to secure financing through their credit union. It’s estimated that 80% of all car buyers visit online sites during the shopping process. Dealerships have adapted to the pandemic by making use of digital sales tools, online financing, and online auctions, as well as remote delivery, repair, and maintenance services. Many credit unions have developed their websites where members can learn from auto buying articles and videos, get pre-approved for financing, and search for vehicles all

online. Credit unions can keep their edge by maintaining human interaction in-person and over the phone. Banks like Capital One have moved to a very fast-paced automated platform that approves or denies all loans. So, if a member's loan doesn't fit neatly into the bank's loan model, the loan will automatically be denied.

Reaching the Consumer

Offering preapprovals is common, but they need to be offered much earlier in the car buying process. *Cox Automotive* reports today's consumers typically spend between 13 - 14 hours researching their new or used vehicle purchase. The Millennial and Gen Z audience put a lot of value on educational resources for making financial decisions. Offering tips and tricks on how to purchase and finance their vehicles will give you an advantage for keeping your credit union top-of-mind when finalizing their auto deals.

You can give your direct lending a boost by initiating an internal auto loan recapture program for pulling members' auto loans from other lenders into your credit union. An easier and more reliable alternative is to employ the Stellar Auto Loans Recapture Program. Through our robust 7-touch-point marketing process, we reach members and non-members who fit your credit criteria in your charter footprint. Stellar's touch-point process includes multiple mailings customized with your credit union's branding, calls from our inbound & outbound call center, an online web application portal, and application process support. Best of all, Stellar Auto Loans pays for 100% of the marketing efforts! We have clients who view our auto loan recapture program as an excellent account acquisition platform.

It becomes a win-win as new members save an average of \$90 per month on their car payments, and for the credit union by gaining new members, interest income, and non-interest income by selling their GAP, MBI, AD&D, and other products and services.

Curt Belaney is the Regional Sales Director of Stellar Auto Loans. Contact him at curt.belaney@stellarautoloans.com or 248-375-4062.



CASE STUDY

\$2.5B Asset Credit Union

Background. This credit union (CU) is located in the Midwest and has an asset size of roughly \$2.5B with 175,000 plus members. The CU has a community charter footprint with a potential membership of over several million households. The CU rates for A, B, C, D, & E paper of 4.14%, 4.84%, 7.19%, 8.94% and 11.69% for 60-month loans respectively (with a 620-credit score floor).

Stellar Auto Loans' Proposal.

Our clients pay no out of pocket marketing costs. All incentives, credit bureau lists, mail, postage, telemarketing expenditures, website, etc. are paid by Stellar Auto Loans, thus taking all costly risks from our clients. We collect a tiered success fee from the funded loans that match back to the marketed consumers. A small application fee is assessed on all applications, which is waived when the loan is funded.

Implementation. Using the CU's standard rates, the "Stellar Auto Loans" program targets non-member households that were eligible to become members. Potential mailed members are spread across all paper grades fairly evenly.

Approach. Stellar Auto Loans' unique auto loan recapture program uses data mining of credit bureau consumer information to find households that are paying a substantially higher interest rate on their auto loan than what our client would charge for the same credit score. Stellar Auto Loans then scrubs the potential list to remove those prospects that will not meet the CU's credit policies (i.e., late payments, bankruptcies, number of open loans, etc.). Prospects are ranked by best responders as well as profitability.

The prospect is mailed a prequalified offer letter, which shows the monthly savings for that consumer, if they were to refinance with the credit union. The direct mail offer is supported by outbound calls, a custom microsite with application, reminder letters, digital marketing, and after hours inbound/outbound call service. Applications are completed and sent to the CU for approval and loan closure.

RESULTS

- 2020's mailings resulted in **\$31 million+** in new, booked loans
- Members saved an average of **\$110.25 per month** on their loans
- The average booked loan term was **60 months**
- **\$6,615** average savings per household over the remaining life of the loan
- An average blended interest rate for all funded loans was **6.55%**

ROI

- Estimated interest income for first 30 months: **\$5,085,669**
- Estimated DDA (Demand Deposit Account) income for 30 months: **\$121,500**
- Estimated 30-month non-interest income (GAP, MBI, etc.): **\$431,925**
- Total Estimated Income: **\$5,639,095**

Total Estimated ROI: 304%





CUSTOMER ACQUISITION:

THE IMMEDIATE OPPORTUNITIES

In 2000, Stellar Strategic Group was founded to assist banks and credit unions acquire new checking customers with the goal of driving low-cost core deposits. Today, I feel somewhat conflicted given the market that exists 20 years later. For the bulk of the time we've been in business, we always followed the mantra that a consumer's primary financial institution is considered to be where they have their checking account. While that may still be an acceptable way to look at things, what's changed is the best and most profitable approach to securing that new customer.

Let's explore why banks and credit unions exist. From a macro perspective, it's fair to assume all institutions were established to serve the community in their charter footprint. It's also fair to assume for the most part that's what has happened. The question is, do we truly strive to help the individual consumer, or are most institutions driven by the bottom line? In fact, both can happen simultaneously. That brings me to what we believe is the best approach to growing your customer base. We firmly believe helping a consumer is far better than selling a product. It's a mindset that rarely ends up in any strategic plan or budget line item. The concept of customer service is a lost art. While technology enhancements are instrumental in staying competitive, aren't we ultimately striving to have as little personal interaction as possible with our customers? Maybe that's inevitable, but that first interaction with a new customer needs to be substantial if we expect

THE OVERALL STUDENT LOAN DEBT TODAY IS APPROXIMATELY \$1.6 TRILLION DOLLARS...THIS PRESENTS A NEW OPPORTUNITY FOR COMMUNITY BANKING INSTITUTIONS. THE QUESTION IS "WHO WILL TAKE ADVANTAGE OF THE OPPORTUNITY?"

the business relationship to be profitable and long-lasting. Let's consider this scenario. What if the first time you interact with a potential customer, you do something that virtually no other company has ever done for them? You save them money! You don't sell them something, you improve their financial condition. Would that not be a great way to start a banking relationship? We think the answer to that is an astounding "yes". For the moment, think about what you sell and how you sell it. How do you really differentiate

your institution from the one across the street? That's a hard thing to do because in reality you're not that different from the competitor across the street and frankly, consumers don't much care anymore about the subtle difference you might bring to the table. What consumers really focus on these days are what can you do for them to make their life better.

Let's explore a couple of options that are available today and as a result of the pandemic that have tremendous potential in driving new customers to your institution.

Auto Loan Refinance Opportunity

First, there are some \$3 million auto loans in this country where the consumer is grossly overpaying every month. In some cases, this translates to \$6,000 over the term of their loan. Most of these consumers have no idea this is the case. They can be easily identified, and most would save well over \$1,200 annually if their loan was refinanced.

Is it fair to assume this first interaction with a consumer may very well retain them for the long-term? Is it also fair to assume they might be pre-disposed to do additional business with you in the future? Of course, the answer to both questions is an unquestionable "yes". Oh, by the way, the loan loss percentage on these consumers is well below the average of your auto loan portfolio and we are currently seeing on average an interest rate after refinancing in excess of 6%.

Student Loan Debt Opportunity

Secondly, the student loan debt opportunity is larger than that of auto loan refinancing by a ratio of 7 to 1. The overall student loan debt today is approximately \$1.6 trillion dollars. Of that, a large percentage should be refinanced. With the average balance exceeding \$36,000 and loan loss rates for those who have



achieved an undergraduate or advanced degree extremely low. This presents a new opportunity for community banking institutions. The question is “who will take advantage of the opportunity?” Currently, the online banks have seized this opportunity and, based on loan volume, represent the top 10 institutions in the space. Again, this is a tremendous opportunity to help a new customer without having to aggressively sell them a product. This could be one of the greatest opportunities community institutions overlook in our lifetime. We constantly hear from clients and prospects, what’s new? Here’s one example of a new opportunity that at least warrants investigation by every community financial institution.

Market Disruption Opportunity

Finally, I ask myself every day why the community banking industry fails to take advantage of the level of market disruption that is taking place and showing no signs of slowing. With the combination of two major national bank mergers encompassing over a third of the nation, and a consistent flow of other mergers and acquisitions taking place, there has never been a better opportunity to take significant retail market share from major competitors. In addition, major banks again have failed consumers on how they handled the PPP Program for small businesses. There are untold numbers of businesses large and small that have been underserved over the past 18 months. This is an opportunity that should not be overlooked.

Breaking News

As if what’s detailed in the previous paragraph doesn’t represent enough of an opportunity, **Wells Fargo recently announced they are ending all personal lines of credit.** While this kind of decision is extremely rare, the effect it will have on its current customers can be very damaging to their credit. Those consumers that have existing lines, but are not fully exercised, will have their available credit reduced to the balance owed. All their customers with a personal line of credit could see their FICO scores suffer. Several members of Congress have immediately responded to this issue based on how harmful this decision can be to consumers. Clearly, the market disruption that exists today is unprecedented. My question to all that are reading this article, will you take advantage of this opportunity and accelerate your retail market share growth? Growing your customer base will never be easier!

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



A new podcast from Stellar
Strategic Group about banking,
auto refinancing, and so much more!

FEATURING CONVERSATIONS WITH

BRIAN JONES

CEO

Gravity Lending

Auto Loan Refinancing

ROGER POWELL

Managing Director

The Burke Group

M&A Activity

LISA BUNDY

CEO & Founder

Cargirl.com

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What Can Credit Unions Do NOW to Benefit from Soaring Used Vehicle Pricing?

We have all seen the news. The pandemic has disrupted the supply chains for many lines of business this past year. One such line of business is new automobile manufacturing.

Today's new vehicles use many of the same semiconductor chips that are used in other products, such as mobile phones, computers, etc. Chip manufacturers worldwide have reduced production during this viral epidemic, and do not expect to meet the demand for many months yet to come.

Consequently, the number of new vehicles for sale at dealerships fell 36% in March, compared with a year earlier, according to *Edmunds Used Vehicles*. In addition, demand for vehicles has increased as consumers are looking for vehicles to avoid public transportation or ride sharing because of the virus.

HOW DO YOU FIND THESE QUALIFIED POTENTIAL MEMBERS THAT CAN SAVE SIGNIFICANTLY BY REFINANCING WITH YOUR INSTITUTION FOR A LOWER RATE? ONE WAY IS TO USE THE STELLAR AUTO LOAN RECAPTURE PROGRAM...

With this shortage of new vehicles, used vehicle sales and prices have exploded! The average list price for used cars in March reached \$21,343, up more than \$2,000 from a year earlier, according to COX Automotive, which owns *Kelley Blue Book* and *Autotrader*.

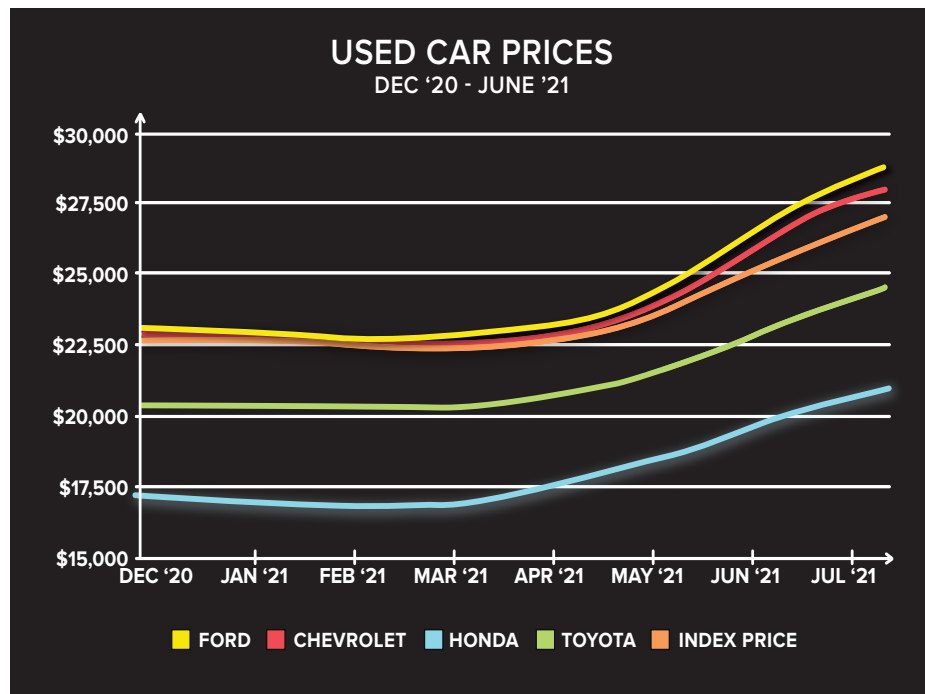
Consumers are enjoying the benefit of their current vehicles not depreciating in value, as they make

their monthly auto payments. They become more attractive for credit unions to refinance that potential member, since the loan to value has mitigated substantially. Whereas the consumer might have been far "upside-down", they are now well within LTV credit parameters. Savvy credit unions know this is the time to step up their auto loan refinancing programs. Not only to current members that have auto loans with other institutions and captives, but also new potential members that reside in the credit unions community charter or special association.

How do you find these qualified potential members that can save significantly by refinancing with your institution for a lower rate? One way is to use the Stellar Auto Loan Recapture Program, which is quickly becoming the most profitable member acquisition strategy available today, producing instant revenue generating members that retain long-term.

Stellar Auto Loans pays for all the up-front costs to solicit to new potential refinance members that reside in your charter footprint, and you pay only for the loans you actually refinance.

You pay nothing out of pocket until the new member responds. You start with a prequalified list of potential members from your predefined zip-codes utilizing your predefined credit criteria. Our



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STELLAR SPOTLIGHT

Andre Solis

Inbound Sales Representative

In October 2019, Andre joined the Stellar Auto Loans team as one of our inbound representatives. One of his core job functions is to help prospects refinance their auto loans with one of our credit union partners.

We see by his daily actions that he enjoys being part of a growing company. Andre is a team leader and someone his coworkers can go to for help. He is always willing to assist, whether it be processing an application or answering a prospect's question.

One of his favorite parts of working at Stellar Auto Loans is that it's the first time he has a job where he feels he makes a real difference in the world. "We get to help people save money on an auto loan that they are paying too much on. At the end of the day, all I do is help people get into a better spot financially, and it feels more worthwhile than most jobs." The mindset he brings to work every day is one of the many reasons why Andre is our Stellar Spotlight for this month.



Customer Service is Our Top Priority *The Key to Our Success*

Our Stellar Auto Loans' call center functions as an extension of the credit unions' lending department, providing the same customer service they would receive if they were to contact their branch. With our extended hours of 8:00 am – 11:00 pm EST, prospects can reach one of our dedicated in-house loan specialists when branches are closed for the evening.

This allows us to not only generate additional applications for our clients but also assist with customer service-related issues like the gathering of additional information to help approve loans or contacting applicants that

our clients may have trouble reaching during normal business hours. In the course of a month, the call center can account for roughly 47% of the loan application volume that we receive.

This is achieved with multiple efforts or touchpoints made by our outbound telemarketing team. They reach out to prospects before the offer letter ever hits their mailbox, the day it arrives, and after it would have arrived to make sure it wasn't forgotten. These combined efforts are what allows us to have better than average response rates for our clients.

Continued from Page 10

multiple response mechanisms ensure great response rates. (Direct mail, telemarketing, online application sites, digital marketing, and reminder mailings). Applications are submitted to the lending team, to decide to approve or deny the loan. Our proprietary credit bureau selection process generates an average look-to-book rate of around 50%.

Please visit us at stellarstrategic.com/free-customized-market-analysis/, to get a free analysis of the opportunity we see in your specific market.

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.



THE STELLAR “MARKET ANALYSIS PORTAL”

The Stellar “Market Analysis Portal” is designed to be your one-stop shopping portal to pull statistics detailing the auto loan recapture potential of your specific market. In addition, all of the information you would typically need at your disposal to make a decision on entertaining doing business with Stellar Auto Loans will be right at your fingertips. Below are some of the resources that will be available:

Collateral Material

Case Studies

References

Testimonials

Sample Offer Letter

Stellar’s Proprietary “7 Step Process”

Online Application Flow

Call Center Support

Client Dashboards

Schedule a Meeting On Your Time

More details to come soon via future communication.

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