The Stellar Financial Group's Strategies On Growing PFI Relationships.

STELLAR Insights

FALL | 2022

DECLINING LOAN VOLUME, RATE INCREASES, & STAFFING SHORTAGES

What it means to you, and how we can help.

Explore Our Stellar Loan Processing Option

Our solutions can help solve several issues financial institutions are facing today.

Rate Increases Don't Have to Impact Loan Volume

With proprietary data mining, you can still find new profitable loan volume.

Obtain Instant Profitability from New Members

Don't wait years to reach a return on investment with new members.

FROM OUR FOUNDER

WELCOME

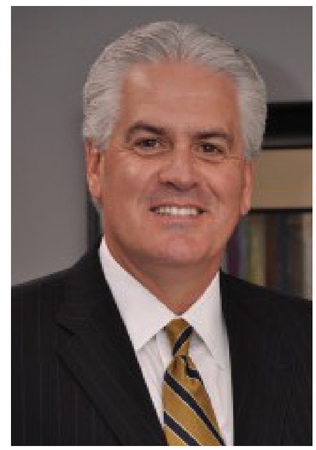
Please enjoy this special edition of ***Stellar Insights*** focusing on how our evolving solutions address many of the issues you face today.

Welcome to our Fall Edition of *Stellar Insights*. This time of the year is critical as we start to analyze year-to-date results, begin strategic planning for the upcoming year, and ultimately finalize budgets and plans. That being said, we felt it was crucial to highlight our evolving solutions and identify the vital opportunities financial institutions have at their disposal. We hope the content presented in this edition of *Stellar Insights* will be helpful during this process.

One of the main concerns for our clients is sustainable loan volume. We'll explore how enhanced analytics can be a valuable hedge against the declining auto loan refinance population due to increased interest rates. This is not a new phenomenon. I often joke that we were a fintech well before it was even a thing. In our experience, when the market enters a lull, it's paramount to evolve your marketing strategies around your data analytics and capabilities.

Another concern that most financial institutions face are operational capabilities. Given this difficult employment market we are all experiencing, it's imperative we have options in order to stay operationally efficient. We'll focus on options we offer our clients to address this ongoing issue in our feature article titled "Explore Our Stellar Loan Processing Option." In addition, we question if near-shore call centers can be a solution to hiring concerns moving forward. We firmly believe this is the case for numerous reasons. You will be surprised how many financial institutions have already made this move. You'll also be surprised at the professionalism and security measures that these companies embrace in addition to the significant cost savings.

Finally, we'd like to acknowledge our talented employees that are critical to our ongoing success. To be consistent with the references stated above concerning data, we'll introduce you to our data analytics team, or as I refer to them, the smart kids that make us all look good! Hopefully, you'll find something in this edition of *Stellar Insights* that may be helpful in the upcoming months leading into 2023. Good luck as you enter into this critical planning time of the year. ■



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About The Stellar Financial Group
Strong, long-lasting relationships with clients is our top priority at The Stellar Financial Group. 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.

Instant Profitability on New Members

Increase your revenue with direct lending.

Most credit unions have multiple strategies to grow their membership base and spend hundreds of thousands of dollars annually to market to potential prospects. But what is the actual return on investment for acquiring new members?

Research suggests that acquiring a new member costs between $350 to $700 in marketing efforts and employee labor.[1] So, how long does it take for the financial institution to break even or make a profit?

Value Penguin reports that the median checking account balances in the US is $2,900.[2] If you were to lend out 100% of that deposit, the 5% interest income generated would be $145 per year. It would take 3-5 years just to break even. Yes, there are other sources of income from new checking accounts that add to overall profits: debit card transaction fees, overdraft income, and so on. But again, this takes some time to accrue. This strategy has merit, but it takes years just to recover your acquisition costs.

"Loaners" vs. "Lifers"

Auto lending can provide profitable new members year after year. I am not talking about indirect lending, in which the dealership has a real relationship with the member. Most institutions can attest, only 5% to 7% of these new "members" will open an additional product or service. A SVP of Lending from one of our partnering credit unions has coined a phrase for these types of members. He describes them as "loaners", and that he wants "lifers". "Loaners" are members that only open an auto loan from the indirect dealership relationship, and close that membership once the loan is paid off. "Lifers" are members that have a direct relationship with the credit union, and often purchase their next auto loan using the credit union. "Lifers" are opening additional products and services, such as checking accounts, credit cards, and home equity loans.

Stellar pays for all of the up-front costs to solicit potential new members to refinance with you. These potential new members meet all of your lending criteria and reside within your charter footprint.

No Risk to You

Stellar's Auto Loan Recapture Program helps generate new members that have a direct relationship with the credit union. Stellar pays for all of the up-front costs to solicit potential new members to refinance with you. These potential new members meet all of your lending criteria and reside within your charter footprint. Best of all, you only pay for the loans you refinance.

We use each institution's underwriting parameters as part of our proprietary credit bureau selection model to develop

Applications are submitted to the credit union's loan team for credit approval, using their standard approval process. With an almost 50% Look-to-Book ratio nationwide, our credit union partners benefit greatly from our program!

prequalified potential members to target. Applications are submitted to your financial institution's loan team for credit approval, using their standard approval process. With an almost 50% Look-to-Book ratio nationwide, our credit union partners benefit greatly from our program!

Nationwide, our average refi balance is $27,261 for an average of 61 months remaining term. The average blended interest rate for this past year for all paper grades from 6.90%. These loans are, on average, 31 months in duration before being paid off.

In addition, most credit unions are seeing 30% of these new members opening a checking account. During the first 30 months, these institutions average a little over $200 per loan in checking/debit card transaction fees.

Lastly, unlike an indirect dealership loan, these FI's keep the cross-sell opportunities, GAP, MBI, AD&D, and so on. Our credit union partners are averaging over $325 per loan funded in non-interest income.

These new members, on average, generate $4,702 in interest income within 30 months. In that same time frame, these credit unions generate another $525 in non-interest income, for a total average of $5,227 in new income. With our contingency-based fee structure, the cost per new member is between $550 to $650. This means that our credit union partners generate positive income less than five months after they onboarded. Cumulative interest alone at month five is $761.66!

In summary, it is wise to look at auto lending as a source for profitable new members instead of investing in checking accounts. ■

George Monnier is a founding partner of The Stellar Financial Group, which offers pay-for-performance auto refinance programs to the banking industry. Contact him at georgem@stellarfg.com or 402-708-2425.

[1] Hudson. (2021, July 19). A Quick Guide to Credit Union Member Acquisition Costs. CU 2.0. Retrieved July 30, 2022, from https://cu-2.com/cu-member-acquisition/

[2] Moon, C. (2022, January 20). Average U.S. Checking Account Balance: A Demographic Breakdown. Value Penguin. Retrieved July 26, 2022, from https://www.valuepenguin.com/banking/average-checking-account-balance

The Stellar Difference

In our Stellar Difference Video Series, we highlight different aspects of our Auto Loan Recapture Program including Lead Exclusivity, Pricing, Member Retention, Customer Service, and our new Loan Processing Department.

SUCCESS STORY

ASSOCIATED CREDIT UNION OF TEXAS

LEAGUE CITY, TX

We partnered with The Stellar Financial Group in Q1 2021, and we have had a great experience with them. The set up was extremely easy, and the service and communication with Stellar has always been excellent. We like the program because we are given strong applications for auto refinancing. Unlike other refinance lenders, the credit union gets to control the onboarding process from beginning to end. It's a better experience for the member, and we have had more success converting these new members into using our credit union as their PFI. We have approximately $2.2 million in our portfolio. Currently zero board reportable delinquency. Our average FICO is 749 with an average LTV of 91%. Overall, we have had a great experience and enjoyed great success partnering with Stellar. George and his team are great to work with!

— Keith Tillinger, VP of Lending
ACU of Texas

Explore Our STELLAR Loan Processing Option

We have the solutions to getting your auto loans processed in a timely manner.

Vehicle values have risen substantially in recent years, leading to more opportunities to refinance your automobile. These increased opportunities have led to a rise in auto loan applications, overwhelming some financial institutions. Let The Stellar Financial Group help ease the burden by handling all the back-office tasks associated with your auto refinance applications. Rather than hire, train staff, and purchase additional office equipment, let our experienced team of professionals handle the loan processing tasks associated with your auto refinance applications.

Scan the QR code to watch a short video about our Loan Processing Option.

Outsourcing: Near-Shore Operations

Is this the answer to staffing shortages?

To be honest, hiring has become a very difficult proposition here in the states. In addition, the demographic make-up of our population has changed. How do we deal with these two very important changes in the US market?

To my surprise many financial institutions and fintech's have taken parts of their operations "offshore". The actual phrase is "near shore". These operations are throughout Central America and the Caribbean. Having some of the same issues, I explored this opportunity. Wow was I surprised. First of all, the security measures utilized are far superior to what most financial institutions employ for both their facilities and data utilization practices. Imagine asking your employees to empty their pockets upon entry to your branches and go through the same detection protocols we endure at the airport. Second, imagine not allowing paper, pens, and cell phones inside your facilities. Finally, could we all work efficiently with no printers, hard drive ports or computers and no written notes? That's the level of security I experienced.

Having stated the above, let's consider an environment where hiring bilingual staff in whatever volume needed is no issue. Imagine a supervisor, QC manager, and trainer in every work group. All of this with command of the English language that is equal to most of us in the States. This is critical as we estimate 21% of all auto refi applications completed require a bilingual capability. Can you afford to not service this consumer segment?

For more information on this potentially valuable service, please reach out directly to me, Craig Simmers to request an initial conversation.

Craig Simmers is the Managing Partner of The Stellar Financial Group. Contact him at craigs@stellarfg.com or 410-990-0172.

Here at Stellar we focus on our clients' needs as we handle the back-office process of collecting loan stipulations on an as-needed basis. We also contact the consumer regarding the decision of the loan, along with packaging the loan for the client. We value ourselves on having excellent customer service and quality work.

In the event of an accident leaving a member's car completely totaled or just having minor repairs, GAP coverage and warranty products will have the member's vehicle covered for most unforeseen occurrences. GAP coverage covers the "gap" between the amount a standard auto policy covers versus the remaining balance on the loan. GAP coverage can be added when the car is purchased. If the member did not purchase GAP at that initial sale, they may later purchase it when refinancing the vehicle. Your members should consider GAP if the following applies:

- Made less than a 20 percent down payment
- Financed for 60 months or longer
- Purchased a vehicle that depreciates faster than the average
- Rolled over negative equity from an old car loan into the new loan

We have partnered with National Auto Care (NAC) to offer our GAP and warranty packages. NAC is widely considered one of the best warranty coverage programs in the market due to the amount of vehicle protection you receive. NAC offers the following five types of coverage:

1. Pinnacle

Longest term limit: 7 years/100,000 miles

Eligibility: Cars up to 10 years old with as many as 156,000 miles

Plan details: A top-level comprehensive coverage and the highest-level option of protection offered to the customer. Pinnacle has a noticeably brief list that's not included such as lift kits/hybrid/electric vehicle components.

2. Powertrain

Longest term limit: 7 years/100,000 miles

Eligibility: Cars up to 15 years old with as many as 156,000 miles

Plan details: Coverage for engine components, seal & gaskets, select components of the turbo/supercharger, transmission, and drive axle.

3. PowerWrap

Longest term limit: 10 years/100,000 miles

Eligibility: Cars up to 5 years old with as many as 60,000 miles

Plan details: Exclusionary wrap coverage for vehicles still protected under manufacturer powertrain warranties.

4. Preferred

Longest term limit:
7 years/100,000 miles

Eligibility: Cars up to 15 years old with as many as 156,000 miles

Plan details: Stated-component coverage that includes alternator, ignition module, select components of the fuel system, select electrical components, suspension, steering, air conditioning, brake system, and select components of turbo/ supercharger.

5. Medallion

Longest term limit:
7 years/100,000 miles

Eligibility: Cars up to 15 years old with as many as 156,000 miles

Plan details: Stated-component coverage that includes the alternator, all electrical components, power steering pump, rack and pinion, A/C compressor, select suspension components, select fuel system components, and all drive axle assembly.

The auto refinance process has many steps, none more critical than

DDI Technology is a leading electronic title and registration technology firm providing title administration and processing services for vehicle dealers and lenders.

lien perfection. Perfecting your lien has many filing requirements based on situation, collateral, state, and federal laws. If your lien is not perfected in a timely and correct manner it can lead to your institution incurring legal issues if the loan is defaulted. The Stellar Financial Group has partnered with DDI Technology to make sure there are never any hiccups in this process. DDI Technology is a leading electronic title and registration technology firm providing title administration and processing services for vehicle dealers and lenders. DDI Technology has 22 years of experience in the ELT solutions industry and has been growing its national footprint due to their excellent service.

One thing that worries all financial institutions is security, especially cyber security. We have teamed up with DocuSign, the leading e-signature company with over 100 million customers in over 180 countries. Along with its two-factor authentication, DocuSign will make sure your applications are electronically signed by the correct member and in the correct locations on the application. DocuSign has become the leading vendor in its industry by allowing people to utilize their service anywhere while saving time for their clients.

If your auto refinance volume has become a burden, come let The Stellar Financial Group help ease the workload and manage the back-office tasks associated with an application. We will contact your prospects or members and obtain any necessary stipulations to finalize the loan. We hope our new loan department becomes an important asset to our new and current clients. If any of this sounds appealing and you are interested in learning more, please reach out to The Stellar Financial Group to have all your questions answered. ■

James Woody is the Loan Processing Manager of The Stellar Financial Group. Contact him at jwoody@stellarfg.com or 240-623-1071.

MEET OUR LOAN PROCESSING TEAM

With decades of experience in the industry, we are excited about what each team member has to offer to The Stellar Financial Group. Let's meet the team:

James Woody
Loan Operations Manager

Beth Kiessling
Loan Operations Associate

Sherre Monroe
Loan Operations Associate

Jose Reyes
Senior Team Leader

Has the Auto–Refi Market Declined?

With today's prospect data mining, it doesn't have to.

Interest Rates Have Increased

We've all noticed that interest rates have risen over the past several months. The Fed isn't done with rate increases, and this limits the number of prospects that qualify to refinance their vehicles. In some markets, available prospects have been reduced by more than 50% because some lenders have been aggressive with their rate increases. The decision that lenders need to grapple with is whether the yield is more important than their growth. There seems to be a consensus that you can't have both. On the surface, that seems to make sense, but what appears to be an obvious assumption may be quite misleading.

In some markets based on the decisions by lenders to be aggressive with their rate increases, available prospects have been reduced by more than 50%. The question that lenders need to grapple with is whether the yield is more important than their growth.

Marketing is a Game of Pivoting

As markets change financially, like we are seeing today with interest rates, financial institutions must anticipate future market changes and be prepared to pivot. Waiting until the market has already changed is frankly too late. In addition, when one segment of the market hits a downturn another segment offers an opportunity. Let's explore how that is playing out in this market. Interest rates are up and will continue to increase in the near term. Since the beginning of the pandemic, the value of homes have spiked. We're now seeing consumers relying more on credit cards to deal with the inflated prices at the pump and the grocery store. That leaves consumers with a tremendous opportunity to utilize that newfound equity in their homes to eliminate high-interest rates and payments on their credit cards. I recently had a conversation with a senior marketing executive at a large credit union that I consider to be one of the brightest marketing minds in the business. He is determined to grow his membership base through acquiring loans. This is his primary growth strategy for the upcoming year. Let's be brutally honest, if you don't help improve the financial situation of your members or customers, someone else will.

Enhanced Data Analytics is the Key

Let's get back to the main topic of the article. The auto-refi market has declined due to increased interest rates. So, where do we pivot to compensate for the reduced market size? To be quite honest, you shouldn't have to pivot. The tools should already be in place to extract the data that can offset the market downturn. So, consider these few questions. ***Do you have a plan in place to ensure you retain every customer and protect them from being poached by another financial institution?*** We typically hear that clients and prospects have this capability but rarely is it a comprehensive plan. ***Related to prospect marketing, do you know your consumer profile is based on FICO, savings, balance, etc?*** That's a tough one for most institutions

The game has changed with the growth of fintechs. Keep in mind, that they are driven by a different set of principles. Money and growth are their driving forces… That's our competitor base these days. We as an industry need to match that intensity.

to develop internally, but it can be done very effectively with the right tools, knowledge, and resources. Finally, ask yourself this question. ***When markets turn, and they always do, do you have the tools and infrastructure to effectively deal with the downturn and pivot as needed?*** My guess is, given all that is involved in running a retail operation you simply don't have the time and resources to make the necessary changes quickly enough to ensure the downturn is limited in its effect on the bottom line.

If You're Not Growing, You're Dying

That's a phrase I've heard for years. Unfortunately, that is the banking environment we live in today. Growth is imperative, especially for institutions that are smaller with fewer resources. But, saying that also applies to larger institutions. In many cases, these institutions have created a formula that requires constant growth. They must FEED the BEAST. Due to the inevitable churn created, failing to maintain a level of growth quickly accelerates a decline in revenue and the customer base. Let me give an example. In a recent conversation, a prospect stated that loan volume was down $50MM per month from 2021 levels. Knowing the ability existed in a very short timeframe to address 20% of that decline, the response I received was this: "We have a lot going on, so let's revisit this in the fall." WHAT!!! Your business of making loans has tanked and you're too busy to address it. So, I probed a bit. What is going on that makes dealing with this very serious issue not a priority? The answer will shock you. The first response was "it's summer, and we have a lot of vacations." WHAT!!! The final response was "We're understaffed and can't find people to hire." I stopped there because we weren't discussing solutions, I was hearing excuses. I sincerely believe given this market in which we find ourselves, it will not be tolerant of inactivity and lack of growth. The game has changed with the growth of fintechs. Keep in mind, that they are driven by a different set of principles. Money and growth are their driving forces. They don't care about vacations and hiring issues. That's our competitor base these days. We as an industry need to match that intensity. The alternative will eventually be death by inactivity and lack of creativity. As the founder of Stellar, which has been in business for 22 years and worked with over 1,800 financial institution, I'm pulling for you guys. You have to want it. If you do, we're here to assist. ■

Craig Simmers is the Managing Partner of The Stellar Financial Group. Contact him at craigs@stellarfg.com or 410-990-0172.

DATA ANALYTICS: TAKING IT TO A NEW LEVEL

We are often asked in presentations, "What is the secret sauce?" Since our founding 22 years ago, we have always answered this question the same way. The secret sauce is in the data, which is the foundation of any marketing campaign. Without consistent analysis before and after a campaign, you have a recipe for failure. In most marketing and sales organizations, a group of very talented data analysts work tirelessly behind the scenes to ensure the success of their companies. I'd like to introduce you to our data analytics team.

Josh Luongo
VP of Data Analytics

Sai Karteek Edumudi
Performance Data Analyst

Bansari Shah
Performance Data Analyst

Stuart Zellin
Programmer/Analyst

INTRODUCING

STELLAR REWARDS

Just another way for us to help our clients grow.

To show our appreciation for our clients, we are excited to introduce Stellar Rewards, our new loyalty program that allows clients to earn 10 cents for every dollar spent. Rewards can be used for any of the following programs or services.

Account Acquisition
Home Equity Marketing
Overdraft & Privacy Mailings & Emails
Printing

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