The anatomy of a successful organic loan-growth strategy

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Organic loan growth is a popular phrase these days. Today, an increasing number of credit unions are looking for ways to attract more loans *directly*. Direct loan growth (vs. indirect) can be more attractive, cutting out the middle man to improve yields and leveraging direct member contact to increase cross-sells.

Direct loan growth is easier said than done

Organic loan growth can be difficult for credit unions operating in a competitive "red ocean." W. Chan Kim and Renée Mauborgne of Blue Ocean Strategy argue that companies succeed by creating "blue oceans" of uncontested market space, as opposed to "red oceans," where competitors fight for dominance – the analogy being that an ocean full of vicious competition turns red with blood. When it comes to consumer loans, credit unions operate in a very red ocean. Organic loan growth is difficult because everyone else is using the same product, pricing, promotion, criteria, process and delivery to attract the same group of people. The auto loan marketplace is particularly crowded and cutthroat.

To successfully achieve organic direct growth, you must do something different. We get to work with a lot of credit unions, and we hear and see what works and what doesn't. The following study shares a best-practice organic loan-growth model to help your team find greater results.

Setting the stage

Five years ago, a mid-sized ($250-$500 million) credit union decided to shift its focus away from an indirect auto program. The credit union wanted to increase loan yields and interact more with new loan members to build deeper relationships. The credit union's leadership believed that cross-selling results would be higher for direct versus indirect new loan members and identified their ideal target as prime and near-prime credit consumers who had existing auto loans. This is not your common auto loan "recapture" program.

Approach

The credit union worked with Experian to identify specific auto trades that had interest rates high enough to warrant an effective refinance offer. Common recapture programs frequently fall flat, because the promo rate offered is not that much lower than the consumer's existing rate and because credit unions typically limit criteria to a static credit score range.

The credit union wanted to find prime borrowers who could have qualified for better rates at the time, but were just overcharged. It also wanted to find near-prime consumers who had improving credit profiles. The credit union used

Experian's Trended Data to find consumers with improving credit profiles. This allowed them to lend deeper at higher rates and better manage risk (i.e., profiles are improving).

Next, by leveraging Experian's interest rate data, the credit union was able to only target consumers with rates high enough to result in a refinance offer. The results? Increased offer acceptance and no wasted time or money targeting people with low rates who had less incentive to go through the refinance process. To support the regular target marketing, the credit union utilized its Call Center to make outbound calls to follow up on the offers. The customized rate offer made the refinance opportunity more attractive for the consumer, allowing for the Call Center to more easily close deals and cross-sell other opportunities.

Measuring success

During the past five years, the credit union has migrated nearly $50 million from an indirect auto pool to a direct auto loan pool. The loan portfolio is more profitable and represents new members who have multiple relationships at the credit union.

> "Experian's Trended Data enables credit unions to identify members who are improving their financial situation by lowering their debt and paying on time. Our interest rate data can then be used to help those members by offering better interest rates than they are currently paying."
> — **Paul Desaulniers**, Senior Director – Experian

Why it matters

If you want to consistently compete and win, you must do something different and better.

In this case, one credit union took a run of the mill auto loan recapture process, and designed a better way. In the midst of a very red ocean of consumer auto lending, they found blue water.

If you want to do a better job with organic direct loan growth, I encourage you to consider the red ocean your team is currently swimming in. Invest the time to identify opportunities where you can more effectively compete and the resources to build something successful. Don't skimp on the technology, data and human resources needed to create a best practice. Best practices are rarely "one and done."

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