Enterprise

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LENDING PRODUCTS & SERVICES

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LOOKING AHEAD

SHAPE YOUR FUTURE BEFORE SOMEONE DOES IT FOR YOU

Making Prime Hay with Pre-owned Financing

Experian's latest State of Auto Finance Market Report made headlines recently, painting a rosy picture for the used-vehicle market. Overall, **pre-owned vehicles accounted for 55.61% of all financing in Q2 of 2016**. Consumers across all credit tiers are flocking to **pre-owned vehicles, with super-prime and prime consumers accounting for 44.95% of all pre-owned loans, representing a 2.6% year-over-year increase**.

Mark Rappaport
President, Simplicity Division
Enterprise Financial Group

While Experian highlighted the fact that more prime consumers had entered the market, to the discerning eye, the pre-owned vehicle market is still a subprime game. In fact, nonprime, subprime and deep subprime consumers accounted for **55.05%** of all used loans in Q2 of 2016. And, just as consumers don't quite know the true quality of the vehicle, or vehicle health, lenders are in the dark as far as vehicle reliability.

This unknown could lead to more vehicle repairs, a higher likelihood of breakdown, and even an increased risk of total loss. Add that to the fact that more than half of the pre-owned market is made up of risky credit tiers, and it's pretty clear why auto lenders as a whole look to protect themselves with higher APRs for the pre-owned space.

Even Experian's latest report reflects this trend with an average new APR of **4.82%** and an average pre-owned APR of **8.97%**. However, with more prime and super-prime consumers entering the space, lenders will be hard-pressed to reduce their rates to be more in line with what those consumers are accustomed to in the new-vehicle space. So, how can lenders address this pressure to reduce their average APR for pre-owned vehicles while also protecting their loan portfolios as a whole?

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The answer lies in thinking outside of the traditional lending box.

Market-savvy lenders are now contemplating the benefits of offering complimentary consumer protection products on their loans to make their loan offering more competitive with both dealers and consumers, while at the same time protecting their loan portfolio.

Complimentary consumer protection products, such as a vehicle service contract or vehicle return protection, better enable dealers to increase their profit per unit with product upgrades. Offering products as part of the loan gives lenders the ultimate control for compliance measures, while increasing the consumer's perception of the greater value offered by the loan.

EFG® COMPANIES

With almost 40 years of consumer protection product insights, EFG Companies works side-by-side with lenders like you to administer the right mix of F&I products, providing the greatest return to you and your dealership partners.

Contact us today to find out how.

The great debate: to take action or to wait

Steve Roennau
VP, Specialty Channels
Enterprise Financial Group

Subprime Analytics recently reported the largest reduction in subprime auto finance down payments since 2011. Subprime auto finance down payments experienced a 15% year-over-year decrease in 2015. While down payments are down, the amount financed is up. According to Experian, the average used vehicle loan amount for franchise and independent dealers increased to $18,424 in Q1 of this year.

With the combination of these two trends, it's no wonder that average subprime loan terms have increased by **4.5% year-over-year since 2012**, according to Subprime Analytics. Now lenders are looking to extend loan terms to 84 months.

What do these trends mean for the long-term? For the last year, industry analysts have been telling everyone to wait and see. But, when does waiting and seeing turn into putting our heads in the sand?

Rather than waiting for the market to turn, and reacting to the circumstances that arise, smart lenders are taking proactive steps now to protect their lending portfolios from potential market changes.

Now, you might think, ***"I don't want to be the first lender to start tightening lending requirements and lose loan volume and market share."*** The good news is you don't have to jump the gun. Rather, take a step back and look outside the box for solutions that can protect your portfolio and increase loan volume.

One such ***"out-of-the-box"*** approach is the use of consumer protection products, like a vehicle service contract or vehicle return protection. Loans that offer complimentary consumer protection products can help you address the challenges of differentiating yourself from the competition and managing delinquency rates, while also providing additional streams of revenue.

As far as dealers are concerned, whether you provide complimentary products or not, they will **want a lender that funds enough money for them to either increase their profit through upgrades or selling their own F&I products**. Offering loans to dealers that help them achieve their goals has the potential to make you their preferred lender, meaning increased auto loan volume.

From the consumer side of things, subprime buyers tend to struggle with budgetary constraints. For example, when a significant mechanical breakdown occurs, these **consumers often have to choose between paying for the repair or paying a monthly bill like their auto loan**. A complimentary vehicle service contract or other related program could alleviate that cost, and potentially protect the loan from delinquency, thereby protecting your loan portfolio.

By providing dealers and consumers what they need, you can essentially set yourself up for long-term success. It's a win, win, win! Rather than waiting to see what the market brings, take control of your financial future with consumer protection products.

With almost 40 years of experience in innovating and administering best-in-class consumer protection products, EFG Companies knows how to structure F&I products that will differentiate your loan, expand your reach within auto retail, and protect your loan portfolio.

Contact us to find out how today.

F&I INNOVATOR 2016 OF THE YEAR AWARD

EFG COMPANIES IN PARTNERSHIP WITH NORTHWOOD UNIVERSITY

EFG Companies and Northwood University Announce Student Competitors and F&I Mentors in 2016 F&I Innovator of the Year Competition

- Students compete for $25,000 and the chance to see their F&I product in the market -

EFG Companies, the innovator behind the award-winning Hyundai Assurance program, together with Northwood University, announced the student competitors and F&I mentors participating in the second annual F&I Innovator of the Year competition. Vying for $25,000 in prize money, this year's 18 contestants hail from Arizona, California, Illinois, Indiana, Michigan, New Jersey, Pennsylvania, and Wisconsin. For more information on the competition, visit http://bit.ly/InnOv8te

The credit-based competition pits six teams of Northwood's automotive students to conceptualize and build a new F&I product. Each team is mentored by an F&I director, and the competing teams develop a business case for their new F&I product that incorporates industry research, market viability, and the product's potential to facilitate F&I product sales in franchise dealerships. The teams will also keep weekly YouTube video diaries of their progress, challenges and breakthroughs.

"The mentors' industry experience is invaluable in guiding the competitors on the real-world challenges facing dealerships today," said John Pappanastos, president and CEO of EFG Companies. "From changing consumer purchasing behaviors, to increased FTC and CFPB compliance oversight, and a call for enhanced transparency, these mentors will impart a wealth of knowledge that spurs innovation among the students."

Angular Momentum


Charles Elledge
Coal City, IL


Harry Collins
Franklinville, NJ

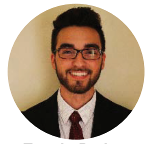

Charles Wheatley
Rancho Santa Margarita, CA

Mentor


Ben Hagan
Bob Moore Auto Group
Oklahoma City, OK

Envision


Alex Rogers
Lancaster, PA


Zach Peters
Philadelphia, PA


Ali Nasrallah
Dearborn, MI

Mentor


Caleb Hargreaves
Hanlees Auto Group
Davis, CA

Groundbreakers


James Skop
Petoskey, MI


Zach Luchenbill
Pinckney, MI


Tori Mason
Detroit, MI

Mentor


Sam Levin
Nyle Maxwell Auto Group
Austin, TX

F&I INNOVATOR 2016 OF THE YEAR AWARD

EFG COMPANIES IN PARTNERSHIP WITH NORTHWOOD UNIVERSITY

Team Turbo


Cody Davidson
Green Bay, WI


Kendra Taylor
Flushing, MI


Mark Ruhle
Royal Oak, MI

Mentor


Greg Grimes
Rohrich Auto Group
Pittsburgh, PA

Team Vigilance


Houston Huff
Tuscon, AZ


Alec Bond
Lindin, MI


Lucas Myrhe
Austin, TX

Mentor


Craig Drew
Central Maine Auto Group
Waterville, ME

Triple Clutch


Mollie Arnold
Lowell, IN


Harrison Ervin
Chesaning, MI


Amanda Poriefka
Midland, MI

Mentor


Dena More
Davis-Moore Auto Group
Wichita, KS

Each year, Northwood selects the best and brightest students from the Automotive Marketing and Management Program to participate in the F&I Innovator of the Year competition. To be eligible for participation, each student must maintain a 3.0 GPA, and hold internships or extracurricular activities in the automotive industry.

The competition runs through November 11, 2016, when a panel of leading dealer principals and EFG executives will judge each team's business case. EFG Companies will award the winning team $25,000, and will develop the winning F&I product for the retail automotive market. The company will also return a percentage of the product's revenue to Northwood University.

Visit http://bit.ly/Inn0v8te to learn more about the F&I Innovator of the Year Contest, watch this year's Innovator video submissions, and follow @EFG_NWInnovator on Twitter for the latest competition news.

BENEFITS OF LEASING CPO PROGRAMS

Dave Gibbs
Training Manger
Enterprise Financial Group

According to the NADA Used Car Guide, more than three million vehicles will reach the end of their leases in 2016. This represents a 35% jump in off-lease volume. With such a huge increase in reliable, late-model, pre-owned vehicles, the industry has already seen used vehicle prices drop to become more competitive. Now, dealers are more concerned with maintaining front-end profitability while still being competitive.

Meanwhile, lenders are dealing with their own competitive struggle. Many are watching the auto finance market closely to determine when to tighten lending requirements. Some are already beginning to pull out of the subprime space. And, all lenders are determining how to remain competitive while also being compliant with the Consumer Financial Protection Bureau.

Outside of rates, one of the best ways to remain competitive in the auto finance space is by helping dealers accomplish their profitability and competitive goals. **With a higher pre-owned inventory, more dealers are looking to utilize certified pre-owned (CPO) programs to differentiate their offerings and increase front-end profitability**.

Now, what does this have to do with you? It's actually pretty simple. As a lender, you already know the benefits of financing CPO vehicles over pre-owned vehicles. CPO vehicles are more thoroughly inspected, tend to come with a limited vehicle protection plan, and are less likely to break down, alleviating the financial strain on consumers having to choose between fixing a vehicle and making a payment.

But, what about financing the lease of a CPO vehicle? Now I know what you are thinking. The used-car market in general is more heavily populated with less reliable vehicles, and near-prime and subprime customers. That's why traditional financing rates tend to be higher on used vehicles and leasing is all but non-existent in that space.

But, we're not talking about traditional pre-owned vehicles, we're talking about CPO vehicles. Remember all those reliability benefits already make CPO vehicles a step above the average pre-owned vehicle. Plus, because of those benefits, they often come with a higher price tag, eliminating some of those deeper subprime consumer categories.

In addition, think of all the dealer benefits and how those relate to you. A recent Cox Automotive Analysis of Experian data demonstrates:

- **Consumer loyalty is higher for CPO than non-CPO pre-owned vehicles.**
- **Consumer loyalty is higher for leasing than purchasing.**

Higher customer loyalty often equates to reduced risk of default or delinquency because they are more invested in the vehicle. Just like with new vehicles, leasing CPO vehicles also provides dealers with:

- **shorter sales cycles, which equals shorter terms for the lender;**
- **constant communications to keep consumers engaged, which equals keeping the vehicle and its monthly payments top-of-mind for consumers; and,**
- **higher service drive retention, which equals a more reliable vehicle being financed.**

Funding leases on CPO vehicles is starting to make more sense, right? Let's take it one step further. In addition to funding CPO vehicle leasing, consider offering complimentary consumer protection products on your traditional loans. This gives you more opportunities to fill dealer needs, further differentiating you from the competition.

With consumer protection products on your loans, and funding CPO leases, you set the stage for F&I managers to increase dealership profitability by upselling F&I products. **In addition, you are further protecting your loan portfolio with vehicles and products that protect consumers from unforeseen expenses due to vehicle breakdowns.**

So which makes more sense to you? Sticking with the same old techniques to woo dealer and consumer business, or providing dealers with out-of-the-box solutions that increase both your and their bottom line while protecting your loans?

EFG® COMPANIES

With almost 40 years of experience in retail automotive, EFG Companies knows how to position your institution to secure more loans from your dealer partners with market-differentiating programs that increase bottom-line profitability and customer loyalty.

Contact us today to learn more.

INCREASE YOUR INDIRECT AUTO LOAN VOLUME

Mark Rappaport
President, Simplicity Division
Enterprise Financial Group

I read an article recently on how to drive more indirect lending and was honestly shocked by the lack of understanding of the automotive dealership space. Tips included holding contests to pit dealerships against each other, holding annual golf tournaments where dealers can be sponsors, passing out branded gimmicks, and monitoring dealer activity and following up when you see trends you don't like.

While the article did sprinkle the message throughout for lenders to be actively engaged with dealerships, it did not give proactive examples of how to achieve active engagement. Lastly, and perhaps most shockingly, the article directed lenders to prioritize their goals above dealership goals, going so far as to say, ***"Do what's right for the lender, not what is right for the dealership."***

Here's the real secret that the truly successful indirect auto lenders don't want you to know: **increasing your indirect auto loan volume is as simple as aligning your goals with dealership goals.** You want more business. Great, so does the dealership. Rather than looking at how to market to dealers, take the time to evaluate how to cultivate a lasting business relationship with them.

Dealers don't need another golf tournament to sponsor, or the added pressure of a competition with the dealership across the street. They are already competitors, and if you've ever met a dealer, you know that competitiveness is in their blood. What dealers need is a way to make them better than the competition. This is where lenders can plug in. Think about the dealerships you work with and ask yourself,
"How can I help differentiate them in the market?"

- **How many of your underwriters have spent a day in the finance office of a dealership, learning the ins and outs of the responsibilities and challenges F&I managers tackle on a daily basis?**
- **Are your underwriters on a first-name basis with dealership finance managers?**
- **Are they scheduling regular visits to review process changes, and find out how your institution can be a better partner for the dealership?**
- **When an application is flagged by your system for denial, how often does your team get on the phone with the dealership to discuss how to make the deal work?**
- **When applications are submitted after 5 pm, do you have someone on staff to review those applications that can't be automatically approved, or do they sit until 9 am the following morning?**

All dealers are struggling with reducing transaction time, and that is one area where lenders can either hamstring the process or significantly speed it up. The dealers who get deals done in a timely and compliant manner will position themselves well ahead of the competition, in the minds of consumers and regulatory bodies.

In addition, the more options you provide dealers on how to increase their profit margin in a compliant manner, the more likely they are to choose your loans. How can this be done? The answer lies with consumer protection products, like a vehicle service contract or vehicle return.

Providing complimentary products such as these set the stage for upsell opportunity, making it possible to increase your margins as well as the dealership's PRU. By providing a valuable service to the end-consumer, it's easier to familiarize them with the benefits of the product and position the upsell as just another way to extend those benefits.

Increasing your indirect auto loan volume is not rocket science. All you have to do is change your mindset about dealers and treat them with the same respect you would any other business partner. Give them your time and you will see immediate and strong results. They don't need gimmicks, but rather a partner who understands their business, and aligns their goals and processes to meet the challenges you both face.

EFG® COMPANIES

With almost 40 years in administering consumer protection products and working hand-in-hand with dealers across the U.S., EFG Companies knows how to structure your loans to be more attractive in the F&I office with F&I products custom-tailored to match your dealership partners' needs.

Increase your indirect auto loan volume today with EFG.

Eating an Elephant One Bite at a Time

Brien Joyce
VP, Specialty Channels
Enterprise Financial Group

Let's talk about the elephant in the room. Our nation's lending industry has once again made headlines for deceptive consumer practices. While this negative press is highlighting one main lender, it is also affecting general consumer sentiment about the lending industry as a whole. And, this negative sentiment is bleeding in to auto finance.

With the CFPB's heightened focus on auto finance, lenders have been under pressure to demonstrate dealership compliance. To date, lenders have put the onus on dealers to provide compliance documentation that they can then provide the CFPB. However, with these latest developments, it's becoming clear that both consumers and businesses of all shapes and sizes will require lenders to demonstrate their compliance procedures to keep their business.

Dealers are now concerned with the negative repercussions they can receive from sending customers to noncompliant lenders. Remember, your reputation can have a direct correlation with a dealer's reputation, especially if you've been their preferred lender.

Hypothetically, if a dealer's preferred lender relationship was with a lender of suspect, the customers who purchased vehicles through that dealer may refinance, which equals lost profit and chargebacks to the dealership. With the chance of reduced unit profit, increased chargebacks, and a potential hit to dealership credibility, it makes sense for dealers to want some assurances from their lenders that everything is above board.

So, what can you do to protect your relationships with your dealers? You can take an often overlooked, common sense approach.

BE PROACTIVE.

BE TRANSPARENT.

BE DIRECT.

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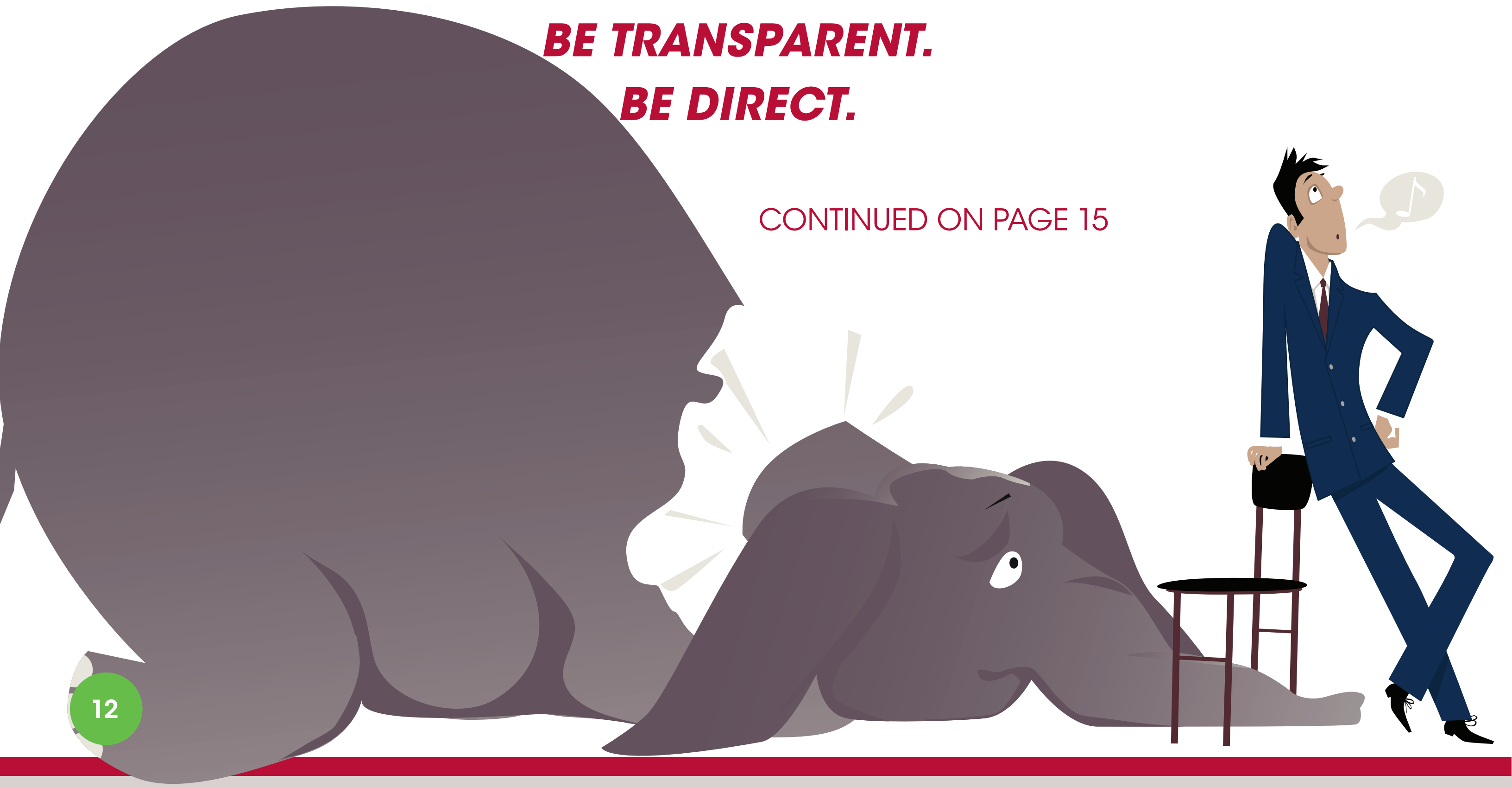

EFG Companies Fortifies Dealer and Lender Data Security Through SSAE 16 SOC 1 Certification

EFG's Continued Leadership in Both Compliance and Technology Sets Industry Bar for Customer Service Excellence

EFG COMPANIES

What Does Auto Lending Look Like for You in 2016?

Are you ensuring that the dealers you work with are taking a consistent approach to F&I pricing?

Get on it.

Are you working with dealers to ensure the F&I products they offer are in line with your compliance guidelines?

Find out.

Do you have a plan to protect longer term loans from default and delinquency?

You should.

Do you have measurements in place to vet the product providers you work with?

It's not too late.

Are you prepared to be more flexible with dealers as they increase product penetration to gain greater profitability?

Get ready.

As a product administrator, EFG provides innovative solutions to generate non-interest fee income, drive auto loan volume, and mitigate risk for our lender partners. **Find out how our 40 years of working side-by-side with F&I managers can help you achieve your goals.**

Contact EFG Today!

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CONTINUED FROM PAGE 12: EATING AN ELEPHANT ONE BITE AT A TIME

First, be proactive rather than reactive. Before your dealers think to call and ask about your compliance procedures, send them a packet of information outlining your compliance initiatives. The packet should include your policies for safeguarding customer information and accounts, along with your anti-discrimination policies and your compliance policies specific to auto finance.

Next, be transparent. Set up a meeting to discuss compliance, and use that time to discuss both your and your dealer partner's compliance initiatives and how you can work together going forward. Remember, this should not be an **"us versus them"** conversation, but rather a collaborative effort for both your institution and the dealership. One thing you will find is dealers are tired of hearing legal jargon and are looking for straight-forward answers and actionable items. Keep that in mind when developing your communication strategy. Remember, just like with consumers, the more transparent you can be, the better the relationship will be.

Finally, keep it short and simple. Dealers aren't the CFPB. They don't need to waste valuable time trying to decipher layers upon layers of compliance strategies. Give them broad strokes and be prepared to answer their questions in a direct fashion.

"We need to have a good comfort level with the lending institutions with whom we work every day, especially when it comes to compliance," said Dena Moore, the finance director for the 2015 Dealer of the Year for F&I and Showroom Magazine, Davis-Moore Auto Group in Wichita, KS. "If a customer is mad at a bank, they will inevitably be mad at us. The more information a lender can provide to build trust, the easier it is for us to demonstrate credibility with our customers. While no lenders have come to my auto group with their compliance information, I would welcome the opportunity to sit down and review it. You never know, what they overlook as a routine procedure, we could take away as a selling point for doing business with us."

Maintaining dealer relationships isn't rocket science. But, it does take time and effort. So many businesses have fallen into the trap of simply not paying attention, thinking that the bad press of a peer won't affect them. So, they don't do anything. This is possibly the worst thing you could do. The fact of the matter is negative press on the scale we have seen lately is likely to affect all lenders across personal banking, business, home financing, auto lending, etc. The lenders who get in front of the elephant will be the ones with cemented business and consumer relationships when the next elephant comes along.

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