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## The CU Niche In A Fragile Market? Ability To Work With Loan Prospects

By Michael Bartlett, Reporter

SAN DIEGO—The automotive market is slowly being restored in the wake of a painful recession, with some hope on the horizon.

That is the message from Tim Condon, president of LEAP Financial, an auto leasing company that helps consumers who have difficulty obtaining credit either keep their vehicle or get a different one.

“Only the best credit got auto loans, so credit performance the past couple years has been exceptional,” he assessed. “Lenders are now expanding in the auto segment, although there is a dearth of approval in the riskier segments.”

New car sales are on a pace for approximately 13 million units, which Condon noted is up from a few years ago but below the peak of 2005-06. “We think 13 million units might be the new normal for the next few years. There still is subprime lending and there are competitors in that space. It won’t get back to what it was, but there should be some expansion in subprime lending. There is more capital available and lenders are beginning to delve back into that space—especially in light of the very low delinquency rates.”

There is “hope” in the automotive industry and in automotive lending, Condon believes, in part because, investors have realized the auto sector

has performed as expected during the recession. “Rates on auto loans reflect the risk, unlike mortgages,” he said. “It is a short-duration asset and a depreciating asset and everybody understands that.”

### *Competing With 0%*

Low cost of funds has allowed the captives to expand low and 0% financing to the best borrowers, noted Condon, adding that credit unions have suffered in part because even though CU members are “loyal,” they tend to “unbundle” their finances when alternative pricing is attractive.

*They may have been damaged on their credit in the last two or three years, but if we can adjust their payment and keep them in their car we are seeing good results.*

—Tim Condon

“That is the challenge for credit unions,” he said. “Another challenge is an aging population, especially because younger consumers transact differently. In the old days people just had savings and checking accounts. Younger consumers don’t carry cash at all, they use debit cards and pay their bills online. The future probably will tend toward paying with cell phones, which makes it difficult for small, local financial services providers.”



Tim Condon

### *Damaged Credit*

LEAP Financial operates in 42 states, buying auto loans that are in repossession, then leases the vehicle back to consumers if they have the ability to make the payment. Condon said the lenders receive more from LEAP than they would get at auction for the vehicle.

“Credit unions are the most likely to work things out with their members,” he said.

Even though the recession officially ended two years ago, Condon said the automotive lending industry remains on edge.

“Everybody is concerned, and whether or not it is a technical recession we are in

a long-term jobless situation with 14 million unemployed. We believe a lot of these people are still creditworthy. Their willingness to make payments has not changed. They may have been damaged on their credit in the last two or three

years, but if we can adjust their payment and keep them in their car we are seeing good results.”

According to Condon, CUs should consider reaching out to people who do not have much in the way of credit history,

give them some financial education, and then help them build credit.

“There are a wide range of services credit unions can offer because they are more flexible than larger financial institutions,” he said. ■



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