

## Case Study

# Highlights of Frankenmuth Credit Union's Partnership with Auto Financial Group

AS DESCRIBED BY AMY BUCHINGER, INDIRECT LENDING SUPERVISOR,  
FRANKENMUTH CREDIT UNION



### CREDIT UNION PROFILE

#### Assets

\$1 Billion

#### Membership

57,000 members

Anyone who lives, works, worships or attends school in Michigan

#### Founding

Chartered in 1964 for millers and brewers



### EXPERIENCE WITH THE PROGRAM

#### Years on the program

Launched the Balloon Lending Program in 2009

#### Challenges

We were looking for a solution that would help our members get into a better vehicle with a lower payment. We were seeing that some of our members had to downgrade from the vehicle they wanted because they couldn't afford the payment with a conventional loan.

Loan-to-value was also a concern of ours. To afford the vehicle they wanted, members were extending their loan term, which meant that if they didn't finish their loan, they were getting stuck in the cycle of negative equity.

#### Solution

Auto Financial Group's Balloon Lending Program has been a win for both the credit union and our members.

- The program keeps our members where they do their financing – with us – so that they don't have to go to an outside company like they would with a lease.
- We set our own parameters. We decide how much negative equity can roll into the program, and we set our own guidelines for the underwriting process.
- Members can afford the vehicle they want, instead of having to settle for something they can afford but don't want.
- It helps our members get out of or avoid the negative equity cycle.
- Unlike a lease, members own the vehicle and have the freedom to do what they want with the loan at any time, and they even have the option to walk away at the end of the loan term.
- We can still sell our ancillary auto loan products like GAP and warranty.
- Getting members into better vehicles results in better collateral for the credit union.



## RESULTS

We're wowing our members by helping them get into the vehicle they want. I had a member the other day that I worked with say to me, "I didn't know I could afford a vehicle like this. This is awesome!"

As an unanticipated benefit, the collections department has been able to refinance members into this program to offer a payment they can afford and help them avoid delinquency.

We have been really impressed by the results, including:

- **0.009%** delinquency rate
- **126 members** have used the program more than once, some as much as **6 times**
- **47%** of program is used vehicles



## TIPS FOR A SUCCESSFUL LAUNCH

### Train, train, train!

While the implementation process went smoothly, there was a learning curve in getting staff comfortable with a product they've never used before. It was hard to help staff see the difference between a balloon loan and a lease. Once our representatives received training from AFG, they were able to better understand the product and some actually use it themselves. We continue to conduct regular training for both new and existing staff to keep everyone up-to-date and knowledgeable.

Rolling it out to the dealerships was also met with some challenges because they wanted to promote their lease product. AFG conducted trainings and also provides hot sheets that show which vehicles are performing well. We've had a lot of good results from that.

Once our dealership partners start using the product, they see the benefits and continue using it. They've also realized that the balloon loan is a great option to help get consumers approved when their debt-to-income ratio is too high for a conventional loan, especially since some consumers are strongly opposed to a lease because they don't own the vehicle. With a balloon loan, they do own the vehicle but have the benefit of a lower payment.



## ABOUT BALLOON NOTE FINANCING

Differentiate from competitors who only offer traditional financing by providing a branded residual-based financing program. This program will increase the interest income for the financial institution while allowing borrowers to shorten their loan terms and lower their monthly payments by as much as 40% over conventional financing. Borrowers can purchase the vehicle at maturity, return it, sell it, trade it in, or refinance their vehicle at any time without prepayment penalties or early termination fees.

For more information, contact your Allied Solutions sales representative or visit our [contact us](#) page.