GPS Collateral Management Solution for Auto Lenders

The Tech Behind Subprime Risk Management

A credit score helps determine whether a borrower is classified as prime or subprime. Although 60 percent of Americans fall into the prime category, lenders should not simply ignore the remaining 40 percent.

With a constant demand for subprime auto loans, lenders have turned to collateral management solutions (CMS) that utilize GPS technology to manage portfolio risk.

GPS-based collateral management solutions have revolutionized how lenders evaluate their overall portfolio risk, increase return on borrowed capital, and improve business intelligence.

If you're an auto lender, adopting CMS into your loan generation process can help you expand your loan portfolio to include those with credit scores below 600.

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Changing Borrower Behavior

Early adopters noticed that a well-organized, well-managed CMS works. This has led to a growing number of lenders turning to CMS to extend credit to a once overlooked group of borrowers.

Experian's Q4 2017 "State of the Automotive Finance Market" highlights the prevalence of subprime borrowers with improving delinquency rates.

- 501–600: The credit score range Experian classifies as "subprime"
- 36.73 percent of used independent loans are with subprime borrowers, the highest rate in all risk levels
- $16,557 is the average subprime loan amount for a used car, a record high
- 2.39 percent: The rate of loan balances 30 days past due, a nearly tenth of a point improvement over the same quarter the year prior

The data suggests that there is plenty of opportunity in the subprime segment and that by automating processes and modifying borrower behavior through a CMS, delinquency can be managed successfully.

It Wasn't Always So Easy

Prior to CMS, most lenders used predictive models based solely on historical financial data to estimate borrower behavior. Financing was extended to a borrower based on a retrospective statistical model of payment patterns.

Little, if anything, could be done to improve the likelihood that borrowers would repay the loan on a go-forward basis. The lender would be exposed to the inefficiencies and false information common in subprime lending.

Early collateral management tools, were crude, limited in scope, and often difficult to implement. For example, early systems could not send quick payment reminders. Instead, they generated a code that was sent to the borrower on a monthly basis. If the code was not entered into the system by the borrower in a timely manner, the car would shut down.

Early collateral management solutions with GPS were also limited. They could locate a vehicle, but there was no starter interrupt functionality available. Therefore, a lender still had to work with a repossession company to track down the vehicle when it needed to be recovered.

What is CMS?

Collateral management solutions (CMS) use GPS devices in vehicles to transmit location and data over a cellular network to secure servers that are accessed via encrypted websites, where you can monitor and control your portfolio.

There Is a Better Way

CMS saves time and eliminates road blocks by incorporating GPS and cellular technology. Lenders get information in real time, including collateral location and movement.

Today's CMS use audible payment reminders in the vehicle and automated text alerts to remind customers when payment is past due. These alerts prompt the customer to make a payment, or contact the lender directly.

A growing number of finance companies, credit unions, and subprime lenders use CMS to increase loan originations and bulk purchases of commercial loans while minimizing risk and maximizing profit in their portfolios.

Benefits For Everyone

A good CMS bridges the communication gap between borrower, lender, and dealer.

For borrowers:

- Automates payment reminders and manages customer communications through text, email, or a discrete audio signal in the car
- Provides an opportunity for those with bad credit to restore it with regular, on-time payments
- Leads to better loan terms as lenders compete in the marketplace
- Potentially lowers insurance premiums — GPS is akin to a theft recovery device

For lenders:

- Helps manage larger loan portfolios with automatic tracking and quick borrower communications
- Can feed data directly into its portfolio management system with two-way API integration
- Assures quality and consistency by requiring dealers to use a certified third-party hardware installer

For dealers:

- Provides immediate coverage upon delivery of live/preactivated GPS devices
- Increases staff productivity with turnkey implementation

More Lender Benefits

- Optimize Resources — Through task automation, CMS often frees up lender employees to maximize their productivity
- Decrease Loan Delinquencies — Borrowers are reminded of loan terms through payment reminders, starter interrupt, and GPS
- Maximize Collateral — The greatest risk in subprime lending is the complete loss of collateral when the borrower defaults and the lender is unable to recover the vehicle; CMS curbs the threat through GPS vehicle location
- Increase Loan Portfolio — With reduced risk, credit can be extended to borrowers with lower FICO scores while maintaining a profitable portfolio; lenders can then price their loans more competitively and gain market share

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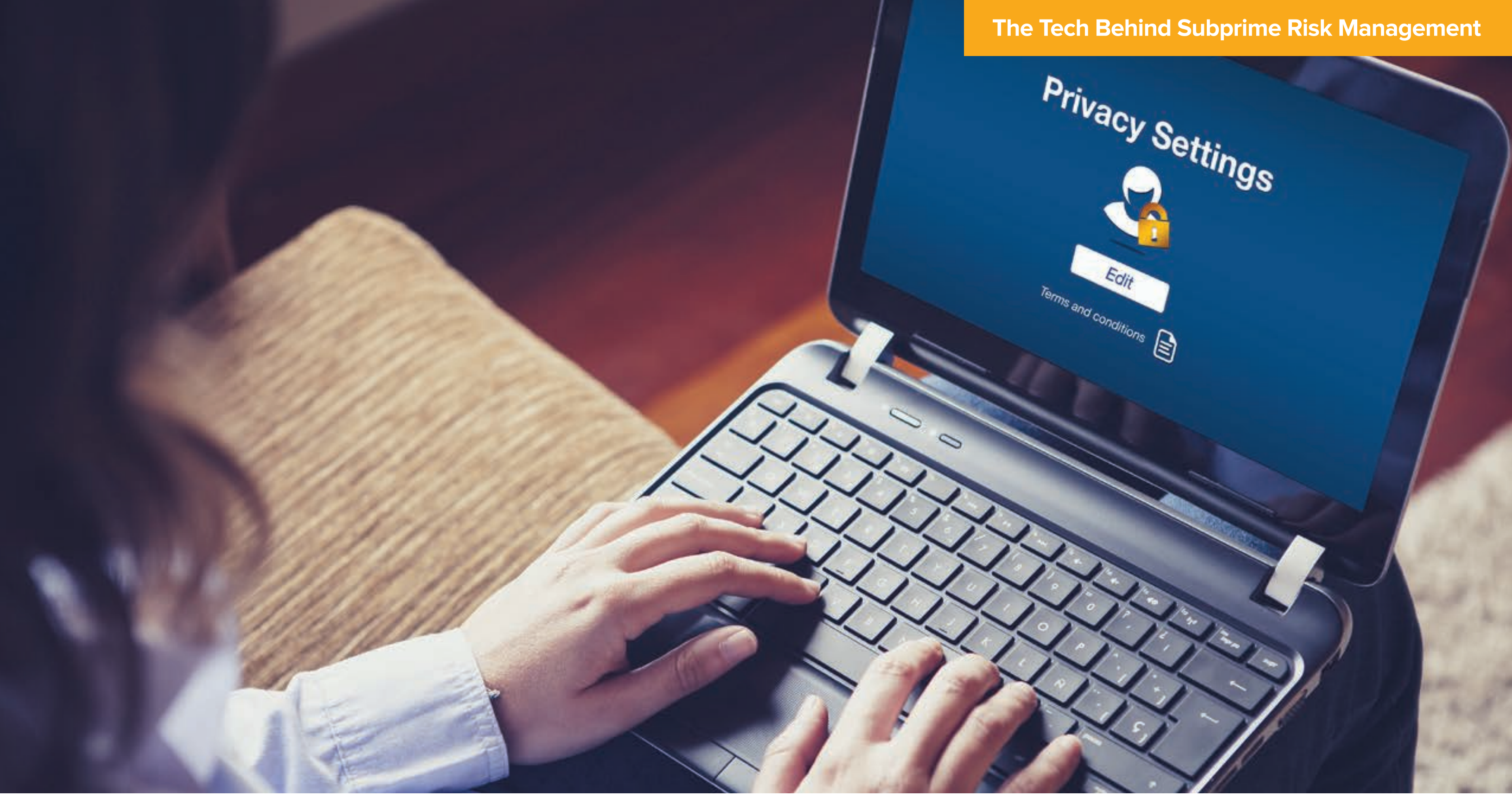

Lender Best Practices

The key to lender success with a CMS is to have rigorous privacy policies that are compliant with state and federal laws, and apply them consistently. A legitimate CMS provider will help achieve this.

Privacy

By using a secure, web portal with sophisticated user permissions, a lender can specify which individuals can access private data and under what circumstances, locking out anyone without approved access.

When implementing CMS, a lender should restrict borrower information, including GPS data, on a need-to-know basis. This may include the collector assigned to a specific account along with a supervisor. Typically, this would not include the dealer who sold the car.

Disclosure

Subprime consumers generally do not mind their vehicles being equipt with GPS — especially if it's the only way they can secure auto financing — but they do mind if they aren't made aware up front.

Lenders need to fully disclose the elements of CMS including how and when each device is activated. This process should remain in place as long as the loan is active.

Consistency

Consistent compliance with state and federal laws is crucial to avoid any legal problems. Lenders should establish clear and consistent policies for past-due actions and implement them across the board. A CMS should help lenders monitor borrower behavior to ensure consistency.

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Vendor Best Practices

Reliability

Lenders should seek a CMS vendor that has a proven track record of successfully supporting auto lenders and dealers, and scaling its services nationwide. The vendor should incorporate sound financial management practices and be knowledgeable of industry standards and guidelines.

Service and Support

CMS should increase efficiency for the lender, not create more work. When choosing a CMS vendor, make sure it manages all of the technology and training, and conducts vehicle inspections at installation. This includes not only training for both dealers and borrowers, but also 24/7 customer support, and same-day shipping for preactivated devices.

Licensed and Certified

Your CMS vendor should offer products that are licensed by the FCC that require high-level encryption protocols in data transmission.

In addition, your vendor should be involved in industry trade associations that shape industry policy. It also should be able to provide you with real-time information on developments that could impact your CMS.

Redundancy

Every sound technology solution should include data redundancy. Going beyond simple data backup, your CMS should be running parallel systems at geographically dispersed, secure facilities. Data should be delivered through redundant channels that are monitored 24/7/365 to ensure no disruption of service, even in a natural disaster. In short, your vendor should have redundant systems comparable to the most sophisticated financial institutions they serve.

Network Security

When choosing a CMS vendor, you should insist on a secure site, designed and dedicated solely for your own use. This ensures that borrower information is kept private and secure, and that your loan portfolio is protected. In addition, all over-the-air data should be fully encrypted to GSM standard-encryption protocols.

The CMS system you choose should integrate with your other applications, not the other way around. Data delivery should be customized to match your processes and work environment.

Data Carrier and SIM Provider Contracts

Your CMS vendor should have long-term carrier contracts secured that protect you from escalating data rates, renewal costs, and eroding coverage. The greater the number of active devices the vendor manages, the higher the likelihood that it has these agreements in place. It is always best to ask.

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Conclusion

Leaps in hardware, wireless networks, coverage areas, device installation, and support services have made CMS a necessary tool in the world of subprime auto finance. Your success rests on choosing a reliable vendor that follows best practices.

Lenders that implement CMS are able to extend credit to subprime borrowers with greater confidence because they have the tools to change borrower behavior. This helps lenders not only achieve a greater return on their loan portfolios, but expand them as well, oftentimes, without adding loan-servicing resources.

Partnered with the right vendor, lenders can reap a multitude of benefits, including:

- Selling more loans
- Broadening the dealer market served with indirect lending
- Changing borrower behavior
- Automating processes
- Reducing overhead and overall cost structure
- Offering better loans than the competition
- Maximizing resources
- Collecting more loan payments, on time
- Securing collateral with GPS tracking and antitheft devices
- Improving performance on warehouse lines of credit

To find out more about implementing a collateral management solution for your business, call **888-517-3632** or visit **spireon.com/auto-lenders**.

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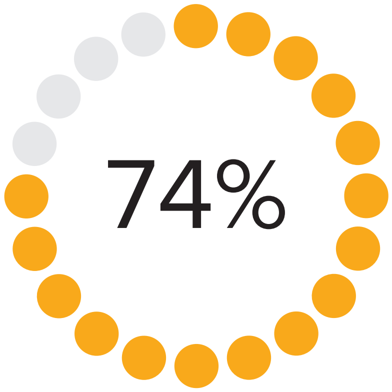

74 percent of financers said that using CMS reduced delinquency rates by more than 10 percent.

The NABD survey revealed that 78 percent of CMS users reduced the number of collectors needed to manage their portfolio.

Kinnear said that in addition to the increased productivity, his company was able to reduce their collections staff from 12 members to 9 through attrition. “Because collectors are managing more loans; we’ve been able to dedicate some staff to specialized functions such as asset recovery, and we’ve minimized dollar loss.”

In the event of borrower default, the NABD survey cited savings that ranged from $300 to $750 per repossession.

Decrease Loan Delinquencies

With the implementation of a CMS, the borrower is reminded of the loan terms with the help of payment reminders, starter interrupt and GPS. This results in the lender receiving more loan payments.

According to the NABD survey, 74 percent of financers said that using CMS reduced delinquency rates by more than 10 percent. For a large lender, this means hundreds of thousands, if not millions, of dollars in collected revenue.

“The real impact that I’ve seen is in our ability to collect a few more loan payments before default, therefore lowering our cash loss per deal,” Kinnear said.

Maximize Collateral

The greatest risk in subprime lending is the complete loss of collateral when the borrower defaults and the lender is unable to recover the vehicle. A CMS can curb this problem.

“For repossession customers, we have no control over how they live and pay their bills. “However, CMS helps those who pay to stay current and improve their credit. If a customer is unable to pay, we’ve experienced a 50% improvement in being able to find the car.” Kinnear said.

Increase Overall Loan Portfolio

By using risk-reducing technology, companies can extend credit to borrowers with lower FICO scores while maintaining a profitable loan portfolio. Lenders can then price their loans more competitively to gain market share.

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