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Non-Prime Times

Official Publication of the National Automotive Finance Association

What's New is Old Again

Three Red Flags for Leasing

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Returned Mail – A Nuisance, Hidden Issue or Opportunity? page 26

A Culture of Success: The Basics page 30

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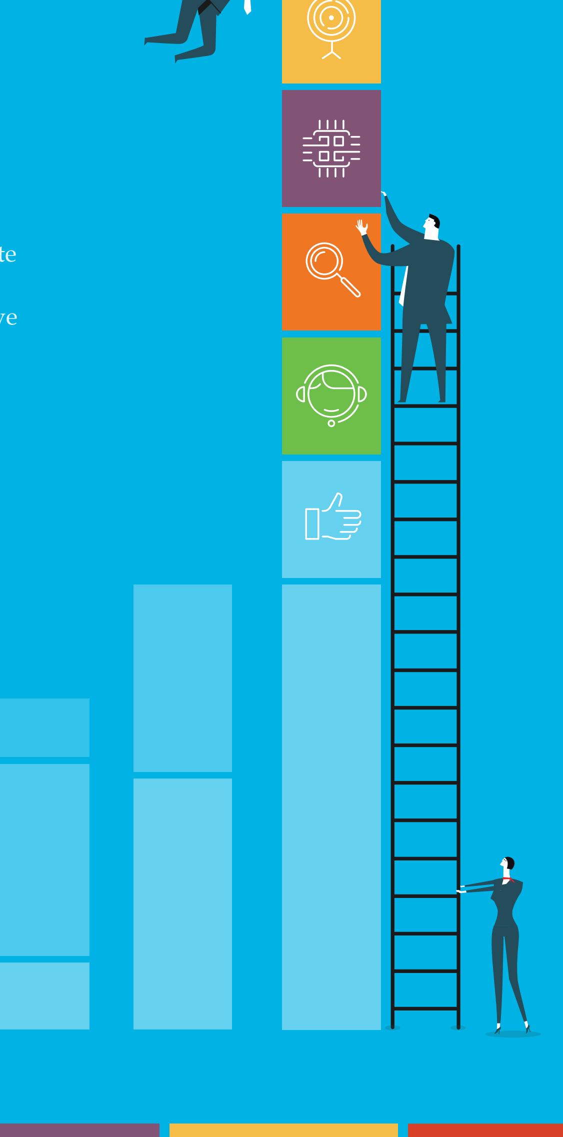

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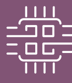

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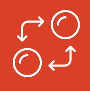

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Director's Note:

How Can the NAF Association Help you with Fraud?

The NAF Association has always looked at the significant issues facing the non-prime auto financing industry and tried to address them. We've provided an annual survey so that the industry has a benchmarking tool and we've developed compliance education programs to address the concerns raised by the CFPB. We hold our annual conference and present relevant sessions on topics that address challenges facing the industry.

Now we're considering the issue of fraud. Fraud can and does occur at the dealer level and at the consumer level. Purchasing a fraudulent contract usually results in a loss or at least significant extra servicing cost. Fraud has always been a part of the business, but now it is particularly significant as the industry grapples with increasing losses and delinquency.

Is education on fraud needed? Should the Association hold a roundtable meeting and invite the industry to gather to discuss the issue? If you think that this would be a good idea send an e-mail with the subject line FRAUD to jtracey@nafassociation.com.

Jack Tracey, Executive Director
National Automotive Finance Association
410-865-5431
jtracey@nafassociation.com

About NAF Association

The National Automotive Finance (NAF) Association is the only trade association exclusively serving the non-prime auto financing industry. Organized in the fall of 1996, the NAF Association supports its members and the industry with programs and education.

- **The Annual Non-Prime Auto Finance Conference**
- **Annual Non-Prime Automotive Financing Survey**
  - the industry's only measurements of growth and changes.
- **Compliance Education**
  - **Consumer Credit Compliance Certification** - designed to provide the compliance professional with a solid working knowledge of the federal laws and regulations that govern consumer credit, together with a representative overview of state consumer credit law. NEW - Module 1 of this program is now available online, registrants can begin the program immediately.
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Eric L. Johnson

CFPB's New Arbitration Rule – What Do We Need to Know?

On July 19, the Consumer Financial Protection Bureau (CFPB) published a new arbitration rule (Rule) that would ban companies (or "Providers" in the Rule) from using pre-dispute arbitration agreements to prohibit consumers from seeking class relief in a court. The Rule is effective September 19 and requires full compliance by March 19, 2018 (the "Compliance Date"). Dealers that are exempt from the CFPB's jurisdiction under Section 1029 of the Dodd Frank Act will feel the impact of the Rule indirectly. However, banks and auto finance companies are not exempt from the Rule and will be impacted directly. The Rule is relatively short, but its impact will be "huuuuggge." Here's a summary of some of things you need to know about the new Rule and its chances of being nullified.

What does the Rule cover?

The Rule applies to the offering of consumer financial products or services unless the provider of those products or services is either excluded from the Rule or not subject to the CFPB's jurisdiction. Therefore, if you're a franchise dealer, the Rule generally does not apply to you. However, the Rule does apply to banks and auto finance companies that buy retail installment sales contracts (RISCs) or leases from franchise dealers.

How does the Rule affect arbitration?

Generally, the effect of the Rule is a ban on class action waivers ("Waivers") in pre-dispute arbitration agreements. A "pre-dispute arbitration agreement" is an agreement between a covered person and a consumer that provides for arbitration of any future dispute concerning a consumer financial product or service. As of the compliance date, consumers entering into RISCs containing pre-dispute arbitration agreements can't be stopped from filing class action claims in state or federal courts. The Rule also prohibits providers from invoking a waiver even after the compliance date. Waivers in pre-dispute arbitration agreements contained in RISCs entered into before the compliance date will still be enforceable unless and until the RISC (and the pre-dispute arbitration agreement) is transferred after the compliance date to a new owner or holder of the RISC.

Does the Rule require any changes to our pre-dispute arbitration agreements?

Yes, providers will need to either remove or otherwise limit the effect of waivers in pre-dispute arbitration agreements entered into after the compliance date. In addition, the Rule requires that certain disclosures be made to consumers subject to pre-dispute arbitration agreements entered into after the compliance date. These disclosures must be made within 60 days after entering into a pre-dispute arbitration agreement.

(1) In all covered pre-dispute arbitration agreements: *"We agree that neither we nor anyone else will rely on this agreement to stop you from being part of a class action case in court. You may file a class action in court or you may be a member of a class action filed by someone else."*

(2) When the pre-dispute arbitration agreement applies to multiple products or services, only some of which are covered by the Rule, the provider may include the following alternative provision in place of the one immediately above: *"We are providing you with more than one product or service, only some of which are covered by the Arbitration Agreements Rule issued by the Consumer Financial Protection Bureau. The following provision applies only to class action claims concerning the products or services covered by that Rule: We agree that neither we nor anyone else will rely on this agreement to stop you from being part of a class action case in court. You may file a class action in court or you may be a member of a class action filed by someone else."*

(3) When the pre-dispute arbitration agreement existed previously between other parties and does not contain either of the provisions in (1) or (2) above, the provider must either

(a) ensure the pre-dispute arbitration agreement is amended to contain the appropriate provision; or

(b) separately provide the consumer with the following written notice: *"We agree not to rely on any pre-dispute arbitration agreement to stop you from being part of a class action case in court. You may file a class action in court or you may be a member of a class action filed by someone else." When the pre-dispute arbitration agreement applies to multiple products or services, only some of which are covered by the Rule, the written notice may also include the following optional additional language: "This notice applies only to class action claims concerning the products or services covered by the Arbitration Agreements Rule issued by the Consumer Financial Protection Bureau."*

(4) A Provider *may* add any one or more of the following sentences at the end of the disclosures required by sections (1) and (2) above:

(a) *"This provision does not apply to parties that entered into this agreement before March 19, 2018."*

(b) *"This provision does not apply to products or services first provided to you before March 19, 2018 that are subject to an arbitration agreement entered into before that date."*

(c) *"This provision does not apply to persons that are excluded from the Consumer Financial Protection Bureau's Arbitration Agreements Rule."*

(d) *"This provision also applies to the delegation provision."* A Provider using this sentence as part of the disclosure required by

sections (1) or (2) above is not required to separately insert those disclosures into a delegation provision that relates to a pre-dispute arbitration agreement. Delegation provisions are agreements to arbitrate threshold issues concerning a pre-dispute arbitration agreement and may sometimes appear elsewhere in a contract containing or relating to the arbitration agreement.

(5) In any provision or notice required above, if the provider uses a standard term in the rest of the agreement to describe the Provider or the consumer, the provider may use that term instead of "*we*" or "*you*."

(6) In any provision or notice required above, if a person has a genuine belief that sovereign immunity from suit under applicable law may apply to any person that may seek to assert the pre-dispute arbitration agreement, then the provision or notice may include, after the sentence reading, *"You may file a class action in court or you may be a member of a class action filed by someone else," the following language: "However, the defendants in the class action may claim they cannot be sued due to their sovereign immunity. This provision does not create or waive any such immunity."* In the preceding sentence, the word "notice" may be substituted for the word "provision" when the included language is in a notice.

(7) A provider may provide any provision or notice required above in a language other than English if the pre-dispute arbitration agreement also is written in that other language.

What information must be submitted to the CFPB?

An added bonus to the Rule is that providers participating in arbitrations (either individual or class) pursuant to a pre-dispute arbitration agreement are required to submit detailed reports about the arbitration to the CFPB. These reports must be regular, thorough, redacted of personal and other information of individuals (but, not the provider information) and will be posted by the CFPB online. The reports will be an operational nightmare and a virtual smorgasbord to enterprising plaintiff's attorneys looking for a new target.

What are the chances the Rule will be nullified?

At this stage of the Rule, we appear to be down to two options: (i) use of the Congressional Review Act (CRA) by the Senate to nullify the rule and (ii) a lawsuit(s) by industry trade group(s) to try and get the courts to throw out the Rule. A third outside possibility is a new CFPB director and possible delays in the compliance date. It's still unclear if the Senate has the 51 votes necessary to nullify the Rule and the clock is ticking – it has only 60 legislative days to pass the CRA resolution. As for an industry lawsuit, it's not clear a judge would stay the Rule and litigation takes time – companies would still have to comply with the Rule in the interim. As for the outside option of a new CFPB director and delay of the Rule, it's too early to tell. Non-exempt dealers, banks and finance companies should be prepared for compliance with the Rule coming in March.

The NAF Legal Committee will continue to keep you informed about legal and regulatory changes of interest to the sub-prime auto finance industry

Eric L. Johnson is a partner in the Oklahoma City, OK office of Hudson Cook, LLP. He is a frequent speaker and writer on a variety of consumer credit topics. Prior to pursing his legal career, he spent many years working in various departments for his family's car dealership. Eric can be reached at (405) 602-3812 or ejohnson@hudco.com.

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Jonna Boyle

State Regulators are Raising the Stakes

With so much attention focused on the Consumer Financial Protection Bureau (CFPB) in the past few years, finance companies could be overlooking another threat that is steadily gaining steam: state regulators. Sure, state regulation and oversight have been around far longer than the CFPB, but the states want in the big game, too, and they are taking measures to prove it.

More and more, we see state examiners requesting information or documentation that wasn't requested in previous exams. Examination reports now include findings and recommendations related to statutes or rules that you never knew existed or weren't heavily enforced in the past. Maybe a state rule has been around for years, lying dormant and neglected. Or maybe a state agency recently exercised its rulemaking authority to create a new rule designed to broaden its oversight and enforcement of licensees. No matter the reason, the states are ready to play and aiming to win.

For example, Massachusetts requires finance companies to have a written information security program, or WISP. The rule has been around for years, and now the governing agency wants you to prove your compliance. An example of a new requirement that bolsters state oversight is New York's cybersecurity rule, which went into effect on March 1, 2017. The New York Department of Financial Services also wants you to prove your compliance in that area.

And if this isn't enough, the Pennsylvania Attorney General's Office has created a new division called…wait for it…the Consumer Protection Bureau. This new unit is headed by Nicholas Smyth, one of the first to join the CFPB upon its creation. A recent press release stated that he will have a "dedicated focus on financial initiatives." Pennsylvania licensees…beware.

This industry enjoyed long periods with minimal changes to motor vehicle sales finance laws at the state level. But, alas, those days are over. In recent years, we've seen substantial revisions to the governing laws through state legislative actions. Many state legislatures recognize the need to keep up with advances in technology by making drastic revisions to antiquated laws. In states where the core law remains unchanged or is only slightly altered, we've seen regulatory agencies issue new rules, advisory opinions, and bulletins that give us glimpses into what the state regulators are thinking and how they are interpreting those laws.

It can all be very intimidating, confusing, and overwhelming if you don't have strong compliance processes in place to help navigate the requirements and assist with implementing necessary changes. Management, along with their legal and compliance teams, must learn to balance the resources needed to continue implementing the federal compliance requirements while, at the same time, evaluating their level of compliance with state requirements that are heading to the forefront. Despite the election results ending in a Republican-controlled government, this is no time to rest on our laurels. The states will continue to add pressure regardless of what happens at the federal level, so be compliance-ready.

Jonna Boyle, CRCM, is a compliance consultant that specializes in auto finance and consumer lending. Jonna has over 15 years of compliance experience in financial services working with bank-owned and non-bank finance companies.

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MODULE 3

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This session is an in-person classroom setting where the Consumer Financial Protection Bureau (CFPB) is discussed in depth. The discussion includes a comprehensive review of the enforcement and regulatory actions, current CFPB developments, trends and priorities.

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James Mayfield

Forward Focus

Keeping updated and in touch

As attendees of the NAF Association's Annual Non-Prime Auto Financing Conference know, there is great value in gathering with peers to discuss auto financing in the current non-prime business and beyond. A lot can be gained by participating in keynotes and sessions targeting specific challenges and issues that face those companies in the auto finance space.

Not only is the conference a beneficial way to learn about what's going on presently in the industry, it also helps to plan for what's coming next. Because as John F. Kennedy said, "Those who look only to the past or the present are certain to miss the future."

Earlier this year, Isabelle Helms, Cox Automotive vice president, Research & Market Intelligence, addressed the future of automotive finance in relation to millennials, which at 75.4 million, have surpassed the baby boomers as the largest living generation in the U.S.

At the annual Consumer Bankers Association conference, Helms discussed the finance and insurance process in relation to the experiences of millennials – those in the 18-34 age group (according to Pew Research), which of course are the future for today's consumers.

What Helms discovered in a study of the millennial generation she summarized into three main areas of focus.

1. Invest in online experiences – desktop and mobile

A 2017 Cox Automotive Lending survey found that 54 percent of millennials used the Internet to research financing options. This supports the fact that now more than ever it's critical to have a good, scratch that — great, online user experience. Auto finance companies can enhance this experience by providing useful content that's created and posted on their digital sites (blogs, articles, links).

As a starting point, do a little research and find out what consumers coming to your site are looking for. What do they click on the most? Maybe it's your contact information, About Us page, or a helpful video you have posted. Could it be a particular FAQ they are often looking for the answer to. Knowing where consumers are navigating helps ensure you are providing the best content for readers and reveals where you might be missing the mark.

You can also do some user testing with those unfamiliar with your products to see how easy they are to comprehend. Brian Cave, a UX designer with Santander, suggests asking users (even friends and family) to navigate your site. "You can gain a lot of valuable information for your website and mobile platform by simply observing someone as they move through steps on your site to complete a task," Cave says.

Recently, Cave conducted a series of usability tests where he had co-workers attempt to create a new account using a newly designed website prototype. "By doing this, we are able to identify usability problems and capture valuable feedback on our designs before it is built by the development team, and most importantly, before a customer ever sees it," he says.

2. Enable millennials to research prior to dealership visit

Under a heading "Education Drives F&I Interest" Helms points out that, "63 percent of all [automobile] shoppers are more likely to purchase F&I if they could learn about it on their own time before purchase" (Source: MakeMyDeal F&I Research). Again, making sure auto finance companies are providing consumers what they are looking for online can go a long way to giving the best customer service.

You can do this by publishing useful articles and blog posts on your website covering the latest topics that shoppers are interested in based on key words related to your business. Think keywords that apply to auto financing such as "auto finance," "auto loans," "credit score," "car buying," "non-prime auto financing," etc.

Provide as many useful details and helpful tools (calculators, explanatory videos) as possible, so those doing the research online are informed about your business and therefore feel good about their decision to work with you.

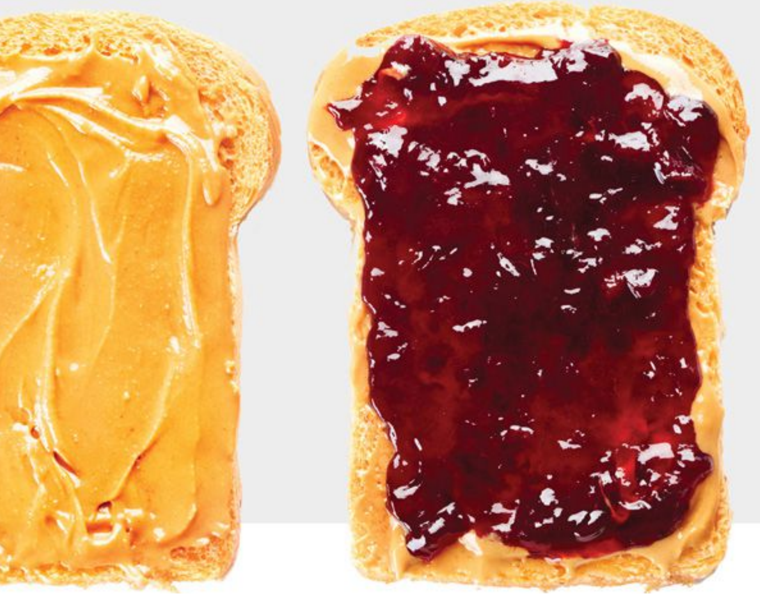
3. When they're ready, enable them to complete (all or part of) the transaction online

Not limited just to the millennial generation, today's entire consumer base in general is looking for processes online that are user friendly and can be completed quickly and easily. With everything from concert and movie tickets to fast-food delivery and big box grocery purchases, the act of consumers completing a variety of transactions is moving more online (and the mobile space) every day.

If auto finance providers can offer a one-stop online shop for consumers looking for vehicle financing, not only does it create a happy customer, it also can build the business through social networking and word of mouth.

In short, keep thinking ahead and be diligent in learning the latest technology to better serve today's consumers. As famous business mind Peter Drucker said, "The best way to predict the future is to create it."

James Mayfield is a director of content at Santander Consumer USA and author of From Social to Sales: The Auto Dealer's Guide to New Media.



TWO INGREDIENTS ONE SOLID RESULT

How a Dual Score Underwriting Model Can Simplify Auto Lending

Auto lenders are always searching for ways to boost sales while managing risk. But what if, in their quest to recognize the consumers with the highest likelihood of default, lenders inadvertently price themselves out of too many good, creditworthy applicants?

For years, industry best practices have suggested an underwriting model based on a credit score. These scores, usually based only on traditional data attributes, often have the unintended consequence of lumping too many consumers into a homogenous group, making it difficult to price deals appropriately. They lack the precision to differentiate the good consumers from those most likely to default, especially in the lower score bands.

More Inclusive Underwriting

A dual score approach is a more effective underwriting strategy because it combines traditional data found in the Big Three bureaus with non-traditional data from the subprime industry.

Differentiate the good consumers from those most likely to default

Including non-traditional data can help segment consumers in the same score band to distinguish those with a higher likelihood to pay from those who are higher risk.

Combining two scores that measure each type of data simultaneously helps lenders find a successful balance, so they get the most comprehensive picture of their consumer's financial position.

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Daniel Parry

What's New is Old Again

Three red flags for leasing

In 2010, the subprime auto loan market began to grow once more, returning from a near complete decimation to where it was pre-crisis. As far as the media is concerned, all growth was the product of a universal collusion to throw underwriting standards out the window. The following represents just a fraction of the stories that have been published since that time, sounding the alarm on risky auto loans and predicting another subprime crisis:

- 2010 – The Subprime Lending Business (auto) Survives, Even Thrives – Time Magazine
- 2011 – Ally Financial Bets on Risky Subprime Car Loans – Reuters
- 2012 – Subprime Auto Loans Grow as Lenders Charge a Premium – Forbes
- 2013 – How the Fed Fueled an Explosion of Subprime Auto Loans – Reuters
- 2014 – The Next Subprime Bubble to Burst: Auto Loans – New York Post
- 2015 – The Next Crisis, Subprime Auto Loans, Won't End Well – Forbes
- 2016 – Significant Concern in Subprime Auto Loans – Investor's Business Daily
- 2017–'Deep' Subprime Car Loans Hit Crisis-Era Milestone – Bloomberg

Nearly all of these stories reference subprime bond data, which is about $23 billion out of $250 billion in annual subprime originations. Of the roughly 10 percent that is put into bonds, about 60 percent comes from three companies – none of which are blowing up.

What has yet to become headline news is that subprime auto finance has been in a mild contraction for the last year now, with major lenders pulling out of the deepest paper and others limiting originations due to capital costs (otherwise known as rational lending). The real risk in auto finance comes not from conventionally structured auto loans, but from auto leasing.

Reviving the past

The oil crisis of the 1970s, along with a slew of regulations from the Environmental Protection Agency, pushed Americans to drive smaller, more fuel-efficient cars. Gone were the 428 Cobra V-8 engines and Mopar 400 blocks. Powerful muscle cars were soon replaced by aerodynamic wedges with better mileage. It was kind of like going from Sean Connery to Pierce Brosnan, for you 007 fans.

The real risk in auto finance comes not from conventionally structured auto loans, but from auto leasing.

Fast forward 30 years, and we see that fuel prices have come down, technology has improved – and what is old has become new again. Camaros, Mustangs and Challengers roar down our streets once more. Retro on the outside, but substantially improved on the inside. However, not all historical revivals turn out this way. In some pockets of auto leasing, something is being passed off as new that is nothing more than a resurrection of the bad practices that caused a meltdown in auto leasing nearly 20 years ago.

In 1999, the market was saturated with leases, which accounted for nearly 26 percent of car sales. In order to make their product offering more attractive to dealers, lessors got into the habit of "enhancing" (i.e., inflating) residual values. This, among other bad practices, resulted in a near collapse of the leasing market and left many investors wondering how they were so exposed.

The mechanics of leasing

The terminology related to lease financing is different from an installment loan, but the components of how the lender makes money are essentially the same. The lender/lessor acquires a vehicle, and structures a note with the customer designed to produce a certain return on the capital that is put to work. The risks come in the form of customer non-payment and the costs associated with re-acquiring and disposing of the collateral.

In leasing, the amount financed is referred to as the net capitalized cost. The net capitalized cost minus the estimated residual value is the gross depreciation fee, which is divided by the term to form the basis of the customer's monthly payment. A finance charge (referred to as a money factor) and sales tax are added to comprise the total monthly payment.

For the lessor to make money, they must fit all of their expenses into the finance charge plus whatever return they need to make. Some of the key costs they must account for are:

Residual loss – This is the difference between what the lessor estimated the value of the car to be at contract, and what they actually receive for it.

Turn-in rate – In prime leasing, approximately 10 to 15 percent of consumers buy the car. This equates to an 85 to 90 percent turn-in rate. The higher the turn-in rate, the higher the residual risk.

Non-payment – A certain portion of consumers will break the terms of the lease. The early payoff penalty is equivalent to the net loss on a standard installment loan.

If the lessor does not accurately account for these costs, they risk the stability of their entire platform – and anyone who has their money tied up in it.

Unconventional lending

I often get incensed at the lazy comparisons made between the subprime mortgages that led to the last downturn, and traditional subprime auto lending. With the exception of longer terms, the auto loans today look the same as they did 20 years ago. Likewise, performance has fluctuated within a very consistent range across multiple credit cycles.

The toxic mortgages, on the other hand, were the result of twisting conventional structures into forms that had never been seen before. No docs, adjustable rates and inappropriate credit risk were justified based on a false estimate of what the collateral would be worth. Proforma yield estimates appeared tremendous, and Wall Street could not get enough of them.

Today, leasing accounts for over 30 percent of vehicle sales, summing to over $200 billion in annual originations – much greater than the saturation point in 1999. While the overwhelming majority of leases are to prime consumers on new vehicles, Experian reports that 35 percent of non-prime and nearly 27 percent of subprime consumers are choosing to lease. That figure equates to over $50 billion, a number significantly larger than what is held in subprime bonds.

Several headwinds in the market make these statistics a cause for concern. First, vehicle demand has leveled off and dealer inventories have increased. Second, used vehicle values are declining and they are likely to continue to do so as a record level of off-lease vehicles flood the market. Finally, lessors have to work harder to maintain or grow volume, which opens the door for the stretching assumptions on lease economics.

Who is at risk?

Prior to the great recession, there were trillions of dollars in mortgage originations. Nearly $700 billion of that was subprime,

continued to P-15

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Parry, *continued from P-13*

and more than 75 percent was securitized. When these loans imploded, they took the banks and the rest of the economy with them. In contrast, the auto lease market is significantly smaller.

While a spike in lease defaults will send negative signals to the capital markets and regulators, it is unlikely to disrupt the broader market. The exposure is largely limited to companies that predominantly originate auto leases, their equity investors and debt providers. Executives, investors and credit committees will want to look for three red flags that signal potential performance issues. These are:

• **Credit creep** – Every credit default carries with it certain costs for the lessor. These costs go up exponentially as credit creeps down the spectrum. Unrecovered early termination fees, collection expense and lost collateral value (repossessed vehicles are worth far less than market for a similar unit) all must be paid for by the finance charge. When lenders and lessors in higher credit tiers feel pressure related to volume, it is not difficult to dig deeper in a way that cannot be detected by looking at credit score alone. Missed credit assumptions can easily take a budget of 100 basis points in annualized default expense to 300 or even 500 basis points. Many will point to the fact that a lease allows the customer to get in a lower payment than a loan, which suggests they default less frequently than loan customers do. That might be true, except for the fact that consumers are sold on a payment size, and typically pack as much into that payment as possible. The payment-to-income ratios for loan and lease customers are very similar, so that argument does not hold water. Investors and debt providers should look to early payment default rates, and 30 plus days past due delinquency in the first six months on books. These figures should be compared to delinquency rates of loan portfolios with similar credit score distributions to ensure that the credit assumptions line up with reality. Make sure that if the business model calls for near prime consumers, the portfolio is not filled with consumers who are near prime in score only.

• **Collateral mismatch** – The biggest miss lessors have historically experienced comes from playing games with estimates of residual values. There is a moral hazard present in that a higher residual estimate means a lower customer payment, which makes it easier to get volume. The increase in the number of nonprime and subprime leases may indicate another issue, that there is a complete mismatch between the vehicle and the financing instrument. For a lease to make sense the vehicle has to be worth something at the end of the term; otherwise, the customer would be financing the entire vehicle without ever owning it. A collateral mismatch occurs when the quality of the vehicle must be inflated to fit a lease scenario in the first place. To make matters worse, those contracts are usually laced with out-of-market incentives to dealers in order to get them to close mismatched deals. Not only are the losses on such leases unsustainable, but they also create serious compliance issues related to predatory lending. To protect against collateral mismatch, capital partners must have a direct line into the vehicle values. This goes beyond merely acquiring periodic data files from the company, but running independent outside checks by submitting vehicle identification numbers to third party data providers like ALG, Black Book, NADA and others. Those vehicle values should be compared to the statistics of other lease portfolios in similar credit tiers (available from credit bureaus and other marketing data sources). If the company's collateral and lease structures do not line up with what should be considered the peer group, there may be a problem with collateral mismatch.

• **Pseudo controls** – Credit creep, collateral mismatch and other serious problems are borne by companies lacking real controls. Great leaders maintain proper controls and foster a culture committed to supporting those controls. Bad leaders simulate a tight control culture, and can go on at length citing many checks and balances that do not actually exist. Bad operators see controls as a nuisance that prevent them from having the latitude to properly run the business. When portfolio performance becomes a problem, a poorly controlled entity turns to cooking the books. In those types of organizations, it is not uncommon for the internal auditor, compliance manager, risk manager or other control person to be overpaid, and several levels above what their resume would warrant – in other words, a patsy. Investors can protect against this by having activist board members with direct connections to the control functions. Regular control audits must be conducted from independent parties. For debt providers, do not rely on covenants to protect you, or you may be surprised at how weak your security interest is. Make certain that the numbers in the system were not fabricated in order to fit something into the warehouse facility. Insist on periodic I.T. audits, conducted by independent forensic data specialists.

Conclusion

Unlike the steady stream of articles on subprime auto, I am not predicting a time bomb waiting to go off in the auto leasing space – nor am I grouping all operators together. There are many excellent auto lease originators, particularly among the captive finance companies. The latter are usually run by strong leaders with excellent control cultures. Furthermore, they have vast amounts of data that show how their vehicles hold up in a variety of economic environments. There are also many independent companies with long histories of proven performance. That being said, the practices that led to problems in the past still exist today.

In the subprime mortgage crisis, assumptions meant for conventional loans were applied to highly atypical structures. Investors fell for it, and consumers flocked to it – sold on the idea that they could access financing that was formerly only available to the top tier. In some pockets of auto leasing, the same thing is happening today. What the market will find is that what is pitched as new is actually the same old song and dance. By keeping an eye on credit, collateral and controls, capital partners can make sure they avoid seeing history repeat itself.

Daniel Parry is co-founder and CEO of TruDecision Inc., a fintech company focused on bringing competitive advantage to auto dealers and lenders. He is also co-founder and CEO of Praxis Finance, a portfolio acquisition company, and co-founder and former chief credit officer for Exeter Finance Corp. For questions or inquiries, please email danielparrynaf@live.com or through www.trudecision.com.

Dallas Munkus

Using Unique Data in Portfolio Management Provides Improvements, Returns

To stay competitive and within budget, many auto financing companies are evaluating and determining which emerging technologies and other resources to tap into and which to pass on or postpone.

Fortunately, not all innovations include costly modern technology systems or trends. And not all business challenges require big overhauls in spending and processes.

Sometimes the most tried-and-true options—the obvious fixes—yield the most beneficial outcomes.

These can include staffing or policy changes, new equipment and new software, to name a few. In addition, adding unique data to traditional sources can offer big returns in the areas of underwriting, servicing and collections. By leveraging proprietary, alternative credit data—in real-time—financing companies better know how to interact with the consumers they serve, thereby growing and protecting their company's portfolio.

Such unique data sheds light on underbanked consumers, a real bonus for auto financing companies who are dissatisfied with a lack of visibility into the rapidly changing alternative credit market—an estimated 20 percent of all households, or 51 million adults, according to the FDIC. This proactive tactic provides insights into the underbanked market that the Big 3 bureaus don't have. By pairing unique alternative credit data with traditional data, auto financing companies begin to get the complete picture of their customers and prospects. And consumers begin to receive the credit they deserve.

Case study: Uncovering life events increases net returns

A case in point: Let's look at a real-world example from an active non-prime automotive finance company. The company leveraged alternative credit data to efficiently monitor all its consumer accounts that were 30 days past due. By using this data, the company was able to identify when customers had varying life events—a change in address, mobile phone number, employment or salary, new loans or inquires, for instance—that might affect their ability to pay their auto loan. For this scenario, the file being monitored included 74,000 records.

Within the first 30 days, there was about a five percent level of activity, meaning that 3,870 of the company's customers from this file were found to have had some type of life event that might impact their ability to pay on their existing loan. This access to timely, relevant information helps auto financing companies determine when and how to proactively start a conversation with customers and respond with the appropriate servicing or collections activity.

By identifying these customers with life-event issues, the auto financing company was able to help their customers manage their payments, provide a new credit product or even refinance, in an effort to avoid repossession of the vehicle. It also enabled the company to give reliable and current right-party contact (RPC) information, when needed, to its servicers, skip-tracers and collectors, eliminating otherwise time-consuming searches for each past-due consumer.

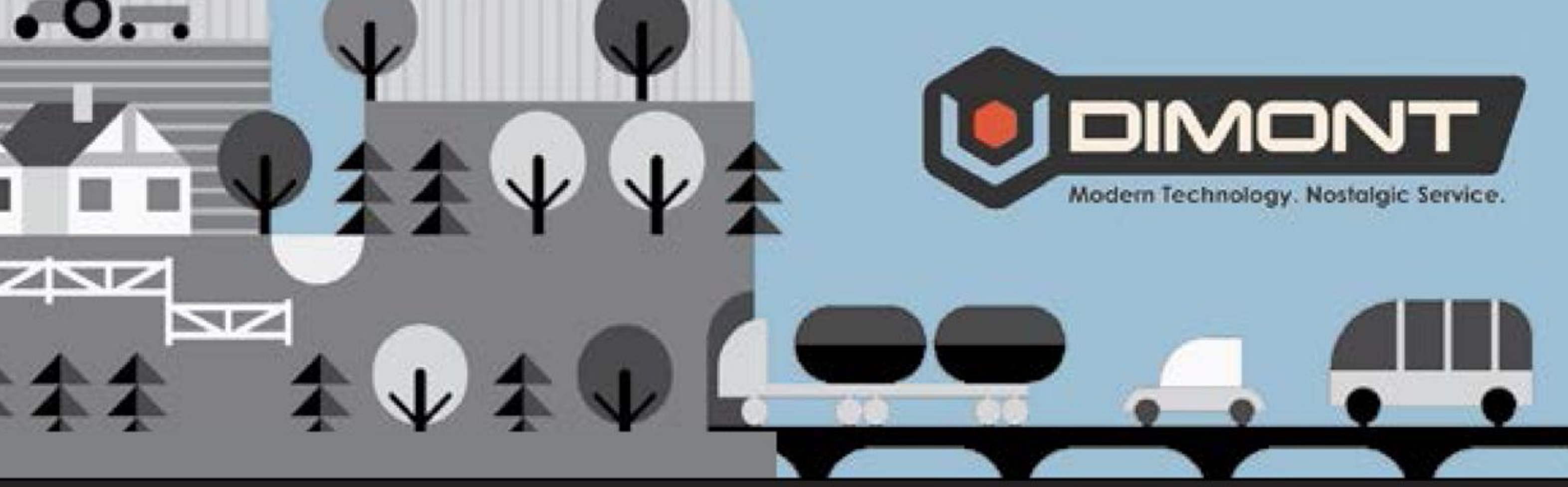
Within 60 days, 11,380 customers, or 15 percent of the total file on the accounts that were 30 days past due, showed some sort of level of activity or change. However, when that timeframe moved out to 180 days, that figure jumped to 29,660 customers. Therefore, in a six-month timeframe, by monitoring this one batch of records of 30-day past due customers, the company was able to identify 40 percent of its customer base as having had some sort of life event significant enough to impact their original loan terms.

With these results, the company was able to build a use case about alternative credit data based on its monthly net savings return alone. By identifying 40 percent of its customers in this file as having a life event, the company was able to speak to these consumers on their level and help them by adjusting the terms of their loans.

After implementing alternative credit data and incorporating this approach into its portfolio management, the company conservatively estimated that it kept at least five customers' motor vehicles from being repossessed each month. Considering that the average net charge-off rate per unit per repossession totals about $5,000 in costs and fees, it is estimated that the total monthly loss avoidance totaled about $25,000. Even with nominal monthly fees in monitoring the data at about $3,500, the company had a net monthly return of $21,500, or an annual savings of about $258,000.

Auto financing companies can continue business as usual and see the same results. Or they can take a look at available, cost-effective, easy-to-implement resources like alternative credit data, and see immediate improvements to their bottom line.

Dallas Munkus is director, customer analytics, with FactorTrust, The Alternative Credit Bureau, where he helps customers leverage the power of FactorTrust data to positively impact their business. He has more than 20 years in consumer finance, leading analysis and strategy on diverse teams, including organizations, operations, servicing, collections and more. Connect with Dallas at dmunkus@factortrust.com. Learn more at www.FactorTrust.com.



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Steve Levine

The Lessons Keep Coming

I'm discouraged, and that's not normal. I'm usually fired up when I write an article. The recent double whammy of news of the Wells Fargo CPI investigation, coupled with the CFPB's findings in its payment fees bulletin of July 31 has got me down.

Many trainers, consultants, publications and others in our industry have done a good job of getting the word out about the importance of treating customers "right." To be fair, there are a lot of companies that have acted upon the message and taken steps to improve the transparency of their business practices and create a better customer experience. Unfortunately, though, there are still many folks that aren't acting upon the message.

The Wells Fargo CPI mess

The Wells Fargo CPI news includes findings that it wrongfully placed collateral protection insurance (CPI) on hundreds of thousands of accounts. This is very troubling, as it has been a "best practice" for years for institutions that size to have policies and procedures in place to make sure that CPI is only added to an account as a last resort and after notice has been provided to the customer. This news is damaging to our industry. Wells Fargo is a big name that has had several recently publicized instances of compliance lapses. Its conduct will be imputed to the entire industry, so expect a new round of regulator, news media and plaintiff lawyer scrutiny and attacks.

In anticipation, lenders need to get their house in order. Review and update policies and procedures so that customer notice and communication can be demonstrated. Be sure there is a process to provide customers with advance notice that records indicate insurance has lapsed and CPI will be added unless proof of insurance is provided. Think about providing an additional notice after a few months to provide another opportunity to the customer to take action. Also, be sure to tell the customers that CPI premiums will be refunded if the customer can provide proof that such insurance was in place during the time period in question. Remember that CPI fees can have a big impact on customer balances and many do not have the ability to repay the additional premium, so consider the overall impact this will have on how a regulator looks at the business, not to mention the overall portfolio and whether there is an unintended consequence of driving up defaults.

Many trainers, consultants, publications and others in our industry have done a good job of getting the word out about the importance of treating customers "right."

CFPB Payments Fees Bulletin

Turning to the CFPB's Bulletin on Payment Fees, the big take away is the importance of having transparent communication of available payment methods and their associated fees. In my view, this bulletin is really about the CFPB's dislike of the charging of these fees, especially when the customer isn't adequately told about the availability of free alternatives. That's a good way to catch a regulator's attention. Again, be transparent. Look at how this information is communicated with customers and make sure all of the options are being clearly communicated, the more often the better. From the welcome letter to the website to IVR and other recordings, the customer should be given a clear picture of how to pay and those methods with fees attached shouldn't be given priority above the free options.

Conclusion

Both of these issues once again illustrate the need for transparency in customer dealings. It's crucial to take a look at operations and practices through the eyes of the customer. Are they being provided with all of the pertinent information? Are their opportunities to increase both the clarity of the message and the frequency that it is provided, so that the customer has a thorough understanding of the financial consequences of their choices?

Looking at your business through the eyes of your consumers can be uncomfortable, but it's only by doing so that improvements can be made. Technology is making the world more transparent and our business has the added pressure of ever increasing regulator, news media and consumer scrutiny. Lenders need to learn this lesson and make changes accordingly, or else the lessons will keep on coming.

Steve Levine is chief legal and compliance officer of Ignite Consulting Partners, which offers compliance, technology, and cyber security guidance to car dealers and finance companies. He has previously served in similar capacity with other industry participants. These experiences allow him to develop strategy, overcome internal obstacles and implement meaningful change. Please contact sales@IgniteCP.com to learn more. You can follow Steve on Twitter @LawyerLevine for compliance and industry related content.

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WHAT'S INCLUDED IN THIS REPORT?

The report assists auto finance companies and banks in tracking, benchmarking and understanding its consumers' needs in buying and financing vehicles.

Non-prime consumers are either new to credit, have thin files or didn't manage the credit they were granted. Understanding these consumers as thoroughly as possible is crucial for success.

	APPLICANTS		BORROWERS	
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Monthly Income	$2,926		$3,000	
Gender	50%	50%	45%	55%

FACTORTRUST - YOUR TRUSTED SOURCE FOR CONSISTENT IN-DEPTH ANALYSIS OF THE UNDERBANKED

WHAT DO WE KNOW ABOUT THESE PEOPLE?

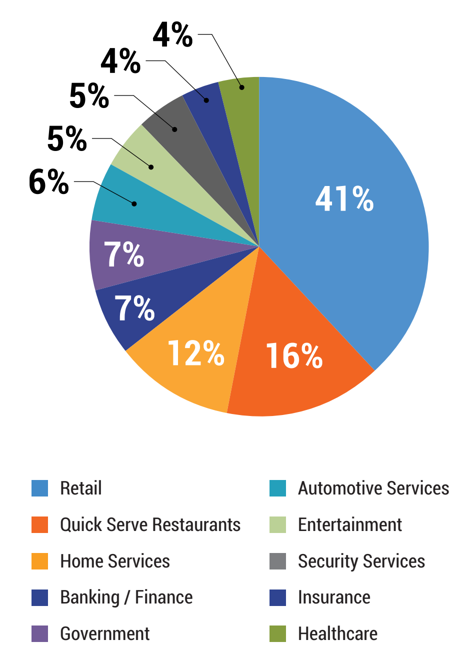
Over half of these consumers hold at least a high school education, and more than a third of them work in the retail industry. With the FactorTrust Underbanked Index, auto finance companies can gain a wealth of insights into this market, including average loan amounts by income.

HOW DOES FACTORTRUST GATHER SUCH IN-DEPTH INFORMATION?

Unlike the Big 3 bureaus, FactorTrust collects comprehensive data on non-prime consumers through relationships with non-traditional lenders, reporting inquiries and credit-performance data in real-time. FactorTrust supplements this data with proprietary loan performance and stability information that reveals a more complete picture of consumer history and behavior.

HOW CAN YOU USE THIS?

With a team of in-house predictive analytics experts who can analyze more than 800 proprietary data attributes, FactorTrust is the best source for details on non-prime consumers seeking auto loans. Review the full FactorTrust Underbanked Index to learn more on how you can reach this market.



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Stephanie Alsbrooks

Stephanie and the Three Lenders

So often I am on the go and rarely do I have time to sit and think about what just happened and why. However, after a recent 24-hour trip to the offices of three lenders, I got that chance. Each of the three lenders was strikingly unique, in very different stages of the business lifecycle, with differing approaches to business. And after the meetings, for a couple hours in the airport with my e-mail muted, I pondered what had taken place.

I found myself thinking about the classic fairy tale of the girl and the three bears, the one who found bowls of porridge, chairs and beds that were "too cold," "too hot," "too large," "too small," and "just right." And I thought how, in business, particularly in the lending business when it comes to technology, we tend to peg ourselves as "too small," "too large" or any number of other "too's" that we can let get in the way of making effective change. In reality, we all have the ability to make things "just right."

My business is 'too small'

During the trip, I first met with a client who had just opened a brand new office. His business is not funded by private equity money; he's just a guy building a business. When he signed up with defi SOLUTIONS nearly a year ago, he almost didn't, because he believed his business was "too small." But he was an entrepreneur with a passion for getting the right tools and the right people.

He stood in front of his team members, his dealers, and his business partners, and told the company's story. The humbleness in his voice was inspiring and I smile even now thinking about it.

It's tough when your business is small. You need to convince partners that you are different, you will grow, and that you are worth spending time and money with. And you need the right technology to help you.

After working with many lenders that felt their business was too small, I say this: don't sell yourself short. Set your sights on the technology and the partnerships that position you for growth while letting you operate the way you want to operate. Whether you stay small or expand, you add value to our industry, to your customers, and to your dealers. You and they deserve good technology and the resulting good processes and efficiencies.

My business is 'too fast'

On my second visit, I met with a client that is growing rapidly. It is 100-fold bigger than the "too small" client. This business is backed by PE money; it has easily doubled in size since I last visited. The company has big dreams and has to balance dreams with reality.

The company had made a pivotal decision, early on, to switch its lending technology systems. They put money and resources into their technology in the belief that their business would grow into the technologies they were investing in. And now they are running as fast as they can and making certain their technologies continue to keep up with their business.

As the client walked me around their offices that day, my long-time colleague mentioned how nice it was that that the business was all finally starting to come together. It didn't happen overnight. And it didn't happen without a lot of work and a lot of guts. Team members popped out of cubicles to say hello. They were excited. Happy to be part of something that is growing and successful. And I

was grateful to have played a little part in it.

Scaling a business as quickly as they did requires balance — keeping investors happy, staffing a great team, and making hard choices about what to work on and what not to work on.

For the lender whose business is growing quickly, I say this: continue to put money and focus into your technology and automated processes, and don't be afraid to step off a wrong path. You can't get to the right place on the wrong path. Don't pull back on projects and efficiencies. It may be hard to believe, but I often see lenders going hard at it and then stopping dead in their tracks. While it's tempting to try to work your team harder in the manual processes or thinking you can live without improvements for a while, keep a clear picture of where you are and where you want to go and conquer the delta one step at a time.

My business is 'too old'

The third lender in this series of visits was a business with a well-established history, with processes that were working and, more importantly, with which all had become comfortable. They had recently undergone a notable change in leadership and the new leader questioned: Why do we do this? He made it clear that "because we always have" or "because it's what we have" was not an acceptable answer.

When things have been going well for a long period of time, there can be a lot of fear about shaking things up. That's especially true when you are making changes that impact the core of the business, what people know and feel comfortable with. There is a risk that the team, the investors, and the board will only have so much patience with your efforts, and demand you go back to what they know. But fear can't get in the way of progress.

This lender's technology was old. But it was held together with enough duct tape that it was working for the time being. And they were concerned that ripping it out could have an impact of a magnitude that they could not possibly imagine.

For lenders whose technology and processes are too old, I say this: life is too short to sit in a too small chair, sleep in a too hard bed, eat too cold porridge, or operate with duct tape.

While there are no fairy tale steps to perfect technology, in today's technology world you have choices. Technology is designed to be a table at which everyone has a good chair, regardless of budget and expertise, and a partner enables access to the broadest array of technologies to all lenders, regardless of size. A partnership is an investment in your success, and can help you create the things about your business that make you "just right."

Stephanie Alsbrooks is the CEO of "just right" at defi SOLUTIONS, the most configurable loan origination platform on the market. E-mail Stephanie at salsbrooks@defisolutions.com or visit defisolutions.com for more.

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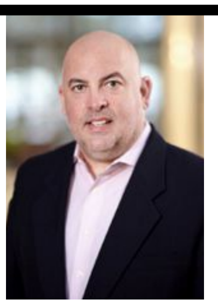
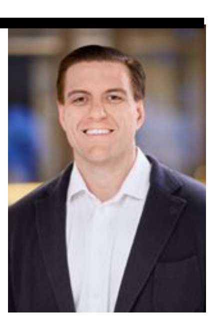
Chris Chestnut and Preston Cecil

You Like to Talk, but They Like to Text

Why your business needs a mobile app for the millennial generation

Remember the rotary dial telephone? If you're older than 40, you do. Rotary phones were still in most homes and businesses in the 1960s and weren't really phased out completely in favor of push-button phones until the 1980s. It wasn't a leap to begin using the push-button phone, but it was a change – and most people readily made the change without offering much resistance.

Since then, telecommunication has come a long way. No more push-button phones, and for many people, no more home phones at all. A GfK MRI Survey of the American Consumer published earlier this year showed – for the first time – that a majority of adults in the United States now live in households with no landline telephones. Instead, most Americans are using mobile phones to talk with one another, and they're not just any old mobile phones either. A Pew Research Center study released this past January indicated nearly 80 percent of adults in the United States are using smartphones.

If you look around almost anywhere – at work, schools, restaurants and even at the movies – that figure isn't surprising. In fact, it makes us wonder who the other 20 percent of people are who don't have a smartphone in their pocket or purse! What's even more remarkable is knowing that of all those people using smartphones, they're using them most often for tasks besides talking on the telephone. According to an article published this past May in Forbes, "European telecommunications company O2 produced a study that showed that 'telephone' apps on smartphones -- that is, using your phone to make actual phone calls -- are only the fifth-most-used app among the general public." So, what are we all doing with our smartphones if we're not talking on them?

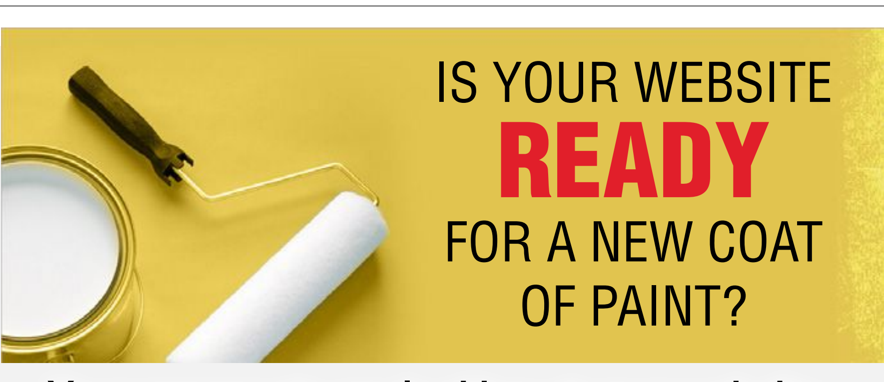
Practically everything else!

We're typing messages, transacting business, engaging socially with friends and connecting digitally with the world.

How we're communicating in 2017

Three years ago, Gallup issued a study that said the ways Americans communicate vary significantly by age. Gallup Editor Frank Newport wrote, "Sending and receiving text messages is the most prevalent form of communication for Americans younger than 50. More than two-thirds of 18- to 29-year-olds say they sent and received text messages 'a lot' the previous day, as did nearly half of Americans between 30 and 49."

Those numbers have continued to grow since 2014, and we're sending more SMS messages than ever today. But we're also finding newer ways to use our smartphones to reach out and touch someone as well. A recent report published by Flurry, a San Francisco-based analytics firm, said the average person now spends five hours daily on their smartphone, and the vast majority of that time is spent using apps. Commenting about the report in an article for TechCrunch, author Sarah Perez said the shift into apps can be attributed to many factors, including "increased selection in the app stores, better and more



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available Wi-Fi and mobile broadband and the rise in messaging apps, which sees apps taking over typical phone functions like texting and phone calls, among several other factors."

The Flurry report also showed that over 50 percent of time is spent in social, messaging, media and entertainment applications – some of it communicating literally for entertainment's sake, and some of it for more businesslike communication purposes. So, if you're trying to communicate for business purposes in 2017, especially with consumers in their 20s, 30s and even 40s, the message from all this data is clear. Writing in the journal Educational Horizons, researcher Angela Walmsley summed it up by stating that members of Gen Y, or the Millennial Generation, want to "use digital communication and social networks as their preferred means of communication."

Your business needs a digital communication solution

It's important to know how best to engage millennials because they make up a very large portion of the buying public. In fact, this past January, a Forbes article noted millennials' buying power will soon surpass that of the generations before them. So, to reach these consumers and promote products and services, business leaders – including auto dealers and lenders – need to communicate with them in ways in which they want to be communicated. Calling on the phone may still work for the foreseeable future, but each day the percentage of the U.S. customer base comprised of people born from 1981 to 1997 is growing. These millennials from Generation Y are using mobile apps to communicate with everyone they know, and it's even how they want to transact personal business.

For business leaders and owners in their late 30s and older, this represents a significant change. Their instinct may be to pick up the phone and call, but that's no longer the most effective means to communicate. This change in tactics is nothing to fear, though. Older generations have already proven they can be flexible and adaptable. Baby Boomers (born between 1946 and 1964 according to the Pew Research Center) switched to pushing buttons on a phone instead of using the rotary dial. Gen Xers (born from 1965 to 1980) went from just using cell phones to talk in the 1990s to using them to send text messages in the 2000s, too. They've all shown they know how to change with the times, and now in 2017, it's definitely time to change again.

Chris Chestnut and Preston Cecil are two of the founders of Payix Inc., which provides collections tools, payment processing resources and business intelligence solutions to the nation's lenders and auto dealers. Chris serves as the company's president and can be reached at Chris.Chestnut@Payix.net. Preston is the company's chief operating officer and can be reached at Preston.Cecil@Payix.net.

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Bob Hedstrom

Returned Mail – Nuisance, Hidden Issue or Opportunity?

The issue affects all lenders of consumer credit and all types of auto portfolios, whether prime, sub or deep subprime, new, used, luxury, sport or compact, warranties, recalls, service and remarketing – all ages, all demographics.

With so many options for automating customer contact such as e-billing, texting, e-mailing and IVR, mail continues to be a major vehicle for the delivery of important information. Two critical documents for auto lending are the Welcome Letter and Statement. Welcome Letters are the first physical and visual connection with your new customer. Statements are a monthly reminder that the payment is due, provides marketing and customer service messages and the necessary means for ensuring an on-time payment is made.

Customer experience and compliance risk – from great to poor in seconds

Most lenders we've spoken with know that they have returned mail, but not much else. Why is this happening? Because there is no audit trail or tracking behind the actual issue. Executives can't document volumes, nor the financial implication of the issue because they have no data.

A simple concept – you've spent hours as a consumer looking at various autos and have finally made a selection. You've finished the paperwork, the new loan is approved, you've elected to receive your statements by mail, receive the keys and drive off in your newly purchased automobile.

You move in three weeks, forget to notify the USPS of the move and your new address, forget to contact all of your lenders, utilities, subscriptions, etc., because you're busy with the move! Collectors begin calling, attempting to collect the debt, using internal data and various skip tracing tools and companies to locate the customer. The account ages, becomes past due and delinquent, then moves through the numerous stages of collections. Another statement is mailed to the same bad address, hoping that it makes its way into the right mail box for a payment. Is this really the way you want to greet your new customer – with a collections call because of a bad address?

The reason for the issue of returned mail

Don't be alarmed; auto lending is not the only industry with the issue. However, the issue of mail that is returned by the USPS as UAA (Undeliverable-as-Addressed) continues to grow. In fact, 50 percent of all movers never tell the USPS that they've moved! One reason for this is that consumers do not want marketing mail following them.

The volume of first class mail has decreased 64 percent since 2004, the decrease mostly attributable to electronic customer payments, and not business first class mail (e.g. billing). UAA mail as a percent of first class mail has increased 11 percent during the same period, to an all-time high in 2016 of 3.8 percent.

Doesn't sound like much? 2016 volume of UAA first class mail is 2.4 billion pieces. If you are a direct marketer and use mail, the volume is actually much higher at 4.3 billion pieces or 5.3% percent of all outbound direct mail; and, 99 pecent of the 4.3 billion pieces are going nowhere but in the trash because of bad data. The issue is costing U.S. businesses up to $65 billion dollars per year, and is virtually undetected. In auto lending, for every 10,000 loans in your portfolio, you could be missing $6-$10 million in assets and hundreds of customers.

The USPS has a National Change of Address process. Many executives believe that this process takes care of issues with movers. This misconception can be further complicated by software companies selling USPS licensed software making claims that their software will "eliminate returned mail." Approximately 50 percent of U.S. consumers and businesses complete this process; the other 50 percent that do not construct one of the biggest reasons why we have returned mail. It is these movers, and your customers that do not complete the USPS process, nor call you to update their address, that create the expensive issue for you.

USPS reasons for returned mail:

- 75.8%–Move related, the customer no longer receives mail at the address
- 12.4%–Missing or incorrect address elements, such as Apt, Suite, City, Directionals
- 11.8%–Other reasons, such as vacant, no mail receptacle, deceased and refused

As numerous industry sources and solution providers will attempt to put full focus on the mail itself, the issue is not about the mail. Mail is only a vehicle and medium for the delivery of information; information, in this case, that is also a call to action for your customers. Simply knowing that the mail is undeliverable does not automatically and magically resolve the account, it does not reduce delinquencies and most surely does not find your lost asset. Information is at the core and center of the issue but the industry is not using it for its own advantage.

Industry practice – wait, age and go delinquent

In speaking with lenders about specific issues with communications, interactions, delayed payments and missing assets, they mostly have one thing in common: absence

of measurements, tracking and a defined business process. The industry waits, with hopes that departments of collectors can achieve a result.

Of the Welcome Letters, Statements and Notices that are mailed to your customers, anywhere from 2 percent super prime to 10 percent deep sub-prime will be returned by the USPS as undeliverable. The mail is a nuisance to your organization, and will either be shred, counted, imaged or manually managed; with a tendency toward shredding, that is, shredding your customers.

Collectors will call once the account ages, moving through the stages of collections and resources if continued delinquent. A percentage will ultimately be found in this process using internal data and skip tracing tools, direct and auto dialer calls. Accounts are remediated, payments collected for outstanding AR. The residual can become a targeted charge-off and repossession activity. This process is reactive and expensive as costs are incurred for collectors working the accounts, repossession costs, repeated duplicate mailings to the same bad address, charge-offs, technology costs as well the delays that go with these activities.

Collectors vocalize that depreciation of collectability is their worst enemy. If collectors can know in six days where the customer and most likely the asset is, rather than 60 or 90 days, they can collect!

Out of sight out of mind

Don't see physical returned mail, and think you don't have an issue? Guess again–It's there, it just means you most probably have Address Change Service with the USPS. The USPS disposes the mail and returns electronic records to you, informing that the mail was not deliverable. Now what? Where are your customers? This process can cause more harm than good, as you don't see it, don't manage it, and don't collect. Customers will age, become delinquent and follow your collection stages.

We're haven't pinpointed the reasons executives are not taking a hard stance on this issue as an opportunity. Most likely the issue is ignored because it is not measured, defined, audited and/or known and thus seemingly slips through the cracks of internal processes and procedures of well-established collection activities. Why wouldn't you want to find your customer before they age and go delinquent? Why would you want your customer's first call to be a collection call? Why would you not want to keep this customer for the life of the loan, and perhaps offer a new loan on a new automobile when the timing is appropriate. The customer pays off the loan and is never to be heard from again. Why? Once they are gone, they are now moving. Your database is old, you cannot continue to market to them. They are lost forever.

When you don't have tracking, controls, measurements, documentation or a continued process improvement strategy, then you are opening yourself up to poor operational risk, risk that can hurt an organization's reputation and cause financial damage.

Executives beware – 'I do not have that problem'

In lending, we've heard the following as initial responses from execs when asked about the issue. I thought I would share a few classic examples:

1. I have a mail room guy that takes care of that
2. This isn't that big of a problem
3. We don't have returned mail
4. My collectors take care of that
5. It's not a priority
6. IT has no time
7. We're working on the issue before we mail
8. We have no budget
9. We can't accept any more vendors

Each response has its own share of issues. What we do know is that 1 in 6 families move and 30 percent of e-mail subscribers change their e-mail address each year. Data is available, but it changes rapidly across all mediums – address, phone, e-mail and provides its own set of issues (such as TCPA Compliance) and must seemingly work in tandem with your collection activities.

Process improvements – challenge the process

We encourage you to make time and review your process for improvements. Effective risk management reviews people, processes and systems. Unfortunately, organizations that operate in silos are at high risk. You should be constantly evaluating and improving on your weaknesses, critically reviewing and identifying areas for operational risk, including processes, services, systems, software and people. Privacy and data are also growing as an increased risk to organizations.

Without customers you have no business. Without customers that pay you, you do not have the revenue and margin to be able to sustain your business and make capital improvements. We've interviewed organizations with the #8 response above that are laying off hundreds of employees due to cost cutting, while a large budget is already set for collections. These organizations could have reduced their overall budget, increased cash flow, reduced layoffs and increased customer care, but to no avail, because they are not open to challenging the process or change.

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This hidden issue can provide a very logical opportunity for making process improvements in AR, customer care, repos, charge-offs, compliance and overall costs. You can better manage portfolio risk by having fact-based analytics, data and measurements. But, as with any issue, you have to agree you have an issue before you start to review the process. You must also be open to other forms of technology, which can be measured against current processes.

Understand and challenge the gaps in data, accuracy, controls and audit. Understand the true cost of the issue, and do not put focus on the cost of the mail and postage, as it is pennies on the dollar. Should audit be concerned if you don't know where your customers are? Are you at risk with no monitoring or controls? Should finding your lost customers become a priority?

There are better tools and technologies

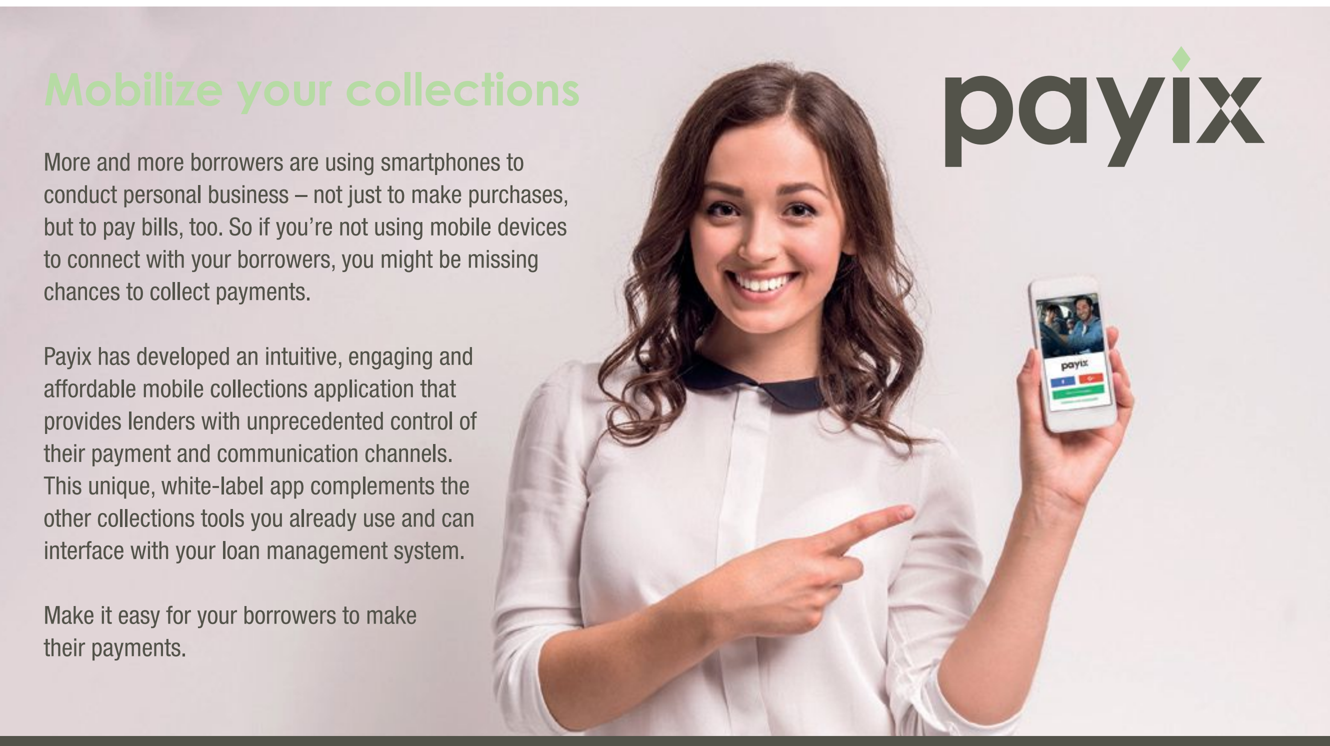
The industry continues to manage the process, as it has, based on the previous knowledge and tools available to the market. There are, however, better and more recent tools for automating the management, audit and resolution to this issue. Many of these tools can also operate and work in tandem with existing infrastructures, programs and technologies.

Capture

The process starts with the capture of returned mail, and with providing an audit trail behind every single customer that is lost due to the issue, dated as to when they were lost; the ability to move an absent process, or manual process to an automated, trackable, auditable process. Documents are great sources of data, for knowing document type and data within the document, which can be used for subsequent automated follow-ups and workflows. Selecting a solution provider that can automate these functions for capture and conversion of documents to useable data can provide the audit trails and functionality for subsequent automation of resolution. Wouldn't it be great if you actually knew "today" that a customer that was mailed a Welcome Letter last week was returned as undeliverable? Workflow can be much different than the common practice of a collections call when the customer ages.

Customer search

No two databases are the same. Collectors use industry collections tools and databases from well-established companies. These companies represent traditional skip tracing tools for collections use, but can be resource challenged and delayed with actually locating the customer for payment. There are, however, new software tools that have been built to outperform industry solutions and can integrate with physical returned mail; automating the updating of address and phone information, and with providing measurements on the deliverability behind address changes. For risk management, these tools also have anti-fraud and audit capabilities which are part of the software and can help in



identifying, notifying and suppressing issues with personal information and address changes; further mitigating risk with privacy and data.

Repurposing

If using these tools to automatically receive, capture and update your customer's information, you could also have access to workflow processes that can automatically send confirmations, notices and letters of action to your customers. These options can automatically drive them to make a payment by web, phone, kiosk, payment center, can assist in validating a changed address, enrollment in autopay, and many other options. Lenders do not need to employ manual, costly and delayed resources in doing what can be automatically done through the use of technology. The improved process would automatically record, update and integrate with your Servicing platform, while collectors now have access to new information. Lost customers now receive their statements for payment at their new address. With new information, you can also know when and when not to suppress a customer address, filter and flag to the appropriate Collector for a much deeper skip process.

You cannot manage what you do not know

There is no silver bullet to this issue. We strongly suggest incorporating multiple solutions and strategies that all work in tandem toward the same goals; locate assets, increase AR, reduce delinquencies, charge-offs and repos. We don't suggest discontinuing services with your current skip tracing sources, but suggest using those sources when a more manual and costlier skip is needed for resolving the customer's account; some do not want to be found.

We find it interesting that so many executives have no idea this issue is even going on, and have no idea where their customers are. When asked about metrics and numbers behind the issue, there are not many – because collectors wait for the account to age. Risk executives should be concerned that there is no formal process, tracking and audit behind these lost customers, along with potential addresses changes, privacy and risk. Not knowing that 5-10 percent of your customer base is missing is a big issue, especially with lack of reporting to better manage the process.

New industry tools can provide very accurate, in-depth and real-time reporting capabilities and measurements; detailed reports on each and every customer, analytics and tracking behind volume, AR, updates, USPS reasons for non-delivery and even potential fraud. Having real-time accurate data will now give risk, audit and operations exposure to the real issue, the impact and allow you to better manage outcomes.

No matter how good you think you're doing, there can always be improvements. Reducing 5-10 repossessions per month, while reducing delinquencies and providing cost savings could be easier than you think. You've got to review and challenge the current process, understand the facts and be open to industry expertise, systems, tools and technology that can help you further reduce, improve and collect.

Solutions can be easily integrated into any loan servicing platform, legacy and home-grown systems. These solutions do not carry a 12-month implementation period, and can be up and running in as little as 30 days.

Business case with financials

There are also new tools for measuring the financial effectiveness of the current vs. new process. The CFO Calculator is one of the new tools that can quickly identify financial gaps in the overall collections process. The tool can assist with documenting a potential Business Case for Executives, pinpointing financial and operational gaps, along with risk. Our experience with actual costs behind this issue, is that lenders spend, on average, $10–$50+ per customer, to resolve accounts that have returned mail. While every use case is different, we are also seeing financial benefits in these new technologies at a 10-20x factor for ROI, along with all of the operations, risk and audit improvements. Risk, collections, operations and finance can now win with implementing these new technologies into their existing infrastructure.

Bob Hedstrom is director – sales, marketing product development at Horizontech, Inc., a global business application technology company. He founded Returned Mail Solutions, Inc. (RMS) and developed, launched and managed industry-leading complex workflow, software and integration technologies for end-to-end data customer lifecycle issues associated with returned mail. RMS was acquired in 2010 by Horizontech and has continued to implement new technologies for the issue. Bob is considered an industry innovator and leading expert on the subject, has written articles, executive case studies, and spoken at numerous industry events.

Denis Brosnan and Steve Garcia

Building a Culture of Success: The Basics

Last month, we discussed strategies and tactics lenders can and should take to reduce losses during economically challenging times. While it is always prudent to monitor and adjust business practices during a downturn, there is one area of focus that should be nurtured and cultivated every day, no matter the economic environment: culture. Building a strong company culture is at the core of business success.

What is culture? At first glance, it's behavior within an organization, and the meaning that people attach to those behaviors. More specifically, it translates to the vision, values, norms, systems, symbols, language, assumptions, beliefs, and habits of a company. Does your culture recognize and embrace shared values, attitudes, standards, and beliefs that characterize the goals of your organization? Do your employees reflect those attitudes and provide the best impression to your customers? Lack of culture can severely affect your customer relationships. If your employees are unhappy, they will project this on to the customer. Culture is the heartbeat of an organization.

Improvements can't be made until the current atmosphere is assessed. Your culture either supports your organization's success, or it doesn't. Where to start? Look around – become an observer of your environment. How do your employees engage with each other? With management? With customers? How are conflicts resolved? What does the physical space look like – what's posted on the walls, in cubicles, in offices? What does your attrition look like? Is there often tension in the air?

It's also wise to solicit feedback from your staff on what works and what doesn't. What are the positives, and what could be improved upon? Consistent round tables between a staff and leadership team tend to have a positive impact, and gives employees the satisfaction of their voices being heard. A culture built by the staff and leadership team will have a greater success rate than one built from the top down.

Though it can seem complex and overwhelming, developing a foundation for culture can be as simple as establishing a clear and consistent vision of how you would like everyone, employees and customers alike, to view your company.

Once you have a clear understanding of the current culture and can set targets for improvement, the work can begin. Start by engaging your staff and leadership team to record the core values of the company and how they will be weaved into the life of every team. Once the core values are in place, strategies and tactics for execution can be developed. The following drivers are keys to creating a successful culture:

1. Leadership. Your leadership team sets the tone. Senior leaders must be willing to engage themselves with all levels of staff. There must be a level of consistency and unity put forth by the leadership team that instills confidence, trust, and enthusiasm within the organization. Fractures within your leadership will be exposed. Consistency in corporate messaging and direction plays a crucial role. All communications issued should be consistent in tone and messaging, from internal emails to department meetings to town hall sessions and internal newsletters. Inconsistency of messaging generates confusion, fear, and mistrust in employees, which creates roadblocks to successful performance. These tactics are especially critical when changes are made. Trust is key here! An environment of trust is non-negotiable in creating a positive culture.

2. Transparency in communication. Sharing information – the good, bad, and the ugly – fosters trust among employees and leads to better business decisions. This includes openness in meetings regarding growth, financial performance, hiring structure, and immediate and future priorities. Solicit feedback, not only internally, but externally, and share it with others so that everyone can understand the successes and opportunities for improvement. Transparency also extends to customer relationships. Be honest and open with current and potential clients about your service capabilities, pricing, delivery estimates, and timing.

3. Hiring. How you hire employees, from C-Level to individual performers, plays a critical role in your company and culture. Who are you targeting and why? What's more important: leadership qualities or experience? If your focus is solely on experienced professionals, you may have issues trusting the company's ability to train their staff. Are you focused on what the immediate needs are, or long-term vision? What employees will best fill those needs? Be open and candid with potential candidates about your expectations: this gives you something to point back to in future conversations. Avoid tunnel vision regarding the potential growth potential of a candidate. People are the heart of the business! Make sure your hiring strategies and decisions align with the culture you desire.

4. Employee engagement and value. "The way your employees feel is the way your customers will feel."* Employees from the top down must be engaged and must feel valued. Regular performance awards, incentive programs, and recognition programs are encouraged to drive employee satisfaction and motivation. However, be

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Dave Yohe

Cut Rate Processing – When a Great Deal is not the Steal you Thought it Was

Selecting the right partner to process payments is key for any organization taking payments directly from consumers. While it might be tempting to choose the provider offering the lowest cost, it won't guarantee getting the best value for your money. The short-term gains from saving a little money can risk longer term business revenue and future clients.

Certifications and compliance – If they're not sharing, they're not caring

When it comes to payments, ensuring that data is secure and that there is a minimal risk of breaches is key. Checking the ratings and certifications of potential partners demonstrates their ability to keep data secure. If there's no sign of a rating or certification it's highly likely the provider you are looking at doesn't have them, or at best, don't have a very good standard. The standards you want to check for are PCI certification, SSAE, HIPPA and BBB rating.

Compliance requirements are becoming more demanding year by year with the influence of the CFPB. Requirements across industries aren't always the same, so partnering with a payment processor with a chief compliance officer overseeing a compliance and risk team can help put your mind at rest with the knowledge that they are committed to remaining compliant no matter what industry you operate in.

What to ask

- Does the processor offer its clients compliant merchant services and payment technology to help them navigate regulatory change?
- Do they offer complimentary training and ongoing education to ensure your company is getting the most value from their service or products?
- How has the partner dealt with the increasingly demanding compliance requirements? Can the processor's technology provide the full level of reporting legally required?
- Does the processor have experience and a vested interest in compliance challenges in your industry?

Reliability – if they go down, so do you

Paying for things doesn't tend to be something people enjoy, and it becomes even more frustrating if they attempt to make a payment and they can't. A reliable service ensures your customers can make payments – remember if the system is down, there's no payments coming your way. If a partner has an in-house gateway or relationships with multiple payment gateways it gives them the control over system uptime and they aren't reliant on a single third party when issues occur and things need fixing.

Some banks have a better reputation than others. Knowing which banks the partner does and doesn't have relationships with can give you a better understanding of how important and reliable their banking network is likely to be. A processor with a wide banking network means if one bank goes down you won't be left unbanked.

What to ask

- Does your payment partner have multiple options when it comes to payment technology to ensure your stability – and propose alternatives?
- How many sponsor banks does the partner use?

Fees – additional fees for additional services

You've signed a contract and everything appears to be going great, then the first month's bill arrives and is the cost is greater than anticipated. Having a full break down of what services are included in the cost and any restrictions they impose on minimums can stop you getting hit somewhere down the line. It also allows you to work out if the rate is still good value once all the fees are added in.

What to ask

- What exactly do the fees cover? (authorization fees, gateway fees, PCI compliance fees, return/refund fees, monthly minimums)
- Can the partner tailor your fees so the coverage meets the needs of your organization?

Technology – change won't stop here

Having a full suite of payment offerings may not be something your business has a current need for, however businesses grow and evolve over time. Having a payment partner with the capabilities to meet your changing needs can save you a lot of time and hassle in the long run if you later decide to integrate additional payment options for your customers, such as mobile payments or virtual negotiation. It's not just business needs that change. Customer preferences are changing as technology develops and consumers – especially millennials – become even more attached to their electronic and smart devices. Ensuring that your partner is invested in new technology is key for you to keep up with new trends. Continuous industry research can help payment partners benchmark trends, pain points and operations giving them valuable insights into payment preferences across different industries.

What to ask

- How is the partner investing in future technology? As your business grows and develops, do they have the capabilities to meet your – and your customers' – changing needs?
- Can the technology help manage your business? For example, developing reports that can answer KPI queries and customer payment history
- What have they done to actively push for positive change of industry oversight?

Safeguard your payments

A payment technology partner that is invested in your needs will help improve current client relationships while preparing you to accept new business. Great value comes when your payment partner is more than just an ISO with little control over what's behind your business. Full service payment partners go above and beyond to ensure you get the processing, compliance, reliability and technology you need for success.

Dave Yohe is VP of Marketing at BillingTree.

Attorneys Tom Hudson, Michael Benoit, Ralph Rohner and Hudson Cook Team

Update Award Winning Book – CARLAW® F&I Desk Book

HANOVER, MD – CounselorLibrary.com, LLC, the publisher of automobile financing and leasing legal compliance services, has announced that it has updated its popular CARLAW F&I Legal Desk Book. Winner of the Axiom Business Book Award, the book gives readers 363 things to know about auto dealer finance laws and regulations.

CARLAW F&I Legal Desk Book (7th edition) – The Answer Book for Finance and Insurance Professionals, presents a law-by-law, regulation-by-regulation guide through the legal maze that dealers face every day. Authored by Thomas B. Hudson, Michael A. Benoit, Ralph J. Rohner and the attorneys at Hudson Cook, LLP, this new edition reflects the latest updates to the federal laws and regulations affecting F&I practices. Formatted in a straightforward "Q and A" design, CARLAW® F&I Legal Desk Book (7th edition) – The Answer Book for Finance and Insurance Professionals addresses many of the everyday compliance issues dealers face and includes links to the actual laws and regulations discussed in each chapter.

The 390 page "CARLAW F&I Legal Desk Book (7th edition)" is designated as the Official Text Book for the Association of Finance and Insurance Professionals' Certified F&I Professional Program, and is available for $49.95 (plus shipping and handling) at www.counselorlibrary.com/public/products-book-fi-legal-deskbook.cfm.

RouteOne and Meridianlink Ease the eContracting Implementation Process for Finance Sources

RouteOne has announced the addition of MeridianLink to their eContracting certified loan origination systems (LOS). Finance sources utilizing MeridianLink's LoansPQ LOS will now benefit from a streamlined eContracting implementation process.

MeridianLink's RouteOne eContracting certification removes the complexity of technical implementation for their LoansPQ customers. It speeds the process and enables its customers with the opportunity to begin benefiting from the time and cost efficiencies eContracting offers.

RouteOne is the industry leader in eContracting, booking more than 7.5 million eContracts to date. Currently, RouteOne has over 6,000 active eContracting dealers and 36 finance sources that have implemented eContracting.

"We both have a shared vision to solve problems for our customers with streamlined, user-friendly solutions," stated Justin Oesterle, RouteOne's chief executive officer, "the demand for eContracting is there, and we strive to make it as easy as possible for anyone who chooses to participate."

"MeridianLink works tirelessly to deliver the Marquee borrowing experience for Consumers, Dealers, and Lenders, our support of RouteOne's eContracting solution is another tangible example of that commitment" stated Edward Guerin, MeridianLink's VP of Business Development.

Finance sources interested in eContracting should contact a RouteOne finance source account manager at 866.768.8301 or www.routeone.com/salesteam.

Nick Ockwell joins White Clarke Group as EVP Operations

Former Ally Financial Services, Exeter Finance Corp. CIO joins the growing, global loan originations and servicing platform leader

Atlanta – July 19, 2017: – White Clarke Group, the leading, global provider of loan origination and servicing software solutions, has announced that Nick Ockwell has joined the group as executive vice president of Operations for the Americas.

The strategic addition of Ockwell to the leadership team is another move confirming White Clarke Group's commitment and increased focus on serving their clients and partners in North America. Ockwell has a long track record of successful technology

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Collections, *Brosnan/Garcia,* *continued from P-30*

mindful of creating a culture that is overly competitive and pits employees against each other. Teamwork and overall success is the goal. Your incentive plan will drive behaviors and should align with the culture you are building. While recognition, awards, and bonuses are exciting, there is nothing more valuable to a culture than the daily interaction between your leadership team and staff.

Prioritize the importance of culture and continue to nurture it. If designed well, not only will your employees perform better, but your customers – and your company – will reap the rewards.

*Quote: Sybil F. Stershic

Denis Brosnan, CEO, and Steve Garcia, director, Auto Claims, are both employed at DIMONT, a leading provider of insurance claims management and adjustment services for mortgage and auto lenders, servicers and investors in the United States. Since 2010, Dallas-based DIMONT has recovered over $2 billion in insurance claims proceeds for its clients. Founded in 1996, DIMONT assists loan servicers and investors mitigate losses on collateral through a suite of value added technology-enabled services, including flood insurance valuations, borrower insurance claims management, and FHA/GSE/MI/VA/USDA claims processing.

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Member News, *continued from P-32*

and operations leadership in financial services with companies including Ally Financial Services–Latin America and Exeter Finance Corp. Both lenders are well known for their innovative specialty lending and use of best-in-class solutions.

The announcement comes less than a year after Five Arrows Principal Investments, the corporate private equity business of Rothschild & Co, made a significant equity investment in the group with the intent to scale the business globally.

Brendan Gleeson, Group CEO, said of the appointment, "Our reputation for providing the highest standards of delivery and ongoing support to our clients is one we are committed to uphold. During this time of expansion, our operations and technology must be at optimal performance. Nick has proven his talent for preparing and scaling operations, and we are lucky to have him on the team for our next phase of growth."

Ockwell added, "As a former White Clarke Group client, I have watched the impressive evolution from their roots as innovators and consultants, to global leaders in developing platforms that deliver the highest degrees of loan origination, servicing and floorplan finance performance for the top financial services companies in the world. I'm excited and honored to play a part in the next chapter of the White Clarke Group history."

Chevrolet-Buick-GMC and Cadillac Protection Selects MaximTrak Digital F&I Solutions for its U.S. Dealers

WAYNE, PA, August 9, 2017 – MaximTrak Technologies, the international finance and insurance (F&I) platform provider, has announced that Chevrolet-Buick-GMC and Cadillac (CBGC) Protection, General Motors' Protection coverage group, has selected the MaximTrak Digital F&I Retailing Suite of solutions for its North American Dealers.

MaximTrak's interactive F&I platform, known as FLITE, helps dealers deliver seamless, efficient, and consistent aftermarket product presentations that save time, promote trust, and engage customers. The system can improve product transparency to help consumers understand how vehicle service contracts and similar investment protection products are a benefit to them.

CBGC Protection chose the MaximTrak platform earlier in the year for its ability to deliver a comprehensive and customizable F&I application that streamlines menu selling, electronic contracting, reporting, and compliance management. Onboarding and training on the application are now being rolled out to GM dealerships throughout the United States.

"Exceptional customer service at the dealership depends on two things: a smooth sales experience and a simplified transactional process. This includes ease of selecting and purchasing a protection plan," said Kenneth Mac, director, CBGC Protection. "Working with MaximTrak's digital F&I e-menu tool is a step in that direction. The technology will streamline the CBGC Protection products purchase with customers and provide dealerships with sales reports on the back end."

The MaximTrak digital suite of solutions consists of four primary product lines:

- **MenuTrak** – interactive digital menus, sales aids, videos, and compliance management
- **ETrak** – e-rating, electronic contracting tools for finance and service lane
- **Dashboards** – customizable reporting tool
- **FLITE** – interactive touch technology, smart survey, decisioning engine, risk profile, and intelligent product recommendations solution
- **ServiceTrak** – service drive menu selling tool for service writers, repair order upsales and vehicle protection options for the customers in the service lane.

As reported in MaximTrak's white paper, The Digital Difference, an investigation of nearly two million F&I dealer transactions using MaximTrak e-menu technology revealed the digital platform was responsible for per-vehicle retail lifts of $538 and 52 percent product penetration lifts.

"MaximTrak is in business to bring to auto retailers innovative F&I technology that increases aftermarket product penetration and reduces the customer's time in the dealership. We are excited to be working with CBGC Protection to deliver these advantages to its dealers," said Jim Maxim, Jr., president, MaximTrak Technologies and Chief Digital Officer, RouteOne.

Cyclone Software integrating myPayrazr Gateway, Portal and IVR from BillingTree

• *Cyclone Software joins growing number of Accounts Receivables Management (ARM) software providers to integrate myPayrazr solution suite*

• *Extends payment channels for Cyclone customers including an online portal and Interactive Voice Response (IVR)*

• *Includes access to BillingTree Merchant Services plus the Payrazr Marketplace for additional resources*

Phoenix, AZ – August 9, 2017 – BillingTree, the leading payment technology and services provider, has announced Account Receivables Management (ARM) specialist Cyclone Software will integrate the myPayrazr Solution Suite into its financial services offering. The integration allows Cyclone clients to utilize the myPayrazr Gateway, Portal and IVR to meet growing technology and compliance expectations.

Cyclone Software is an accomplished developer and provider of financial software including document management, checking and web reporting solutions for the ARM industry. Once completed, the myPayrazr integration will offer access to BillingTree Merchant Services, including Payment Card and ACH (e-Check) processing.

"We are excited about our new partnership with BillingTree and offering a wider range of payment options and channels to Cyclone clients and its customers," said Mick Phillips, president at Cyclone Software. "Our clients demand access to the best tools in the industry,

and this allows them to meet their evolving business needs for today and in the future."

"Consumers are requesting more convenient ways to pay. The results of our 2017 ARM Survey found that technology adoption and compliance continue to be key priorities within the ARM industry," said Greg Mallin, business development director at BillingTree. "We look forward to supporting Cyclone clients, enabling them to accept payments in more ways including how many consumers are comfortable paying today – online and over the phone

Five Findings from FactorTrust's Underbanked Index – Auto Version

Determining trends of credit-challenged consumers buying, financing vehicles provides non-prime auto financing companies new opportunities

ATLANTA—FactorTrust, The Alternative Credit Bureau, has released the most recent research findings in its series of underbanked indices—the Underbanked Index – Auto version, providing insights into the earning and living trends of credit-challenged consumers seeking a vehicle.

"This index, specific to the auto industry, analyzes the proprietary performance and behavioral data we have on non-prime consumers that auto financing companies can't get from the Big 3 bureaus," said FactorTrust CEO Greg Rable. "By pairing this data with traditional data, these companies can see the complete credit profile and creditworthiness of consumers."

Such insights assist auto financing companies to better know their customers and make better informed decisions on extending credit.

The Underbanked Index – Auto version identifies at least five key insights of credit-challenged consumers buying and financing a car, including:

Age and gender:

- Average age – applicant: 38
- Average age – borrower: 39
- Average loan amount trends up to age 46 ($2,260)
- Males and Females
  - 50/50 (applicants)
  - 55/45 (borrowers)

Income:

- Applicant: $2,926/month ($35,112 annualized)
- Borrowers: $3,000/month ($36,000 annualized)
- National average comparison: 50 percent of American workers make less than $30,000/year (source: Social Security Administration)

Employment:

- Nearly 60 percent are employed in two primary areas:
  - retail (41 percent)
  - quick serve restaurants (16 percent)
- The retail employment sector has historically been the largest employer in both the non-prime auto and consumer loan segments.

Education:

- 44 percent who graduated high school went on to earn a bachelor's degree or higher
- 55 percent hold only a high school diploma
- One percent has attended a vocational or technical school or program
- National average comparison: 40 percent of the U.S. population holds a high school diploma (source: 2016 U.S. Census Bureau)

Housing:

- Length of residence: 2 years
- National average comparison: The average American lives in one residence for 11-13 years (source: National Association of Home Builders)

Data is based on expert analysis from FactorTrust's proprietary database of 250M records related to underbanked consumers collected by the company each quarter. The findings of the Index assist financial institutions, associations, analysts and media interested in tracking, benchmarking or understanding the needs of underbanked consumers.

Learn more about the index by downloading the Underbanked Index – Auto version white paper and/or infographic.

PassTime VP Recognized by Subprime Auto Finance News

Kevin Carr recognized by *Subprime Auto Finance News* in its recent Movers & Shakers edition.

Each year, *Subprime Auto Finance News* highlights some of the best of the best professionals who lead the way in keeping finance companies and service providers successful.

On this year's list is Kevin Carr, PassTime's VP of financial services. Carr joined PassTime nearly two years ago to be vice president of financial services, leveraging his time with Credit Acceptance into "tremendous success" with the device company, thanks to intimate knowledge of finance companies.

"Throughout his time at PassTime, Kevin has had the opportunity to better understand the needs of his clients and the ability to provide solutions that meet those needs," his nomination said.

"Additionally, Kevin has strengthened his relationships and the trust of both prospects and customers by taking an approach of consulting and educating, a method PassTime has utilized for decades.

Carr has helped PassTime build a new company segment focused solely on working with finance companies, credit unions and banks. "Kevin is always willing to share his knowledge with his colleagues as well as learn from them, making the company, himself and his colleagues better able to serve its customers," the nomination said.

Glenn Munro Leads Client Growth at defi SOLUTIONS

Glenn Munro brings expertise in all facets of auto lending, including sales, marketing, operations and finance

GRAPEVINE, Texas — (BUSINESS WIRE) — defi SOLUTIONS, auto lending's preeminent lending technology platform, has

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announced the addition of team member Glenn Munro as vice president of Sales. Glenn was an early investor in the company. His foundational, insider knowledge of the company's history and future roadmap combined with his extensive experience in auto lending give him critical insight into the ability of defi SOLUTIONS to meet the needs of the lending community, today and well into the future.

Glenn joins the team with over 30 years' experience in all facets of auto lending, including sales, marketing, operations and finance. His was most recently the director of credit services for Porsche Financial Services. In addition, he has held leadership positions at companies such as The Hertz Corp., Ford Credit, and Volvo Financial Services. He was also a founding member of Sixth Gear Solutions, an independent automotive finance startup.

"Glenn is an integral member of the defi community and has been since the very beginning," said Stephanie Alsbrooks, founder and CEO of the company. "His knowledge of the company, the industry, and the needs of lenders make him the perfect person to have at the forefront of the long-term relationships we strive to create with our clients."

According to Stephanie, Glenn and defi share the belief that the most successful teams communicate and collaborate to produce the best results. The team Glenn heads up includes:

• **Jacque Marvin**, defi LOS sales director. Jacque comes to defi SOLUTIONS after 18 years in the automotive purchasing environment, with Ford Motor Company for eight years and with a Ford dealership in Arlington, Texas for 10 years, most recently the dealership's director of finance.

• **Mark Gleason**, defi SERVICING sales director. Mark is a veteran of the financial technology industry with considerable experience as both lender and vendor. His current focus is on loan management and servicing.

• **Randy Spradlin**, VP of sales for defi EXCHANGE. Before joining defi SOLUTIONS, Randy founded the first auto loan portfolio marketplace. He has worked for lenders such as Heritage Funding Group, Westlake Financial Services, and MarkOne Financial.

"I am looking forward to working with this dedicated, innovative team of professionals to continue to strengthen and grow the defi community of lenders," said Glenn Munro. "With these individuals and the amazing line-up of services on our lending technology platform – loan origination software; servicing, analytics, digital document handling, and direct application services; and an auto loan portfolio marketplace — there is no better time for me to have come on board."

defi SOLUTIONS provides the only leading edge, browser-based loan origination system (LOS) platform that is completely configurable by lenders. The defi loan software system allows lenders to manage the application lifecycle and receive analytics from a single, highly flexible platform. defi SOLUTIONS services are affordable, scalable and easily changed with market demands. For more information, go to defiSOLUTIONS.com, defiSERVICING.com, defiANALYTICS.com, defi SERVICING.com.

Pelican Auto Finance Selects Payix for Collections Tools, Including Mobile App

Agreement provides Pelican borrowers with simple, secure options for making loan payments

FORT WORTH, Texas & SAN DIEGO—(BUSINESS WIRE)— Pelican Auto Finance, LLC has selected Payix to provide its collections tools, including its new mobile collections application. The tools are designed to help Pelican better connect with its borrowers and improve its ability to collect loan payments.

The mobile app and other tools are white labeled and integrate with Pelican's loan management system in real time. They allow borrowers to make payments quickly, easily and securely – and without paying convenience fees often charged by other payment processors. The app is now available to Pelican borrowers under the lender's name in Google Play and the App Store.

"The Payix mobile app is for reaching more than millennials. It's exactly what the subprime automotive finance market needs to reach all of its borrowers," said Joel Kennedy, chief operating officer of Pelican Auto Finance. "It allows us to seamlessly integrate consumer payments and communications into our system, and it makes it incredibly easy for our customers to engage with us, too. I really think any lender without an app like this runs the risk of falling behind."

In addition to providing collections tools, Payix also offers payment processing resources and business intelligence solutionstypically available only to large-scale lenders. Now lenders of any size have access to a broad range of resources that are effective, affordable and easy-to-use.

"We're excited to have been selected by the great team at Pelican Auto Finance to provide our collections tools and payment processing resources," said Payix President Chris Chestnut. "As a new company, we really appreciate being able to work with a lender as experienced and knowledgeable as Pelican. Their help and support have been invaluable to us, and we're 100 percent committed to providing them with solutions that help their business and borrowers succeed."

defi CIO Aligns Technology with Client, Partner and Company Goals

Keven Sticher, defi chief information officer, will strengthen the defi core as the company expands and provides even greater value to lenders

GRAPEVINE, Texas — (BUSINESS WIRE) — defi SOLUTIONS, auto lending's leading-edge loan origination software and lending technology platform, has announced that Keven Sticher has joined the team as chief information officer. Keven comes to defi SOLUTIONS with more than 25 years' experience in technology, more than 15 years

of that in the finance industry. Over his career, Keven has built and led multiple, technology and security organizations from the startup stage to successful companies producing billions in revenue.

"We've wanted Keven on our team since day one," said Georgine Muntz, COO and strategy leader for defi SOLUTIONS. "His solid track record of deploying scalable technologies makes him a perfect fit for where defi is today and where we're going. His leadership will strengthen the defi core as we continue to expand and provide even greater value to our lenders."

Keven's extensive experience includes SVP of technology and security at Monogram Residential Trust, VP of IT at Exeter Finance Corp. and director of IT, Data Center Services at Capital One. He also currently serves on the board of Fox Three, a cyber security organization, and as a member of the Forbes Technology Council. In his new capacity at defi SOLUTIONS, Keven is responsible for the strategic readiness of defi and making certain the company's architecture, people, and processes align with its goals.

"I love this company. I believe in it and what the defi team has been accomplishing," said Keven. "And I look forward to making certain we successfully get to the next level."

Since the first of 2017, defi SOLUTIONS has expanded from a single loan origination system to a multi-service platform of services that also include loan management and servicing, analytics and reporting, digital loan document handling, an auto loan portfolio marketplace, and direct loan application services.

The foundation of Keven's business strategy is the conviction that organizational alignment is key to the overall success of a company. Building upon that foundation, Keven, working through and with defi executive leadership and the entire defi team, will coordinate the talent, expertise, willpower and technology necessary to continue to exceed client expectations and empower them and the lending industry.

FactorTrust Partners with eCash Software on Proprietary Data, Scores

Expanded collaboration enhances solutions for lending customers

ATLANTA—FactorTrust, The Alternative Credit Bureau, has announced an enhanced partnership with eCash Software, a leading software solutions company for small lending institutions, in delivering integrated proprietary data and scores to its lending customers.

FactorTrust's proprietary database of underbanked and near-prime consumers (those with credit scores of 700 or below) has more than 250 million transactional data records collected in real time. eCash previously implemented FactorTrust's Military Lending Act (MLA) solution in its verification processes, and is now fully integrating this real-time data across its entire platform. In addition, eCash is also incorporating FactorTrust's risk-scoring capabilities, further strengthening eCash customers' ability to more effectively evaluate the creditworthiness of their consumers.

"Lenders are continually faced with the challenge of how to effectively and intelligently manage risk in this market," said FactorTrust CEO Greg Rable. "By partnering with us, eCash benefits from the analysis of loan performance data we gather daily on millions of underbanked consumers. This not only provides their lender customers with instant lending decisions, but also gives consumers the credit they deserve."

"Our continued, enhanced partnership with FactorTrust means more value to our customers in finding and doing business with the right consumers," said eCash Software CEO Scott Putnam. "FactorTrust's expertise in understanding this market has proven extremely beneficial over the years and our partnership is certainly an asset we pass on to our existing and potential customers."

FactorTrust has long-provided alternative credit data, analytics and risk scoring information that lenders need to make informed decisions about consumers.

The announcement comes just before eCash Software Solutions' User Conference July 18-19, in New Orleans, of which FactorTrust is an executive sponsor.

For more information on FactorTrust, please visit ws.FactorTrust.com or contact 866.910.8497.

FactorTrust Releases Non-Prime Auto Financing Survey Results

Use of alternative data in non-prime auto financing industry becoming more mainstream in credit strategies

ATLANTA, July 7, 2017 — FactorTrust, The Alternative Credit Bureau, has released findings from an industry-wide survey on the use of alternative data in the non-prime auto financing industry, which indicate that alternative data is being more commonly used for underwriting purposes in this market.

The survey, sponsored by FactorTrust in conjunction with Connections Insights, investigated participants' goals, uses and sources associated with alternative data in their overall credit strategies.

Highlights of the findings include:

• 53 percent of respondents currently use alternative data in some capacity ("users")

• 19 percent of respondents are in the process of implementing or testing alternative data and 28 percent are exploring the use of alternative data ("explorers"), but have not taken the step of integrating it into business processes yet

• Both users and explorers ranked mitigation of losses as the most common goal (88 and 100 percent, respectively) in using alternative data

• Of the current users, 82 percent use alternative data in underwriting, for scorecard development specifically; the explorers plan to use it equally as an overlay to alternative data scores on existing scores and applicant verification.

• Tradeline data is the most often used or

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desired alternative data type among more than half of all respondents

"These findings make it evident that the use of alternative data is now more mainstream than it is 'alternative' with non-prime auto financing companies" said Connections Insights President Marguerite Watanabe, who performed the study.

"The results support our observations that all finance companies are either examining or integrating alternative data into their credit decisioning processes," said FactorTrust CEO Greg Rable. "The more performance data these companies have on potential customers—specifically, alternative credit data they can't get from the Big 3 bureaus—the more effective their lending practices become, making them more competitive."

FactorTrust has long-provided alternative credit data, analytics and risk scoring information that lenders need to make informed decisions about consumers. It is differentiated from the Big 3 bureaus by its more than 250 million unique transactional data points untapped by these traditional sources.

The survey of non-prime auto financing sources was conducted by phone during March-April of 2017.

For the full survey findings, visit www.FactorTrust.com or contact 866.910.8497.

Lobel Financial Selects FactorTrust as Alternative Credit Bureau for Auto Risk Decisioning

Proprietary, real-time alternative credit data to enable more complete analysis of its underwriting portfolio

ATLANTA—FactorTrust, The Alternative Credit Bureau, has announced the addition of Lobel Financial to its growing list of financial service companies implementing its alternative credit data into their credit decisioning process.

Lobel Financial, a consumer finance company specializing in purchasing and servicing automobile contracts from independent and franchised automobile dealers, is using FactorTrust data in a custom scorecard to augment other inhouse credit strategies.

The company selected FactorTrust to implement its alternative credit data to help them achieve more lift and better separation of good and poor credit performers.

"We looked closely at what FactorTrust could offer, and decided that its many attributes, delivered in real-time, would help us best reach our goal of establishing enhanced segmentation for the development of our new internal scorecard," said Lobel Financial President Harvey Lobel.

"Using alternative credit data is a proactive choice for industry leaders like Lobel Financial, who are faced with the challenge of effectively and intelligently managing risk on the underbanked market," said FactorTrust CEO Greg Rable. "The addition of FactorTrust's proprietary data opens up their options in determining the best credit performers for their business. It allows a complete picture of consumers, who are often considered credit invisible, but are really just credit inaccurate due to lack of data."

FactorTrust has long-provided alternative credit data, analytics and risk scoring information that lenders need to make informed decisions about consumers. It is differentiated from the Big 3 bureaus by its more than 250 million unique, behavioral and transactional data points untapped by these traditional sources.

RouteOne and Integrated Lending Technologies Streamline eContracting for Finance Sources

RouteOne has announced that Integrated Lending Technologies (ILT) is now an eContracting certified loan origination system (LOS) with RouteOne. Finance sources utilizing either of ILT's systems will now benefit from a streamlined eContracting implementation process.

Both DILLS, ILT's legacy system, and its recently released Allegro Lending Suite, are certified by RouteOne as loan origination systems that have fulfilled the requirements for the base eContracting functionality on the RouteOne system. Certification of an LOS helps ensure that the technical implementation, for finance source customers who choose eContracting, is a fast and easy process.

RouteOne's certification allows ILT to easily begin enabling eContracting functionality with RouteOne for its rapidly growing finance source base. Safe 1 Credit Union is one of the most recent finance sources to benefit from ILT's certification.

RouteOne is the industry leader in eContracting, booking more than 7.5 million eContracts to date. RouteOne has over 6,200 active eContracting dealers and 35+ finance sources in its rapidly growing eContracting customer base.

"We've recently seen significant growth in eContracting utilization on a YOY basis," stated Justin Oesterle, RouteOne's chief executive officer, "by ILT completing this certification, they are enabling their entire customer base to easily implement and benefit from eContracting. This rapidly growing eConracting solution is on its way to becoming the business standard for auto finance. "

"We're very pleased to be able to offer RouteOne's eContracting service to the technical solutions available to our lender clients", said Will McGregor, ILT's president and CEO, "eContracting will enable our clients to take full advantage of our own digital documentation system, DigiDocs, and to focus on their own processes while allowing Routeone to manage the dealer's side of electronic documentation."

Finance sources interested in eContracting should contact a RouteOne finance source account manager at 866.768.8301 or www.routeone.com/salesteam.

SEE THE COMPLETE PICTURE OF CONSUMER CREDIT DATA WITH FACTORTRUST

COMPLETE CREDIT DATA, IN REAL-TIME, IS WHAT LENDERS AND CONSUMERS ALIKE DESERVE. THE GOOD ENOUGH MENTALITY OF INCOMPLETE DATA FROM OTHERS IS NO LONGER GOOD-ENOUGH.

Complete means an applicant's entire financial history is included in a credit inquiry. It means all payments customers have made are accounted for and factored into their scores. Complete means you treat customers as more than a number. Creditworthiness is determined by the whole of their financial decisions—not just a snippet. Complete is pairing Big 3 bureau credit data with FactorTrust alternative credit data.

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