

Going Beyond GPS: A Look at Automated Collection Technology

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Executive Summary

The purpose of this white paper is to explain the differences in technology between Collections Technology and GPS technology. While these technologies are often used in conjunction with one another, there are some distinct differences which can impact your decision and your bottom line.

Introduction

If you are in the BPH or larger subprime automotive lending industry, you know about GPS. Using GPS to track vehicle assets has been widely used for more than a decade. The improvements in technology and moreover, the price reduction has made utilizing GPS on higher risk loans common place. The idea is that if a customer defaults on their loan, GPS can be used to locate the vehicle for a quicker repossession. Everyone know that the quicker a vehicle can be recovered, the fewer miles will be on it, the better condition it will be in, and the cheaper it will be to recondition for resale.

Automated Collection Technology (ACT) focuses on your collections. GPS focuses on your repossessions.

While the benefits of GPS for recovery are known, this technology, in many cases does little to actually *prevent* a customer from defaulting on their loan. Some lenders who have used GPS for years find themselves wanting more. They find themselves wanting an impact on their collection process, not

simply their recovery efforts.

Fortunately, there are technology solutions out there designed to do just that: improve a lender's collection process. This technology, often referred to as Automated Collection Technology or ACT, focuses on the enhancing the collection process and reducing default and late payments. This type of technology solution actually predates the use of GPS in this market, and has well over a decade of proven results. ACT is **proactive** and seeks to reduce the *need* for repossessions by improving customer payment performance and allowing lender's to focus their efforts on a target section of their accounts, instead of the whole.

So, choosing the right technology for your business comes down to whether your goal is to improve your collection process or to improve your repossession and recovery process, or both.

ACT is proactive and seeks to reduce the need for repossessions by improving customer payment performance

GPS for repossession

GPS (Global Positioning System) is a commonly known term throughout the world. In the Subprime Lending Industry, a GPS device is a device that is installed in a vehicle and is used to gain the location of a customer in the event it is necessary to repossess that vehicle. GPS devices are used through a software program (typically a provider's website) that retrieves the latitude and longitude of the device's current location and then displays that location on a map. GPS devices today are small, compact, and easy to install.

Some GPS devices may include methods for audible reminder sounds and starter disable functionality which allows for enabling and disabling a vehicle remotely. Using a GPS device with starter-interrupt functionality may make repossessing a vehicle easier, but remains a reactive tool.

Technology for Collections

In addition to GPS, another technology solution that is available in the industry is often referred to as collection technology or Automated Collection Technology (ACT). With this option, the focus is on the lender's collection process, not necessarily the repossession and recovery process. The goal of these systems is to keep the customer making their payments throughout the life of the loan, thereby decreasing the lender's delinquency rates and making it easier to identify troubled accounts. By improving the collection process, the lender can benefit from improved cash flow, lower overhead, and widen its lending criteria.

Specially, these devices work proactively, before an account becomes troubled. Devices typically work in conjunction with the customer's payment schedule, programming the device each time a payment is made. If a payment is missed, the device will **automatically** send warnings to the customer, reminding them their payment is due. If the payment is still not made, the device can disable the starter, preventing the vehicle from operating until a payment is made. Users of this technology tout the benefits of having everything done automatically. The device automatically reminds the customer of payments due and automatically disables the vehicle if need be. There are no additional steps for the lender to take to determine which accounts have become delinquent when using this type of technology.

The device will automatically send warnings to the customer, reminding them their payment is due.

Furthermore, many Automated Collection Technology devices also include GPS, which can be used to track a vehicle for repossession if all other options have been exhausted. However, with these products, GPS is not typically needed in many instances.

Choosing the Technology for you

While GPS and Automated Collection Technology may seem similar, and some device providers imply that all systems are the same, the distinct differences factor in to which technology works best for your business model.

Ask yourself: Do I want to enhance my collection process or do I want faster repossessions?

If your answer is enhancing your collection process and increasing your payments, you likely want an Automated Collection Technology device. This device will allow you to enhance your collection process and decrease your delinquency rates.

If all you are interested in is getting your vehicles back quicker, then a standard GPS device is probably all you need.

How do Automated Collection Technology devices work?

Primarily, Automated Collection Technology or ACT devices enhance your collections in two primary ways.

ACT changes the communication between you and your customer.

Lenders are all too familiar with the typical communication (or lack thereof) with consumers in the subprime space. When a payment due date approaches, collectors need to analyze the portfolio and see who has paid and who has not, and then begin making phone calls. These are often met with disconnected numbers, cannot be reached, or even moved to a new address. Significant resources are spent collecting money for the lender. With ACT, the communication path is reversed. The consumer knows they must make their payment or they will not be able to drive their vehicle. Because of this, the consumer calls you to make their payment, not the other way around. Instead of hundreds of outbound collection calls, lenders can stay on the phone, taking payments. The shift in communication makes collections easier and less confrontational.

With ACT the consumer calls YOU, not the other way around.

ACT allows your collectors to handle more accounts

In a scenario without ACT, as noted above, collectors spend much of their time making phone calls to consumers, attempting to get them to pay. With ACT, collectors can quickly identify which accounts need attention and which do not, allowing them to be more efficient in their efforts and take on more accounts.

Collectors can quickly identify which accounts need attention and which do not.

Let's look at a theoretical example. You are a lender with 100 accounts. On average, you have 30 to 35 of those accounts which are delinquent at a given time. Depending on your situation, you may or may not have a

good idea of which 30 customers out of your 100 will be missing their payment. So, you employ collectors to call the majority of your accounts to get your payments in.

With an ACT solution, you can quickly identify which of your 100 accounts may be a problem. By looking at which accounts have not called in to make their payment and have entered into their warning period, you know who to contact. Now, your collectors can focus on the 10 or fewer accounts that haven't paid, instead of the entire portfolio.

WIN WIN

Using Automated Collection Technology, ACT, is not only a benefit for the lender, but also for the consumer as well. **Using ACT is a Win Win.** While many of the lender benefits have been discussed, including improving customer communication, more efficient collectors, stronger cash flow, and fewer delinquencies, the consumer can benefit as well.

Potential benefits to the consumer of using ACT include improved credit scores, qualifying for higher loan amounts, getting approved for a higher valued vehicle and even the potential for a lower down payment.

Helping the Consumer:

- Improved Credit Scores
- Qualifying for Loans
- Lower Down Payments

- **Improved credit scores:** a customer who makes their payments on time and regularly with the assistance of the ACT system is building positive payment history which can lead to improved credit scores if the financial institution holding their loan reports to the credit bureaus.
- **Qualifying for loans:** Because the lender's risk is lowered, they can often expand their credit granting criteria. For the consumer on the bubble, this can be the difference between getting approved for a loan and

getting turned down. To a customer needing transportation, this can have a significant positive impact on their life. Additionally, the expanded credit granting criteria of the lender can qualify consumers for a higher dollar amount on the loan enabling them to purchase a higher valued vehicle.

- **Lower down payment:** a lender who is concerned about the risk of a potential customer may require a larger down payment to help with a quicker ROI. With ACT, because the overall risk is lowered to the lender, they may be able to offer the consumer a lower down payment option, because they are less concerned about the consumer becoming delinquent.

Does ACT really work?

A company selling a GPS or Automated Collection Technology system is quick to tell you the great things their products do, but do they actually work? An independent study conducted by the National Alliance of Buy Here-Pay Here Dealers (NABD) recently concluded a three part series which evaluated these devices and their actual effect on the industry. Citing from the third survey in the study, the following are some highlights worth noting:

Survey responses indicate that lenders using disabling devices found they did one or more of the following: **Reduced collection costs, Reduced delinquencies, Altered customer behavior, Reduced defaults**, and 84% indicated that these devices achieved ALL of these benefits.

- Lenders Using device experienced: customers call us (the lender), able to pay closer attention to customer repayment patterns, customer has regular interaction with us (the lender), allows greater flexibility in credit granting decisions.
- Reducing Risk:
Addressing the aspect of risk, the survey posed the question of whether the devices reduced the risk of customer default. An overwhelming **majority of 81% of responders** to the survey indicated that they believe the use of **devices lowers the overall risk of customer default.**
- Better Collections:
 - The survey found that **91% of responders agree that collectors can handle more** when using the devices than without.
 - 91% believe the use of devices has reduced their overall cost of collections.

Survey Results: 84% indicated that using devices:

- Reduced Collection Costs
- Reduced Delinquencies
- Altered Customer Behavior
- Reduced Defaults

- Consumer Benefits:
 - 78% believe the use of devices allows greater flexibility in credit granting criteria
 - Nearly 70% believe the use of devices allowed them to sell higher value vehicles with less risk
 - Over two-thirds indicated that devices allow them to finance vehicles with smaller or deferred down payments

Conclusion

GPS tracking technology is a well-known method to manage assets in the subprime lending market. This technology assists in facilitating quicker and easier repossessions and recoveries of delinquent accounts. While this proven technology works well for repossessions, it is a **reactive** method which does little to help with collections. Other technology options, such as Automated Collection Technology or ACT are **proactive** and focus on improving the lenders collection process by reminding customers to pay. This technology helps keep customers making regular payments, and improves communication between lender and consumer. Using ACT can be a WIN WIN for both the lender who is protecting its assets and seeing improvements in its collection process as well as for the consumer who may be approved for a higher value vehicle and building stronger credit history. By understanding the differences between GPS technology alone and GPS combined with Automated Collection Technology, a lender in the subprime automotive space can make an informed decision about which technology is the right solution for their business model and needs.

For more information about Automated Collection Technology, please visit passtimeusa.com or call toll-free at 800-828-1564.