The Transformation of Auto Finance: Balancing Growth and Risk

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“We cannot solve our problems with the same thinking we used when we created them…”

- Albert Einstein
• Competition is back in overall auto industry as well as in auto lending
• Sub-prime lending is returning at an accelerated pace
• New competitors are surfacing
• Technology has evolved
Balancing Growth and Risk: Still Teetering

- Thrive with new opportunities
- Changing risks
- Lessons learned
  - The “5 C’s” of lending must be “rebalanced”
  - Best practices must be retooled and refined
  - Embrace next-generation growth and risk tools
  - Credit report updating
Balancing Growth and Risk: Opportunity

US Auto Sales Summary
Seasonally adjusted annual rate of U.S. auto and light truck sales.

Updated: Mar 05 2012, 10AM View Release
Next Release: April 05 2012, 10AM
Seasonally Adjusted: Yes
Category: Industrial Production
Source: Bureau of Economic Analysis
Country: United States

Period: Jan 2012
Frequency: Monthly
Value Previously: 13.50M
Change From Previous: 4.70%
Value One Year Ago: 12.64M
Change From Year Ago: 11.76%
Balancing Growth and Risk: Dealers Stabilize
Balancing Growth and Risk: Trends

“An analysis of about 4 million consumers who had at least one open auto loan, bank card and mortgage in 2011 found that about 39% of consumers were delinquent on their mortgage while current on their auto loan and credit card payments.” – USA Today, March 2012
American car buyers are becoming bigger credit risks these days, and that has two significant implications — one for vehicle purchasers, another for dealers. The credit-worthiness of vehicle buyers dropped significantly during the first two months of 2012, down to an average FICO score of 725 from a peak of 737 at the end of 2009…” – Forbes, April 2012
“Between 2000 and 2050, census data suggest, the U.S. 15-to-64 age group is expected to grow 42 percent…” – Smithsonian.com
Balancing Growth and Risk: New Growth Channels

Gen X, Gen Y, Gen Z and beyond

Mobile lending as a growth channel – “credit anywhere”

Paper-free processing promotes growth via a simplified buying experience
Balancing Growth and Risk: New Tools Address Risk

- Analytics adoption will continue to grow
- Collateral value assessment becomes king
- Configurable rules-based origination provides risk management agility and compliance
- Scoring as a tool, not a crutch
Balancing Growth and Risk: Best Practice Realignment

- The convergence of competition, risk management, and compliance challenge all automotive lenders in 2012 and beyond

- Agility and nimble best practices are the new normal
Balancing Growth and Risk: Best Practice Realignment

Best Practice realignment key elements:

- Embrace change
- Leverage new technologies that reflect ROI, efficiencies and profitability
- Effectively monitor and adapt to shifts in collateral values
- Regularly access and adjust credit policies based on portfolio performance
- Adapt changes in workflow and services based on efficiencies and new technology
- Manage risk based on an enterprise view of the lending operation, not a single aspect or factor
- Apply compliance resources, practices and tools within the fabric your operation
- Simplify wherever and whenever possible
Balancing Growth and Risk: Takeaways

- Embrace new best practices
- Don’t recycle obsolete practices
- Be agile
- Simplify and streamline wherever possible
- Adopt new growth and risk management technology
- Dedicate attention and resources to compliance
- Don’t underestimate the customer service impact to profitability
Connect With Us

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