WHITE PAPER

Collateral Management Systems:

The Benefits of Deploying for Vehicle Finance.

The difference between 680 and 700 is 20…

However, in the world of vehicle finance, those numbers have a deeper and greater significance…

Those numbers help determine whether a borrower is classified as prime or subprime. Although 60 percent of Americans fall into the prime category, can you simply ignore the remaining 40 percent?

With the demand for sub-prime loans increasing, a growing number of lenders are turning to Collateral Management Systems (CMS) that combine Global Positioning System (GPS), Mobile Resource Management (MRM) and Software-as-a-service (SaaS) technology to help them manage their portfolio risk. MRM, SaaS, and GPS technology have revolutionized how lenders evaluate their overall portfolio risk, increase returns on borrowed capital and improve business intelligence with modern CMS.

If you're an automotive lender, adopting CMS into your loan generation process can help you expand your loan portfolio to include those with FICO scores that fall below the 700 mark.

Let's face it … we love technology that makes our lives easier. Just like electronic boarding passes, smart utility meters and smart card systems installed in nearly every office building in the country, new SaaS and MRM technologies have increased operational efficiencies, maintained privacy and enhanced security for the lending community.

Since April 2009, the collections staff at People's Credit Co. in Portland, Ore. have been experiencing the benefits of CMS.

Michael Kinnear, partner at People's Credit, said that prior to installing

CMS, their collections department's biggest challenge was reaching the customer. "It was a paramount challenge for our collectors to make contact with a delinquent customer to collect their loan payment. Those identifed as 'hard to collect' were the hardest to reach."

CMS changed all of that for them.

Change the behavior

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

A May 2011 survey conducted by the National Alliance of Buy Here Pay Here Dealers (NABD) showed that CMS is quickly becoming a standard operating procedure in the industry.

- 46 percent used a disabler product with payment reminder
- 44 percent used a GPS tracking product
- 32 percent used GPS with disable (without reminder)
- 36 percent used deal GPS with payment reminder devices

The survey also revealed that the greatest benefit of using CMS was the ability to change borrower behavior.

"If you estimate that 30-40% of portfolio is delinquent, with payment reminders, the majority of our customers are going to call in to make some arrangements and do something about their payment because they know that we are watching," Kinnear said.

CMS users reported that borrowers were interacting more frequently with them due to the payment reminders. "We went from receiving 400-500 inbound calls per day to 500-700 inbound calls per day," he said.

"The most profound thing I discovered is that it's all about the behavior… CMS is a behavior management tool." Kinnear said. "I would never want to do this level of financing without CMS. It's the best collector we have, it never forgets an account and it always reminds the customer on time about a past due payment."

It wasn't always so easy

Prior to technology advancements that created today's CMS, most lenders worked only with predictive models and were based solely on historical financial data to estimate borrower behavior. Financing was

What is CMS?

Today's Collateral Management Systems (CMS) utilize GPS devices in the vehicle that transmit location and data via a cellular network to secure servers which can be accessed via encrypted websites, allowing you to monitor and control your portfolio. CMS data can also be directly integrated into your existing portfolio management system.

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extended to a borrower based on a retrospective statistical model of payment patterns.

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

Some lenders tried early collateral management tools, but they were crude, limited in scope and sometimes problematic to implement. For example, early systems could not send quick payment reminders. Instead, they generated a code that had to be sent to the borrower on a monthly basis. If the code was not entered into the system by the borrower in a timely manner, then the car would shut down automatically.

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

A new generation of CMS

Today's new-generation Collateral Management Systems reduce time and eliminate road blocks for a collector by incorporating GPS and cellular technology. They get their information in real time, and can find the location and movement of an asset 24/7.

The system also can be used to remind a customer that their payment is past due via a warning signal located in the vehicle or with automated text alerts. These alerts prompt the customer to make a payment, or contact the lender directly. "I find the payment reminders to be the most important feature to us," said Kinnear. "Overall, payment reminders reduced our delinquency rates approximately 15% on our portfolio."

That's why a growing number of finance companies, credit unions, and sub-prime lenders are using collateral-management systems to increase loan originations and bulk purchases of commercial loans while minimizing the risk and maximizing the profit of their portfolios.

Elements of a Professional Collateral-Management System

Today, the best collateral management system is one that is turnkey in implementation and robust in support. A good CMS will help bridge the communication gap among the lender, dealer, and borrower–

allowing the dealer and lender to focus on their core business.

A good CMS provider will intercede on all matters related to the technology and installation process.

The most effective elements of CMS for Borrowers include:

- Automated payment reminder, managed customer communication that may come in the form of a discrete audio signal upon starting the car or as a text message or email.
- Potential for improved credit with the opportunity to get the car they need and restore their credit with regular, on-time payment.
- Potential for better loan terms as more lenders compete in the marketplace.
- Lower insurance premiums because the vehicle is equipped with GPS technology, which is similar to a theft recovery device.

The most effective elements of CMS for Lenders include:

- A secure, dedicated, web-based portal that enables collectors to automatically track and communicate with borrowers quickly, enabling them to manage a much larger loan portfolio.
- Immediate and automatic activation at the dealer level.
- Training of lender staff on CMS and its software interface.
- Marketing and field-training support to the lender's field-sales team and dealer base.
- Two-way, Application Protocol Interface (API) that allows lenders to integrate CMS data directly into their own portfolio-management systems.
- Option to require dealers to use a certified third-party installer of hardware to assure quality and consistency.
- 24/7 support for any issues that arise.

The most effective elements of CMS for Dealers include:

- Overnight delivery of live/pre-activated GPS devices to immediately secure the vehicle.
- Turnkey implementation of CMS, which increases employee productivity.
- Training of dealer staff on CMS and hardware installation.
- Optional installation of CMS hardware on-site at the dealership or at the borrower's location for convenience.
- 24/7 support for any issues that arise.

Benefits of a Professional Collateral Management System

Maximize Resources

Kinnear said that their collectors were able to double the number of loans they are managing. Since a professional collateral management

Additionally, CMS has allowed us to invest more money in our customers by offering an increase in the dollar amount. For example, rather than extending $4,000 to a contract purchase, with CMS, we can extend $5,000 to the same customer profile. CMS allows us to increase the advance because we feel that we will have a better handle on protecting the asset. Ultimately, if the collateral is in better condition and is more reliable, then the customer is more likely to pay.

system automates many tasks, lenders benefit from optimized employee productivity because each collector can manage more loans.

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

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

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

Decrease Loan Delinquencies

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

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

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

Maximize Collateral

The greatest risk in subprime lending is the complete loss of collateral – when the borrower defaults and the lender is unable to recover the vehicle. Sophisticated CMS technology has greatly reduced this problem.

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

Increase Overall Loan Portfolio

With technology that enables "safe" lending, companies can extend credit to borrowers with lower FICO scores, and still have a profitable loan portfolio. This technological advantage has allowed lenders to price their loans more competitively, thus gaining market share.

"We have a pretty large pool of subprime borrowers. CMS has allowed us to invest more money in our customers by offering an increase in the dollar amount. For example, rather than extending $4,000 to a contract purchase, with CMS, we can extend $5,000 to the same customer profile.

"CMS allows us to increase the advance because we feel that we will have a better handle on protecting the asset. Ultimately, if the collateral is in better condition and is more reliable, then the customer is more likely to pay." said Kinnear

Lender Best Practices: Ideas and Tips For Selecting a Collateral Management System

For years, lenders have been hesitant to use collateral management tools and were concerned that they might be too intrusive. If there is no CMS in place, the result is that fewer borrowers will be able to secure loans or they will end up paying an even higher interest rate because the lender will not be able to secure their collateral.

The key to success is to have rigorous privacy policies that are compliant with state and federal laws, and apply them consistently. A legitimate SaaS and MRM technology provider can help lenders do this.

Applying best practices gives lenders the opportunity to reap the full benefits of CMS. Failure to do so will reduce the lender's return on investment and keep his costs higher than competition.

Privacy

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

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

Disclosure

Transparency is a hot topic, and something consumers are demanding from the marketplace in all of their interactions. People may not mind if you track them, but they do mind if they don't know you are doing it.

The industry best practice is to fully disclose the elements of CMS and explain how and when each is activated. This process should remain in place as long as the loan is active.

"I would never want to do this level of financing without CMS. It's the best collector we have, it never forgets an account and it always reminds the customer on time about a past due payment."

Consistency
Consistent application of CMS technology must be compliant with state and federal laws, for all borrowers is a best practice that will help avoid legal problems. Lenders should establish clear and consistent policies for past-due actions and implement them across the board. A sophisticated CMS can actually help lenders monitor borrower behavior to ensure consistency.

Vendor Best Practices

Reliability
Lenders should seek a vendor that is both technically and financially sound. The vendor should have a proven track record of successfully supporting professional banking and finance clients, and the ability to scale services on a nation-wide basis to meet client needs. The vendor should use best practices, incorporating sound financial management and be knowledgeable of industry standards and guidelines.

Service and Support
CMS should increase efficiency for the lender, not create more work that needs to be managed. A best practice for a vendor in this industry is to manage all the technical and training aspects of the system, conduct vehicle inspections at the same time as the installation, leaving the lender to do what they do best. This includes not only training for both dealers and borrowers, but also 24/7 support, on demand, and same-day shipping for pre-activated devices.

Licensed and Certified
A best-practices vendor will have products that are licensed by the FCC, which require use of high-level encryption protocols in data transmission.

In addition, they should be involved in industry trade associations that help shape policy, and represent the interests of mobile operators and related companies. The vendor should be able to provide customers with real-time information on developments that could impact collateral-management systems.

Redundancy
Every sound technology solution requires robust redundancy. This includes not just backing up data, but running parallel systems at geographically dispersed, high-level, and secure facilities. It also means delivering data through redundant channels that are monitored 24/7/365 to ensure no disruption of service, even in a natural disaster. In short, the vendor should have redundant systems comparable to the most sophisticated financial institutions they serve.

Network Security
Lenders should insist on a secure site, designed and dedicated solely for their own use. This will ensure privacy and security of borrower information as well as protection of their overall loan portfolio. In addition, all over-the-air data should be fully encrypted to GSM standard-encryption protocols. Again, the system should be as secure as the banking industry.

Integrates with Lender Applications and Provides Customization
Lenders should get a system that integrates with their other applications, not one that requires them to adapt to it. The data delivery should be designed to custom specifications to match the lender's processes and work environment.

Has Strong Business Relationships with Data Carriers and SIM Providers
Leading vendors will have secured long-term carrier contracts that will protect lenders from escalating data rates, renewal costs or eroding coverage. The greater the number of active devices the company is managing, the higher the likelihood that they have these agreements in place. It is always best to ask.

Conclusion

Collateral management has come a long way thanks to generational leaps in data networks, robust hardware advancements, professional SaaS architecture, and installation and support. Choosing a reliable vendor who follows best practices is key.

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

With this recipe, lenders can reap the following benefits:

- Sell more loans
- Broaden the dealer market served with indirect lending
- Change borrower behavior
- Automate processes
- Reduce overhead and overall cost structure
- Offer better loans than the competition
- Maximize resources
- Collect more loan payments, and collect them on time
- Secure collateral with GPS tracking and anti-theft devices
- Improve performance on warehouse lines of credit

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To find out more about implementing a professional collateral-management system, or to request a free demo

Call 800-305-3904 or
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A LoanPlus representative will contact you within 24-48 hours.

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