SubPrime

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IRVINE, Calif. - Dumb question: Who wants to make more money? We all do, of course. But is opening your business to more credit-challenged consumers worth chasing more delinquencies and repos? Good question; and one that becomes problematic if you don't take the right steps to minimize your risk. But, can I reduce risk and make more money without spending more? Great question.

Traditionally, the industry's approach to managing risk involves manual processes that are tedious and time-consuming. Maintaining and following up on exhaustive consumer records of everything — phone numbers, addresses, employment — requires time and manpower you simply don't have. As a result, taking on the operational cost of expanding your subprime business could be a nonstarter. One look at the consumer contact and employment statistics for this market segment underscores the burden.

The information chase

According to the FactorTrust Underbanked Index: Consumer Stability report, a borrower who has changed his or her mobile phone number four or more times over a 90-day period has a 77 percent higher default risk than a borrower who has done so only twice. Additionally, a borrower who has had three or more ZIP codes over a 90-day period has a 63 percent higher default risk than a borrower with one ZIP code. Further, among the underbanked, 16 percent applied with a different employer within 30 days, 20 percent within 60 days, 23 percent within 120 days and 34 percent within one year.

Remember the Wayne Gretzky quote, “I skate to where the puck is going to be, not where it has been?” Keeping up with subprime consumers is like trying to predict where that puck will be, which is nearly impossible without the tools to help.

If cars could talk

There is an option for managing risk in the subprime market that supplements a dealer’s ability to vet these consumers: gathering vehicle intelligence. With advances in aftermarket telematics and driver analytics, the latest technology can provide customer insights far beyond the standard vehicle location data associated with early GPS systems.

When it launched onto the buy-here, pay-here scene more than 15 years ago, GPS made it much easier to find a vehicle for repo. Over the years, the technology has evolved to look at location data over time, with the ability to predict where a vehicle will likely be at any time of the day or night with incredible accuracy. For example, the technology can now identify a change of job or home address through deviations in driving patterns. Let’s face it, unless they’re the James Bond type, most people have a set daily routine bouncing back and forth between home and work. Modern GPS solutions can detect major life changes by analyzing location data in relation to time of day, day of week, and pattern frequency.

Similarly, these same algorithms can automate and expedite loan stipulations that typically require hours of calling to verify addresses and workplace information. It’s also useful in preparing agents for repossession, when needed, to better target the right place and time for recovery. Accurately predicting vehicle location under specific circumstances (such as during Monday night football) leads to easier, less costly and less risky recoveries.

Smart solutions combine vehicle intelligence with proactive alerts to further reduce operational costs. Cars that aren’t driving, aren’t paying, so automated alerts for “non-driving” scenarios, such as vehicles impounded to tow lots, abandoned vehicles, and battery disconnects save dealers thousands of dollars each year. The ability to set geo-fences — virtual boundaries around key locations like tow lots, state borders and ports of entry — can help you keep your finger on the pulse of your assets without any effort on your part.

As with any technology purchase, reliability should be one of the main evaluation criteria. Leading GPS providers have always-on platforms (ask about uptime and availability rates) and wide-reaching network support that keeps vehicles connected no matter where they roam. You should ask any provider you’re vetting about the quality and quantity of the data its devices track. It’s no longer enough to monitor vehicle location every 24 hours, as was the industry standard. You need near real-time visibility that can only come from telematics devices that report data at 5-minute intervals or less, giving you the confidence to act when action is warranted.

Finally, the unique value of modern telematics is its ability to drive increased payments. Gone are the days when “starter interrupt” was the only way to get the attention of a delinquent customer. With 85 percent of the U.S. population carrying smartphones, the key to customer engagement is mobile. If the GPS technology you’re considering (or currently using) doesn’t offer a mobile component that opens up a soft-touch but high visibility communication channel between you and your customer, keep shopping.

Ask and ye shall receive

To thrive and survive in this hyper-competitive business, dealers must look beyond their current constraints in servicing this segment. Advanced vehicle intelligence offers not only a safer path to do business with the subprime consumer, but also the operational efficiency necessary to improve the bottom line. If you’re thinking about GPS as a recovery tool, think again, and remember what your teacher said back in grade school: “there are no dumb questions” — except the ones you don’t ask your suppliers.

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