SUTHERLAND

HOW AUTO LENDERS CAN **NAVIGATE THE IMPENDING PERFECT STORM**

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Record sales in 2016 helped drive the growth rate in auto lending to around 10% year over year. For the first time, open balances have topped $1.2 trillion — but a few warning flashes have appeared on the horizon. While unemployment is down, wages are mostly stagnant and many workers have been involuntarily switched from full-time to part-time. Yet they still need cars that don't quit on them halfway to work.

Lenders have adjusted to these economic realities with longer-term loans, more subprime and nonprime loans and leases, and broader standards of credit worthiness. Interest rates are up, "acceptable" credit scores are trending down, and loans are easier to get than ever. However, auto payments now average $500-plus per month, and delinquency rates have nearly doubled since 2013. Throughout the industry, risk is rising, competition is increasing, and regulators are starting to turn their attention to this very hot market.

To top it all, the high demand for financing is putting pressure on lenders to process more loans, faster. This invites errors, slowdowns, and hasty or uninformed approvals driven by potentially outdated credit decision engines. This in turn raises the possibility of scrutiny from regulatory agencies responding to customer concerns regarding advertising and marketing practices, fair lending, rising default rates, and debt restructuring.

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HOW WILL LENDERS WEATHER THE STORM?

Currently the industry is highly fragmented, so we expect significant shifts toward consolidation, mergers, and acquisitions over the next 18-24 months. The remaining lenders will need to embrace new strategies to effectively manage credit risk, ensure compliance, and obtain the efficiency required to drive higher profitability. And here is where auto lenders can take active measures to ensure their companies are seaworthy.

Two highly effective keys to survival are:

- Integrating improved operations and technology across the corporation
- Automation of the lending process

Big changes often produce disappointing results because they were not fully embraced across the organization. This is especially true post-merger when two corporate cultures collide. Software patches and additional manpower are not usually the answer. The best and fastest results come from flexible, holistic solutions that integrate analytics and continuous improvement with front- and back-office practices across the company—and foster a whole new mindset in the

process. Incorporating enhancement measures into a company's very DNA takes planning, experience, and expertise gleaned from many engagements. Buy-in is important; enthusiastic buy-in is even better. A neutral third party with proven change management practices is often the best way to attain agreement on the most effective technologies and service structures. An experienced partner can also help lenders avoid disrupting day-to-day service activities while implementing new platforms, and do it faster. Their expertise with a wide range of technologies is invaluable in choosing and implementing the advanced analytics tools and other technologies required to mitigate risk, manage portfolios more effectively, and ensure compliance to ever-changing policy requirements. And their goal is not simply change, but change that the entire company is happy with.

AUTOMATION OF THE LENDING PROCESS

One of the storm clouds looming on the horizon comes from the high volumes in auto loan processing and the pressing need for secure, consistent, and error-free document management and transaction processing. Robotic Process Automation (RPA) is tailor-made for these issues. RPA helps loan paperwork flow faster by ensuring data is entered correctly and checked for accuracy from the start of the process. The lower error rates reduce the need for manual human intervention throughout the cycle. This not only frees staff to customer-facing and higher-value activities; it also drives cost savings that start at 15% and go up from there depending on the process.

The need for agile automated underwriting systems to keep up with the changing landscape in the auto loan industry is significant. With continued regulatory pressure, ever-changing rules, and necessary controls, managing portfolios more effectively is essential. This is exacerbated by a push to digitize finance and insurance products. Doing so requires reliable and state-of-the-art analytics to understand:

- How to segment and when to modify credit policy and make updates to decisioning rules (to manage risk).
- Ability to approve/decline and handle loan exceptions online, fulfill electronic contracts, adverse actions, disclosures, etc.

Automation supports all this with speedy, trustworthy processes for assessing and managing risk, obtaining informed approval, and ensuring data accuracy up front. As auto lenders broaden their markets, the need to manage risk and loan portfolios more effectively will only grow. Yes, the storm is coming, but proper preparation now will help lenders not only to survive it, but to thrive afterward.

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For more information on how we can help you transform your processes, visit us at www.sutherlandglobal.com, email us at sales@sutherlandglobal.com, or call 1-800-388-4557 ext. 6123.

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