Fueling Auto Lending with Alternative Credit Data

Auto Industry Overview

After nine consecutive years of annual sales increases, the auto market reached a plateau in 2017. During these years of increased sales, auto lenders sustained their growth while maintaining market share. Today, flattening sales, rising interest rates and higher vehicle costs are driving increased competition among lenders. Additionally, digital channels have made comparison shopping for auto loans much easier for consumers—when they walk in to the dealership they may already know what kinds of offers they qualify for.

As a result, we're hearing from auto lenders that they need to be more competitive with their loan offers and having the most up-to-date picture of consumers' creditworthiness can help improve look-to-book ratios and limit risk exposure. Given these factors, this is a great time for lenders to embrace alternative credit data.

Combining traditional data sources with alternative data sources enables enterprises to see a broader scope of consumer behavior, which helps them make more informed credit decisions and further separate risk. This combination of data delivers valuable insight when evaluating thin-file and no-hit consumers. ID Analytics' alternative credit score, Credit Optics® Full Spectrum Auto (COFS), routinely provides predictive scores for nearly 80% of these applicants—helping lenders find opportunities with consumers who may be overlooked or undervalued by traditional credit scores.

COFS Auto can also provide powerful insights into consumer risk throughout the entire credit spectrum, even in prime score bands. ID Analytics receives regular feedback from tier-one lenders on the performance of our score and the value COFS Auto adds within the prime segment for pricing, deal structures, and making competitive offers.

The following case study demonstrates how the application of alternative data within an auto lender's credit underwriting process can help identify more precise loan terms, relative to risk.

Case Study: Separation of Risk Across the Credit Spectrum

ID Analytics analyzed a group of prime auto loan applicants with traditional credit scores of 750+ to illustrate how a score that looks at both traditional and alternative data, can reveal a substantial difference in risk within a bureau score band (see Figure 1). In this case, there is a significant separation of risk among what are considered excellent credit applicants—with the riskiest 20% being more than nine times higher than the lowest risk consumers within the excellent score band.

To demonstrate how insights provided by alternative data reveal a more complete picture of consumer credit risk, ID Analytics compared two auto loan applicants who had the same traditional bureau score of 720 and received the same Annual Percentage Rate (APR) loan offer of 5.99% from the lender. From a traditional credit score standpoint, both applicants had similar profiles (see Figure 2). When evaluated using Credit Optics Full Spectrum Auto, the applicants fell into the lowest risk decile of 0.8% and the highest risk decile of 7.7% respectively, demonstrating the power of COFS Auto in separating risk among otherwise seemingly identical credit profiles.

Figure 1.

Alternative scores help provide additional insights into consumer risk even in prime credit score bands

Credit Optics Full Spectrum

Traditional Credit Scores

Score Type	Score Bands	Low Risk		Moderate Risk		High Risk	Bad Rates
Excellent	750+	0.15%	0.36%	0.58%	0.72%	1.38%	0.63%
Good	700-749	0.56%	1.36%	1.94%	2.86%	4.55%	2.23%
Fair	650-699	1.99%	3.60%	4.96%	6.36%	8.53%	5.03%
Poor	600-649	6.19%	9.46%	11.59%	14.43%	20.04%	12.20%
Bad	<600	16.19%	22.58%	26.44%	30.51%	39.70%	26.81%

Riskiest 20% is 9xs higher than the least risky within the most prime score band

Figure 2.

From a bureau standpoint, good credit applicants look similar regardless of risk decile			
		Lowest Risk Decile	Highest Risk Decile
Bureau Insights	Bureau Score	720	720
	Oldest Trade	266	131
	Newest Trade	1	1
	Total Trades	29	23
	Highest Rev. HL/HC	$5000	$5000
	APR Received	5.99	5.99
	LTV	106	110

Alternative data helps identify a significant difference in credit risk from what the bureau scores indicated. The applicant in the lowest risk decile had a COFS score of 790 (the top 10% of the lender's total applicants), whereas the applicant in the highest risk decile had a much lower score of 540 (the bottom 50% of the lender's total applicants). This discrepancy in scores occurred due to critical information being absent from the traditional credit bureau assessment—the higher risk applicant displayed poor performance on a telecommunications account, a quintessential example of alternative data, and ultimately resulted in a nearly $10,000 loss to the auto lender (see Figure 3).

Figure 3.

Alternative data sources help enterprises see a more complete picture of the modern consumer's behavior in order to predict loss			
		Lowest Risk Decile	Highest Risk Decile
Alt. Data Insights	COFS Score	790	540
	Oldest Trade in Telco Industry	>8 Years	>3 Years
	Days Since Missed Payment	NA	218
	Amount Past Due	$0	$116
Results	Auto Loan Status	Good	Loss: $9,731

Alternative credit scoring provided by COFS Auto gives lenders powerful additional insight, which helps lenders make more informed credit and pricing optimization decisions. In this scenario the applicants likely wouldn't have been given the same APR and the lender may have been able to protect against the loss incurred from the higher risk consumer.

As auto sales have leveled off, competition for customers has increased. Alternative data now serves as one of the primary vehicles to help lenders compete –– fueling profitable growth while managing risk through better insight.

Turn to Credit Optics Full Spectrum to gain the competitive advantage needed to make more informed, profitable auto lending decisions. Contact us today at sales@idanalytics.com, 858-312-6200, or visit www.idanalytics.com.

[1] Detroit Free Press, https://www.freep.com/story/money/cars/2017/05/02/seven-year-auto-sales-growth-cycle-nears-end/101210484/ (accessed March 1, 2018).