OPTIMIZE CAPITAL AND CASH FLOW

The Capital Is There – AI Automation Can Help You Treat It Right

Money goes where it's treated best.

That old saw has never been as true as it is today.

Automotive, tops in non-mortgage asset-backed securities, remains attractive and performs as a strong, stable place for capital investment treatment.

Since COVID-19 stimulus money has poured into the economy, bank deposits are up more than $2,000,000,000,000.

That's right. $2 trillion.

Expect that number to bloat again as more stimulus – and a lot of it – is expected shortly.

And it is available for hire.

In the waterfall of auto lending capitalization, securitization, subprime financing and Buy Here-Pay Here funding, the capital is there. With interest rates expected to stay low for the foreseeable future, ROI for auto financiers is expected to remain just as strong and stable.

But with varying levels of uncertainty due to COVID-19 and associated changes in income and employment, reporting restrictions and loan accommodations, the capital decisioning waterfall has required augmenting with broader data sources to fill in blind spots and uncover viable borrowers who are now difficult or impossible to score by traditional methods alone.

Adopting additional data and artificial intelligence platforms can get access to capital flowing more efficiently, swiftly getting it to the right places, where worthy consumers can get the credit they deserve.

Arrangers of credit who do so benefit by appropriately pricing and winning additional business with a speedy, automated process. They can achieve their expected portfolio growth and returns without increasing – or even mitigating – capital risk.

The more your business is aligned with broad data processes for optimum performance, the easier adjusting to changes and maintaining profitability will be.

CONSUMER CASH AVAILABILITY

For dealers, the key to leveraging COVID-19 stimulus is harnessing data to uncover those borrowers and gauging their available cash and ability to pay while properly aligning them with independent and BHPH lenders.

Recently, with a gap in the consistency of government support, auto performance has slipped a bit.

According to TransUnion:

- Automotive's month-over-month delinquency rate (30 or more days past due) increased for five consecutive months.
- Serious delinquencies (60-plus DPD) now exceed 2019 totals year-over-year.
- Overall COVID hardship percentage of accounts decreased for auto (by 29 basis points), mortgage (down 48 bps) and unsecured personal loans (down 24 bps), while bankcard's percentage increased (up 21 bps).
- The percentage of consumers in COVID hardship making consistent payments continues to decline.

It's expected that the negative payment trends will begin to reverse when a new relief package is approved (which had not happened at press time).

Helping also are recent reductions in auto-related expenses, paring down borrowers' cost of ownership.

While fuel prices are creeping up again, they are still very low relative to other expenses. Triangulate that with much less driving (down 41% at COVID crisis peak) and insurance rates down 4 percent on average, with many policies down by 10-15 percent due to reduced driving.

All in all, consumers have more monthly bucks to make their payments. Finding them, scoring their creditworthiness and pricing them with lending partners properly is the challenge of today's independent and BHPH dealers.

Consider recognizing the benefits of those capital changes on day-to-day dealer operations, where aligning AI/ML methods can model customer flows into optimized dealership cash flows.

Customer cash availability and finance changes have profound effects on multiple key lines of any dealer's profit and loss statement.

VARIABLE EXPENSES

Inventory floorplan inflation: It's an oversimplification to say rates are low. They are, and will remain so, but capital needs to turn over to recognize returns.

Dealers need to turn inventory quicker than the traditional 40-day rate. Propagating inventory choices that align with consumers' likelihood for lender approval and loan-to-value requirements moves metal.

Inventory cost: Inventories are down 17 percent from 2020. Used car wholesale prices are expected to reach as much as a 30 percent increase over last year.

That's because new cars are still dealing with supply chain issues, used car inventory remains tight and demand for used vehicles remains strong, as much of the pent-up demand from 2020 remains unsatisfied.

That obviously means a rise in the average inventory acquisition price.

Conversely, slower depreciation and higher residuals are risk mitigators if managed properly.

Average reconditioning expense: Always a moving variable expense in preparing inventory for sale. Reduced driving behaviors and overall lower maintenance schedules should help reduce overall reconditioning costs per unit.

MODEL DATA TO CUSTOMER KEY PERFORMANCE INDICATORS

Average down payment: As consumers have more to put down, capital risk will be mitigated, loan-to-value requirements are more easily met and collateral risk is reduced.

Annual percentage rate: For many dealers, this is the key to winning business. And for those who hold the paper, it is top line to portfolio yield.

Proper pricing is a core benefit to scoring with AI/ML strategies.

Average modal payment: Similarly, using AI/ML techniques provides early understanding about consumers' pay, housing and other expenditures, and allows you to set the best payment mode and payment date for on-time collection.

Collection rate: A KPI at the top of the list for securitization, CR certainly becomes more predictive, consistent and stronger with broader data and accounts receivable platform processes.

Account/principal charge-off: Charge-offs and recovery rates are also optimized by knowing more data and behavior of customers.

There will certainly be many more variables requiring AI/ML modeling down the road – business tax rates, compliance, inflation, etc.

The more your business is aligned with broad data processes for optimum performance, the easier adjusting to changes and maintaining profitability will be. ■

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