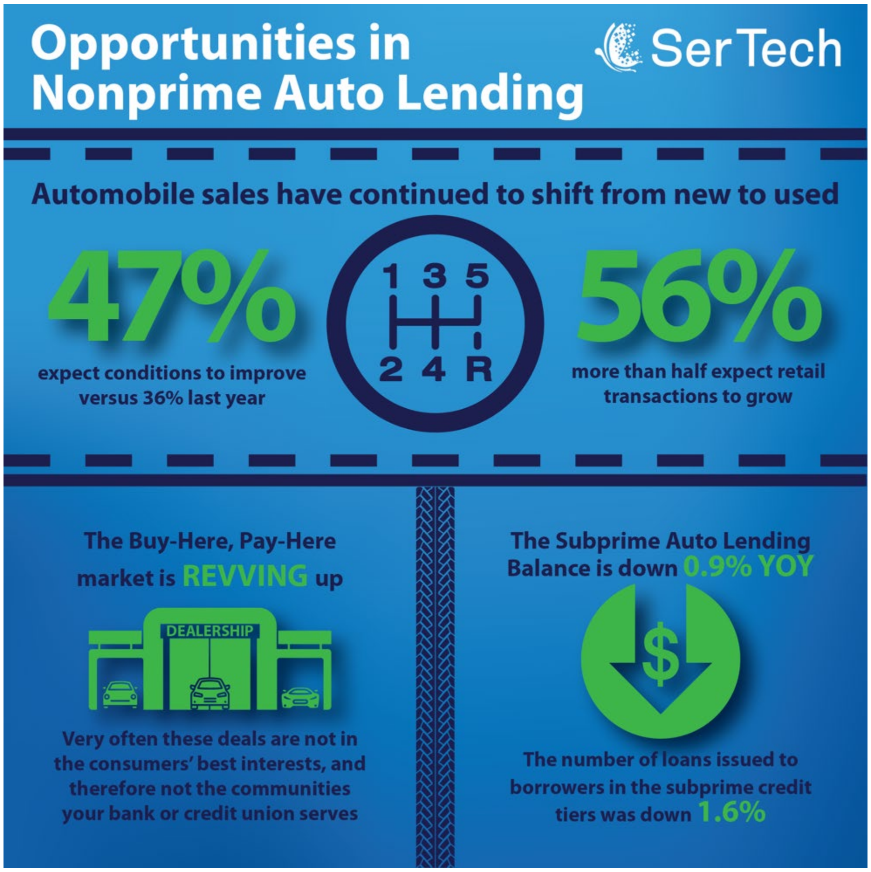
How to Mitigate Nonprime Auto Loan Risk and Turbo Boost Your Portfolio

Watching the news regarding auto loan declines and wondering what you can do about it?

Auto lending, and particularly for used cars, has been a veritable smorgasbord for community banks and credit unions for several years now. But as we're watching demand slow – and it may not have hit your institution yet – lenders must seek out the niches of opportunity that are still out there.

Automobile sales have continued to shift from new to used, according to AutoRemarketing.com.



"We see the shift from new-vehicle sales activity to more used vehicles continuing, largely because the shopper knows the price of autos is going up, and they realize they can find bargains on slightly used, off-lease vehicles that are readily available," Equifax Deputy Chief Economist Gunnar Blix told AutoRemarketing.com. "Interest-free loan and lease incentives are also becoming few and far between."

Additionally, the buy-here, pay-here market is revving up. Very often these deals are not in the consumers' best interests, and therefore not the communities your bank or credit union serves. AutoRemarketing.com reported that the subprime auto lending balance was down 0.9% YOY and the number of loans issued to borrowers in the nonprime credit tiers was down 1.6%, while overall auto lending was up as of June. Just because nonprime lending is down does not mean demand is down.

Ser Tech's Fetch Marketing campaigns can help you target any type of borrowers using thousands of attributes. Learn more here.

The Consumer Financial Protection Bureau's data show similar trending. We know some aren't fans of the agency, but check out their interactive infographics here. You can also see where the CFPB's new credit-tightness index is heading back uphill as inquiries are rising here.

It makes sense as we head toward an economic slowdown to be keeping a careful eye on underwriting, but what can your community bank or credit union do to improve its chances of getting your share of what's available and keep it safe, sound and profitable?

1. Targeted marketing is critical. Ser Tech collects consumer credit data, and based on your financial institutions' criteria, homes in on exactly whom you want to reach. Please read our previous blog on Data-Mined Auto Lending, which explains the best practices for setting up nonprime lending, so you can reach and lift up more deserving consumers whose credit is a bit dinged up. Priced correctly, these loans can be highly profitable, while also helping out members in need. But you're still concerned about the risk, right?
2. Know when your potential borrowers are in the market. Ser Tech's Triggers can target consumers with recent credit inquiries and send out your message and contact your financial institution immediately for follow up. Learn more about Triggers here, then reach out to use at sales@sertech.com.
3. Risk mitigation is critical, particularly concerning nonprime loans. Default insurance could be for you! It helps you reap the benefits of higher yielding loans and increase your volume. Ser Tech recently partnered with OpenLending on its flagship, Lenders Protection product. We invite you to check it out!
4. Risk monitoring is a must, so Ser Tech created ProAct, our cloud-based data warehouse which shows you everything you need to know about your loan portfolio. Clients indicate they've saved $200,000 annually with ProAct and receive a better view of their loan portfolios that helps drive strategic decisions as well as manage risk.

Community financial institutions were founded to help raise up the economic foundations upon which their communities were built. By reaching a bit deeper into the nonprime credit tiers, your bank or credit union can increase your customer loyalty as well as the faith that the residents of your counties and towns have in your institution. And you can reap great returns – win-win-win!