Point of View

Meet Borrowers' Expectations With Alternative Deal Structures

The rise of the digital, on-demand economy has led borrowers to expect instant credit decisions when they apply for financing. That expectation is shining a stronger light on the benefits of alternative deal structures, in which lenders provide several finance options in response to a single credit request. Providing those structures to all credit segments also helps lenders by enabling them to offer borrowers more upfront options, whether that means longer terms with lower payments or a choice between lease and retail.

The idea behind alternative deal structures is to give the borrower several upfront financing options that help minimize back-and-forth requests as the preferred terms change prior to purchase or lease. Borrowers can select from different terms, such as 60 or 72 months, and a variety of other options knowing they are approved by the lender. The alternative deal structures also help underwriters reviewing applications know how changes in the finance structure will affect the profitability of a particular credit request.

Alternative deal structures, in a way, are extensions of the payment-call concept nonprime lenders use to provide an approved structure, such as maximum payment, as opposed to negotiating a specific option that works for the lender, the borrower and the dealer. The alternative structures are more applicable to borrowers than a payment call because the terms are laid out clearly and are easy to compare.

Give Customers an Array of Options

Expectations & Experiences: Borrowing and Wealth Management, the most recent quarterly consumer trends research from Fiserv, shows that 49 percent of consumers first identify the item they want and then investigate their financing options. That process adds to the pressure for lenders to return a decision that meets the needs of the borrower.

Customers, both dealers and borrowers, want more options when financing purchases. The traditional model of dealers working directly with borrowers to determine their needs and then submitting a specific credit request for a single response does not work effectively in today's market of consumer-driven dealer finance. Today's borrower is not typically sitting in a dealer office, bank branch or with a financial services professional discussing particular needs and options.

In many cases, borrowers research finance options online and then apply without the help of someone guiding them through their options. In those cases, lenders need to provide an answer not only to the specific request, but also to all options available to that borrower. For example, let's say a borrower qualifies for the requested loan but also for a much higher amount. The lender can approve the requested loan and also offer an alternative structure at a maximum amount. The same applies to terms if a borrower is eligible for 60 months but doesn't know that 48- or 72-month terms are also available. The lender can approve the 60-month request and add alternative deal structures at 48 and 72.

Alternative deal structures are especially important when the specific request may not meet lender policy, but the borrower could be approved at another structure with a higher payment or shorter term. It is a much better customer experience if the lender offers a 60-month loan rather than simply rejecting 72 months.

It's also much better for business. Lenders that auto-decline applications and wait for a call back instead of offering an alternative are much less likely to win a deal they could have had. That business could now easily go to a different lender that takes the time to offer that alternative.

Keeping alternative deal structures in mind can be a key strategy for providing stronger service, enhancing the customer experience and driving deeper engagement.

Making Alternative Deal Structures Work

While alternative deal structure support may be viewed as a single offering, it requires four distinct components working together to meet borrower expectations.

1. Loan Origination System

An LOS that supports alternative deal structures first must recognize when they are applicable and then must make the request to generate them. That may be as simple as recognizing that even if a request cannot be approved, it could qualify under a different structure. Once the alternative structures are requested and generated, the LOS needs to store and display them as well as make them actionable.

The LOS also must be able to automatically decide on a credit request under an alternative structure. If there are multiple alternative structures, the LOS must let a user select one, and the system must then treat it as either an updated application or as a condition, depending on the scenario.

Finally, the LOS must be able to pass the alternative deal structures to borrower- or dealer-facing portals for review. Once the borrower or dealer selects an alternative structure, the LOS must be able to accept the selection and treat it as either a condition or an update.

2. Decision Engine

A decision engine generates alternative deal structures. That could be as simple as an auto-condition that identifies a max term or the max loan amount a customer can afford.

However, creating multiple alternative deal structures can be complex. In some cases, lenders may want to generate several structures on portfolio yield formulas or return-on-asset calculations. That capability is generally accommodated in decision engines or complex-calculations engines with decision-tree capability.

3. Pricing Engine

Lenders also need a sophisticated pricing engine that can re-price and identify parameters that may change as a result of selecting an alternative structure. Most lenders have rates that are driven in part by term, so changes in terms likely affect the quoted interest rate.

In addition, certain changes in structure may affect maximum loan-to-value ratio, which could in turn limit the amount financed. Those parameters need to be considered in the final structures offered to the dealer or borrower.

As the alternative deal structure engine calculations become more complex, or the number of options increase, the pricing engine needs to be able to keep up and make sure rates and parameters stay applicable to each individual structure.

4. Borrower and Dealer Portals

The process also requires a portal through which dealers and borrowers can view the alternative deal structures. That is increasingly relevant today, with 60 percent of borrowers comfortable going online to be prequalified for financing and 61 percent comfortable receiving an online decision from their lender about a loan application, according to the Expectations & Experiences quarterly research.

The portal should let the customer view and select the preferred alternative deal structure. The portal then should pass it back to the LOS for an updated credit decision and response, without friction or confusion.

Listen to Borrowers and Then Respond to Them

Consumers considering, for instance, an automotive purchase can find out everything about a vehicle online, including horse power, torque and history. That research informs their decision on whether to buy the vehicle. Likewise, they expect to be able to perform the same level of research on financing options and structures so they can choose the right one for them.

Lenders can satisfy that expectation by adjusting to a market that continues to move toward a consumer-driven model. Borrowers and dealers are demanding faster decision times, more options and flexible terms. Alternative deal structures can be a key part of a lender's strategy to meet those demands.

About the Author

Scott Hendriks has more than 20 years of experience on both the lender and service provider sides of the consumer finance industry. He spent 10 years in the mortgage lending, consumer lending and indirect automotive lending segments of the market, originating receivables both for prime and nonprime portfolios. He worked in many areas of credit operations, including credit management, risk management and compliance. Since joining Fiserv in 2002, Hendriks has been involved in the development of the Auto LOS product and now is the director of product management for Auto Originations.

Connect With Us

For more information about alternative deal structures, call 800-872-7882, email getsolutions@fiserv.com or visit www.fiserv.com.

Fiserv is driving innovation in Payments, Processing Services, Risk & Compliance, Customer & Channel Management and Insights & Optimising. Our solutions help clients deliver financial services at the speed of life to enhance the way people live and work today. Visit fiserv.com to learn more.

fiserv.

Fiserv, Inc.
255 Fiserv Drive
Brookfield, WI 53045

800-872-7882
262-879-5322
getsolutions@fiserv.com
www.fiserv.com

57625 10/17