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Minimizing and Managing Risk: Improve underwriting consistency and decision quality

Innovations in new sources of consumer data, fraud recognition, and automation are making it easier to manage risk through consistent, well-reasoned lending decisions. Some loan origination software now includes these capabilities, helping identify and eliminate potential risk at the outset. It also helps lenders evaluate applicant financial strength more accurately, and to comply with federal and state regulations.

Identify Fraudulent Applications at the Outset

Auto loan fraud has quickly become the preferred method for illegally acquiring vehicles. A loan application can appear legitimate but be filled with purposefully misrepresented information. That's hard to detect without the aid of fraud analytics.

Personally identifiable information (PII) obtained from data breaches is the foundation for fraud schemes involving identity theft. Unscrupulous individuals can create seemingly legitimate documents that enable auto loan fraud. Online services help fraudsters create statements that distort actual income. Similar services exist to confirm employment at fictitious companies. False identities, inflated income, and inaccurate employment data strongly correlate with loans likely to default.

Fraud analytics compares applications using machine learning algorithms that have analyzed millions of loan applications for evidence of misrepresented information. With fraud analytics, lenders can identify loan applications that are likely to contain misrepresented information that has been submitted with the intent of improving an applicant's chances of obtaining a loan or obtaining better loan terms. Fraud analytics provides rapid detection of potentially problematic applications, allowing lenders to identify and decline applications that present an unacceptable degree of risk.

Composite Credit Data Accelerates Better-Quality Lending Decisions

Many lenders use data from all three of the major bureaus. Variations in the types and formats of bureau data make it difficult for lenders to combine it all into a consistent and easily-reviewed format. Composite data capabilities provide secure access to consumer and commercial credit bureaus, integrate and consolidate data into a consistent set of attributes, and present them on an underwriter's desktop or use decision rules to enable faster, better quality credit decisions.

Alternative Credit Data Offers More Ways to Evaluate Risk

An increasingly-digitized economy has enabled the generation and acquisition of greater volumes of consumer data such as utility, cable TV, and cell phone payment histories, employment history, real

estate ownership, and rental history and payment records. These alternative credit data sources can help lenders reduce risk in two ways. First, lenders can use alternative credit to accurately evaluate the financial strength of applicants with thin or non-existent credit histories. Second, lenders can complement traditional credit data with alternative credit data to obtain a more detailed and accurate picture of an applicant's financial position. For applicants with subprime scores, alternative credit data gives underwriters more substantial information to evaluate risk.

Trended Credit Data Shows Changing Financial Position

Trended credit data provides multiple months of detailed tradeline information that can reveal changes in a consumer's credit habits. Twenty-four months of data for 3 tradelines provides 72 data points. This data can show improving, declining, or unchanged financial positions. Compared to structuring a deal on credit scores alone, applicants with improving financial standings can be offered better terms. Applicants whose credit trends show declining strength can be priced for risk accordingly. Trended credit data can help lenders approve a greater number of loans. It also helps lenders price for risk based on a better understanding of an applicant's current financial position.

History-Adjusted Vehicle Valuations Improve Deal Structures

Although it's not quite the same category as credit risk, vehicle valuation is still critical in creating profitable deal structures. It's difficult to determine used vehicle value without detailed historical data, from the moment the vehicle was driven off the lot to the present day. Accurate deal structuring depends on a thorough history-adjusted valuation. Vehicle valuation services automatically calculate history-adjusted values that can be, on average, 31 percent more accurate compared with traditional used vehicle valuations. Automated calls to vehicle valuation services eliminate manual history-adjusted value calculations and deliver results in seconds. That helps accelerate lending decisions and brings more consistency to deal structures.

Compliant Lending Requires Automation

There's one more dimension to lending risk: Compliance. It can be complicated and it's impossible to adhere to the growing number of federal and state regulations such as the Equal Credit Opportunity Act (ECOA), Truth in Lending Act (TILA), and the Servicemembers Civil Relief Act (SCRA) without the aid of automation.

Automation helps lenders by replacing manual underwriting tasks or processes with data-driven workflows and decision rules. Decision rules allow lenders to transform regulatory details into the steps, tasks, and activities that mirror compliance

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regulations. Workflows provide the framework to orchestrate and automate those decisions in support of regulatory compliance.

Automation and decision rules are irrefutable evidence of the attributes and credit policies lenders use (or do not use) in making loan decisions. Automation creates an audit trail that records the attributes, tasks, decisions, and underwriters involved in the loan decision process. With automation, efficiency and compliance need not be mutually exclusive.

Summary

Used together, consumer data, fraud recognition, detailed vehicle histories, and automation make underwriting more consistent and improve decision quality. Lenders who use these capabilities in their underwriting processes will be well prepared to minimize and manage loan origination risks.

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