CASE STUDY

Improving Auto Loan Conversion Rates with Data

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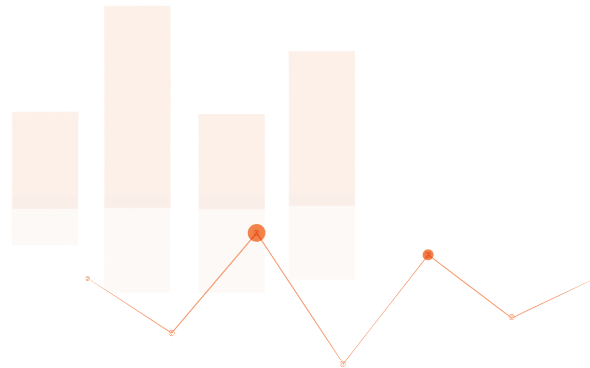

Introduction

Today's consumers are savvier than ever before, and they have high expectations when it comes to the businesses they patronize. When they embark on the car-buying journey, they don't necessarily compare different lenders or dealers anymore; they compare experiences. And the dealer or lender who can provide the best experience will likely come out ahead. Many factors contribute to a positive customer experience, from the initial contact to the final purchase or lease. With many shopping experiences available at their fingertips and real-time services delivered via a smartphone, buyers expect timeliness, speed, and ease. And that means lenders and dealers may need to consider ways to provide the level of service consumers expect at every stage of the journey, from finding the right car to financing it.

Accustomed to a digital-first model, if purchasing an automobile with the backing of one lender is too much of a hassle—a consumer might set their sights elsewhere, likely a competitor. While mortgage lenders regularly leverage automated income and employment data to improve business opportunities, serve customers better, and meet federal compliance mandates, The Work Number® benefit auto loan financiers and help them retain customers.

In this client study, you'll learn how auto lenders can evolve their loan decision and risk models to stay relevant and maintain a competitive advantage with integrated data. You'll also learn how the use of digital income and employment data impacted conversion rates for leading U.S. auto loan financers.

With those findings as the level-setting starting point, we'll show you how lenders can make a critical transformation toward next-generation customer experiences through the practical use of integrated income and employment data. And finally, hear from trusted industry leaders on what you can do now to get ahead of the curve and create a modern growth strategy.

About The Study

To explore the advantages of digital income and employment data for auto loan origination, Equifax analyzed a sample of leading U.S. auto lenders who process over 100,000 automated credit report (ACRO) inquiries for auto loan applications per month and then submit transactions to The Work Number database. The study showed that integrating The Work Number digital income and employment verifications within a loan decisioning engine positively impacted an auto lender's loan conversion rates and helped it increase market share.

- Lenders who automated The Work Number income and employment verification data observed a 2.45x increase in loan conversion rates. In addition, conversion rates were substantially higher for borrowers with lower credit scores, suggesting that using income and employment data dramatically helps borrowers who typically face the most difficulty obtaining a loan.
- Not leveraging income and employment verifications from The Work Number may negatively impact loan conversion rates and decrease market share.
- Lenders who leveraged The Work Number income and employment verification data were, in some instances, able to provide lower interest rates or better loan terms to borrowers across all credit bands when compared to lenders who did not use The Work Number.
- Lenders saw an estimated 19.6 percent increase in profit from growing their loan portfolios, with only a slight rise in interest rates across consumer segments.

Cloud technology helps lenders keep up with evolving purchasing behaviors

Purchasing a car has historically been time-consuming. Fortunately, the process has become more efficient due to the use of technology and changing consumer preferences. The trend is driven by consumers, who expect the brands, dealers, and lenders they choose to be proactive — to know them, anticipate their needs, and deliver on their preferences. A potential car buyer expects to be handed the most suitable loan rates quickly and with little effort on their end—no need to shop around. If a financial institution doesn't offer this kind of experience, a competitor can offer up an auto loan with little action required of the borrower. Cloud technology can enable the purchasing experience consumers have come to expect. It can also provide lenders with a quick but comprehensive view of borrower affordability, ultimately helping financial institutions grow and protect their business. In addition, cloud technology also helps remove data silos or the technical barriers between data sets. This eliminates the cumbersome process of lenders pulling data from multiple sources to get a complete picture of a borrower. By bringing these data sources into a cloud-based environment, data can become a seamless, globally distributed data fabric, enabling lenders to combine data in new ways, unlock novel insights and ultimately foster a better experience for borrowers.

Leveraging cloud-native income and employment verifications at the right time, the right way

The conversation about lending technology solutions has evolved beyond its known benefits—such as better operational efficiencies, faster transaction speeds, and instant scalability—to one now focused on its transformative power to help lenders innovate and grow their business. With supply chain shortages and other macroeconomic impacts affecting the market, such as changing employment trends and political and regulatory changes, lenders and dealers are operating within an entirely new automotive industry than only five years ago. As a result, both auto lenders and dealers must transform their business models to respond and stay relevant. In doing so, they should seek to expertly harness data to grow market share, reduce risk, and increase conversions while meeting consumer expectations. This shift will likely require lenders to lean on technology and data from external sources to get third-party expertise and a 360° view of borrowers on every touchpoint of their journey.

Many financial institutions have mounds of data in their arsenal. When deciphering data points for advanced risk models, lenders should ask: How can I bring internal data together with up-to-date information from third-party data providers to create a comprehensive view of the loan applicant? And once that data is compiled, how do I best use this data to uncover insights for loan affordability? How can I act to make sound decisions and reduce risk? How can I use this data to convert more loans?

Remember when technology and data started transforming your business?

It likely was not easy, but it likely was necessary. When swimming in data, bringing together the many disparate data streams inside financial institutions is not always an easy lift or shift — let alone integrating other loan decisioning data from an ecosystem of third-party providers. Historically, the challenge has been that no matter the size of an organization, implementing new technologies or capabilities can be time-consuming, costly, and disruptive— but as the credit and lending ecosystem evolves, digital and platform transformation must occur. Moreover, few banking institutions or lenders have the in-house talent required to integrate automation tools to extract valuable and relevant insights from their data once compiled. Fortunately, The Work Number® from Equifax gives financial institutions of all sizes access to flexible data integration and data access capabilities. Multiple delivery options can help lenders quickly adopt an enterprise-wide, standardized loan decisioning framework based on integrated income and employment data from a single verification source.

Probability Of Auto Loan Conversions Increases With Automated Income and Employment Data

Equifax research shows that The Work Number helps auto lenders advance their risk model across all credit bands by helping them demonstrate a consistent and standardized decision criterion for each loan applicant. Further, integrating income and employment verifications from The Work Number assists with faster response times to dealers, better loan terms for qualified applicants, and potentially fewer stipulations – optimizing loan applicant conversion rates.

2.45x lift

in conversion rates

Lenders who integrated The Work Number income and employment data into their loan decision engine via application program interfaces (APIs) more than doubled loan conversion rates with a 2.45x lift across all credit bands compared to their pre-integration conversion rate, including subprime (credit scores of 580-619), near-prime (credit scores of 620-659), prime (credit scores of 660-719) and super-prime (credit scores of 720 or above)*.

*Equifax Internal Data Study, 2022

Digital income and employment data push beyond traditional credit data to reveal more details about consumers and help lenders give approvals back to their dealers with more confidence and potentially without stipulations.

Equifax data showed lenders decreased loan conversions when not using The Work Number verification services

The Work Number digital verifications solutions—anchored in quality data and designed to help lenders with risk mitigation and compliance—enable lenders to efficiently navigate the complexities of integrating income and employment data throughout the lending journey to drive better business outcomes. An Equifax study showed that lenders who do not leverage automated income and employment data from The Work Number experienced lower loan conversion rates than those who pulled The Work Number verifications during the same time frame. However, when these same lenders started using The Work Number, their conversions increased — in some cases significantly.

Automated Verifications Can Give Lenders and Dealers a Competitive Edge and Open Opportunities for More Borrowers

Today's competitive auto market often means a race between lenders to see who can approve the loan first. Success isn't only about being fast, however. It's also about who can provide the best offer and underwrite loans with high integrity. Fortunately, The Work Number can help in all of those areas. By incorporating automated income and employment data during loan application, auto lenders may be able to unlock a new market of consumers that may have otherwise been overlooked. According to Equifax data, nearly 20 percent of all consumers with a subprime credit score are financially durable*; in fact, among consumers with a modest 580 credit score, 10% have estimated total household income over $178,000**— pointing to an untapped market of potentially attractive customers. Yet according to auto trends data from Equifax, as of November 2021, only 16.6 percent of auto loan and lease accounts were issued to subprime consumers—the lowest October year-to-date subprime share since 2010.

The same Equifax research also shows that the leading reasons consumers with subprime credit scores are denied loans are debt-to-income ratio and credit history (which includes credit score) at 33 percent and 23 percent of denied loans, respectively***. While traditional credit scores remain a strong indicator of creditworthiness, today's consumers may be more complex. Leveraging alternative data sources, such as income and employment information, in the decisioning process can broaden the pool of potential consumers for lenders, leading to more conversations.

*Equifax Internal Data Study, 2020
** Equifax Industry Analysis, 2022
*** Equifax Internal Data Study, 2021

Prime Lenders Can Also Find Value from Income and Employment Verification

There is an obvious imbalance in the verification process that auto lenders can and should work to stabilize. Prime lenders do not often verify income and employment data as subprime lenders. On the surface, it makes sense, and prime customers (those with 620 and higher credit scores) are often a safer bet. For many lenders, a prime borrower's credit score offers enough information to prove creditworthiness. Hence, the risks of approving a loan for them are relatively low. But even prime lenders have battle scars from fraudulent or unaffordable loan activities.

All it should take is one $30,000 mistake for a lender to realize that verifying income and employment is the right thing to do for their business, the industry, and their customers. Instead of viewing verifications as a tool only for the subprime market, it should be considered standard practice for all lenders to tell a more complete picture of credit risk.

Why Verify Prime Borrowers

The country is weathering the highest inflation rate in 40 years, resulting in many Americans being financially stretched trying to meet the financial demands of paying for food, gas, cars, housing, and other consumer goods that have increased significantly. In addition, contrary to what may be conventional thought, Equifax data shows that prime borrowers have experienced a bigger percentage impact to their pay as a result of current economic uncertainty*. Financial and economic gains made during the pandemic — driven mostly because of student loan repayment accommodation — may be easily lost (e.g. a borrower's monthly disposable income will decline and consumer's prospects for long-term financial health and wealth creation may be curtailed). Lenders should consider how these macroecomic changes may impact prime borrowers.

*Equifax Industry Analysis, 2021

1 in 6 consumers with 700+ credit scores are unlikely able to keep spending and meet current and future financial obligations, when under financial stress.

Conclusion

The best path for auto lenders to grow and maintain a competitive edge is to review their loan decisioning models and be thoughtful and intentional about using trusted third-party data. Knowing this, and considering the fluidity and fast-changing behaviors of consumers and the automotive industry, it may be time to rethink lending approaches. By leveraging The Work Number income and employment data during the loan application process and considering integrated and automated technologies, lenders can help to significantly elevate their portfolio performance, resulting in better offers extended to more customers, while possibly keeping risk levels steady during this period of economic uncertainty. Moreover, incorporating income and employment data is a direct path to potentially providing better access to credit to a broader group of consumers, which benefits both lenders and borrowers.

About The Work Number

The Work Number Benefits Lenders, Dealers and Consumers, Too.

These days, consumers have many options. Lenders can differentiate their approvals from their competitors' by potentially removing stipulations with qualified customers. The Work Number is governed by the Fair Credit Reporting Act (FCRA) and gives credentialed verifiers with permissible purpose access to millions of income and employment records, direct from employers and payroll providers.

Ultimately, this data enables lenders to:

- Make faster, more informed decisions that address the changing demands of the industry and the consumers they serve.
- Instantly see the most up-to-date information available, with records updated every pay cycle.
- Get a broader understanding of a consumer's financial history.
- Provide the immediacy and convenience consumers have come to expect.
- Potentially reduce the labor hours required to manually review and clear stipulations.