Optimizing Risk Management for Auto Finance Lenders

As we all know, consumers place varying priorities on their loan obligations. The BEACON® 09 Auto Industry Option — developed by FICO™ using a national sample from Equifax’s database — considers this in helping you to gauge risk.

The BEACON 09 Auto Industry Option adjusts the BEACON 09 credit risk assessment score, adding or subtracting points according to predictive information specific to the auto loan industry. What does this mean to you? It means you receive all the proven credit risk assessment benefits of BEACON 09 — predicting the relative likelihood that credit applicants, prospects and existing customers will satisfactorily repay their credit obligations over the next 24 months — designed especially for auto finance lending. As a result, you can make credit decisions with confidence, while further limiting risk.

How the Auto Industry Option Was Developed

BEACON 09 was used as the foundation to develop the BEACON 09 Auto Industry Option. Hundreds of credit file characteristics were compared with auto loan performance records to identify the degree of “bad” behavior (90+ days past due on that industry tradeline) over the span of 24 months relative to “good” behavior. Bankruptcy, from any industry, is also classified as “bad.”

How It Works

The Auto Industry Option combines multiple scorecard technology with the most predictive credit payment characteristics for auto loan performance.

The consumer’s credit report is reviewed, and depending upon the contents, is sent to the most appropriate BEACON 09 scorecard. After the BEACON 09 score is calculated, the report is reviewed again to be sent to one of two more auto option scorecards. If there is delinquency or other derogatory information, it goes to a delinquency scorecard for scoring. If not, it goes to a non-delinquency scorecard.
Fine-tuning Interval Score Distributions
The Auto Industry Option broadens the distribution outward to both higher and lower score ranges, providing opportunities to identify the best customers.

You will need to evaluate the Auto Industry Option’s performance on your own portfolio before deciding where to make necessary score strategy changes to minimize losses.

How You Can Use It
The Auto Industry Option gives you the heightened ability to separate future paid-as-agreed loans from potential delinquencies, repossessions and/or bankruptcies. This increased precision helps you:

- Decline more potential high-risk applicants at the same approval rate while reducing your future loss rate.
- Approve more low-risk applicants while maintaining the same loss rate.
- Segment accounts for more effective risk-based pricing. Also, the option works equally well for prescreening, new account approvals and account management.

Easy to Implement
It’s easy to incorporate the Auto Industry Option into your current operating environment.

- If you are only converting from the BEACON 5.0 Auto Industry Option to the BEACON 09 Auto Industry Option, no additional programming is required.
- If you are converting to the BEACON 09 Auto Industry Option from any other versions of BEACON, then System-to-System and PC users need to program a few additional reason codes so their systems can return these explanations for adverse action notification procedures.

Get the Strongest Risk Mitigation for Auto Lending
Isn’t it time to elevate your risk assessment capabilities? Get the increased predictive power of the BEACON 09 Auto Industry Option — optimized risk assessment designed specifically for auto lending. For more information, call your Equifax representative, or 1-800-685-5000, or visit us online at www.equifax.com today.

Why It’s More Predictive
When you score auto loan performance data as compared to general credit performance data, some unique things happen. At any given percentage of accounts with good performance, the Auto Industry Option identifies a higher percentage of future delinquencies than BEACON 09.

Optimizing Risk Protection for Auto Loans
Based on a national sample of consumers with auto loans, the Auto Industry Option identified 56% of all 90+ delinquencies within the lowest-scoring 10% of scored files with good performance, compared to 54% with BEACON 09.

There also is an upward shift in higher scores and a downward score shift of the “bads” population, further segmenting credit risk.

Better Identify More Likely Defaults
All Existing Auto Loan Accounts

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