Cover More Ground in Auto Lending

If you're an auto lender looking to drive growth into new markets, be sure to read the fine print: **your mileage may vary.**

LexisNexis® RISK SOLUTIONS

The credit models that got you this far **may not perform as expected.**

As an established auto lender in key markets, you've come to rely on preferred data sets and models to assess consumer credit risk for vehicle loans. Those models perform well, you're growing a healthy book of business and you're revving up to expand into new regions. But it may not be as easy as you thought: The view is hazy, and your visibility of credit risk is obscured.

You find yourself in unknown territory, with limited data coverage, unexpected regional variances and a model that doesn't map to clear decisions.

Low-density data:
Data providers aren't always consistent in their coverage from market to market. The distance between "data richness" and "data gaps" may be a few zip codes apart.

Population unknown:
There may be significant segments of the local population—e.g., Millennials, immigrants—that are off your radar, because like 53 million other consumers, they may have no credit history.[1]

Regional variances:
As an example, models built for a metroplex won't necessarily account for demographic and behavioral nuances specific to a university town or a popular retirement destination.

Newcomer bias:
Being the newcomer in a region, especially when it comes to indirect lending, means you don't have strong established relationships with dealers—potentially subjecting you to adverse selection.

[1] LexisNexis® Risk Solutions, 2021

One lender went down that road.
Here's what happened.

After several years of focusing primarily on a single state—aided by a custom data model built for that market—this lender decided to capitalize on new opportunities in other regions. But as they began to branch out, they immediately saw noticeable differences in the way their model performed in these new territories: Their "default rate" was 1.5 times higher than their "home" state, and in some scoring bands it was 1.7 times higher.[2]

The reason for the differential? The lender's custom model heavily weighted one relevant attribute specific to the original market. However, that attribute happened to be less relevant in the new regions.

> "Their "default rate" was 1.5 times higher than their "home" state, and in some scoring bands it was 1.7 times higher."

Once the lender updated the data models to address local variances, they saw a significant lift:

2X BETTER PERFORMANCE AND A 45% INCREASE IN THEIR ABILITY TO ACCURATELY RANK-ORDER RISK.[3]

[2] LexisNexis® Risk Solutions Case Study, 2017
[3] Ibid.

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What does this **mean to you?**

You know you have to update your data models. But it's not just about adding more data. You need the right kind of data.

Let's say you're established in a large metropolis and you decide to expand to cities in a neighboring state.

Smithton is a university town heavily skewed to students, professors and all manner of degreed and certified professionals. It's also the business center for rural farming communities.

Then there's Basstown—home to not only a university but also high numbers of retirees, vacation home owners and seasonal employees.

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The truth is, by specifying data models to significant attributes in distinct geographic areas, you'll significantly enhance the predictiveness of the data.

Two mid-sized cities in the same state may have some similarities, but their differences drive them miles apart:

SMITHTON

- **Three universities**/colleges
- **Large student population**, most likely with limited credit history
- **Highly educated** and professional population
- **Business center for local farmers** who represent unique asset ownership (land, livestock, farm equipment, etc.)

BASSTOWN

- **Large student population**, most likely with limited credit history
- **Highly educated** and professional population
- **Significant number of farmers,** representing a unique asset mix (land, livestock, farm equipment, etc.)
- **Large number of retirees,** who may be living debt-free or on fixed income
- **Higher-than-average** part-time residency
- **High ownership** of second homes and rental property
- **Higher than average** boat ownership
- **Large seasonal/temporary** workforce

Custom models that take into account regional variability in credit risk can be incorporated into **scorecards and give you a dynamic ability to consider regional differences.**

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YOU DON'T JUST NEED VISION TO GROW YOUR BUSINESS. YOU NEED A BETTER VIEW.

RiskView™ Solutions from LexisNexis® Risk Solutions can help you address these regional challenges. RiskView™ uses a variety of different types of information—details not typically found on a credit report—to provide more robust insight about how a consumer might manage new contracts or financial products.

Alternative data is critical in helping lenders approve more applicants, enhance risk-based decisioning and expanding the scorable universe.

For example, 73% of alternative data users overlay an existing credit score with alternative data to get better insight into their applicant base.[4]

- Identity Records
- Assets (Property, Vehicles, Boats, Motorcycles, etc.)
- Occupational Licensing
- Derogatory Public Records
- Credit Inquiries
- Address Stability and Characteristics (Evictions, Liens, etc.)
- Business Associations
- Education

[4] American Financial Services Association Alternative Data Study, 2018

RiskView™ clarifies the rich texture of a financial life, revealing insight that gives you a competitive edge in the market:

A CRYSTAL BALL OF FUTURE BEHAVIOR

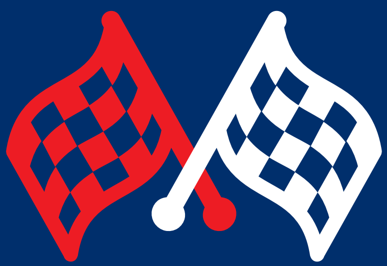
Historical data isn't the only indicator of future behavior. By including other predictive data sources, a lender can understand historical credit performance and how the consumer might behave moving forward. RiskView™ helps you understand and model this correlation.

FLEXIBILITY

RiskView™ helps you accelerate growth by making it easy to adapt to new markets—weighing certain attributes as needed to account for regional variances.

TOP-DRAWER PERFORMANCE

When you're the new lender in town, you're up against others who have longstanding dealer relationships. RiskView™ puts you in a better position—enabling you to respond quickly and competitively; approve more applications; and establish your business as "the" lending partner that can fuel dealership growth.



THE CUSTOM RISKVIEW™ SCORE OUTPERFORMED **THE TRADITIONAL CREDIT SCORE BY 49%.[5]**

[5] LexisNexis® Risk Solutions Case Study, 2017

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Take a page from our manual.

LexisNexis® Risk Solutions conducts thorough credit risk analysis for the consumer lending industry.

Our capabilities are unmatched, allowing you to uncover **predictive information for lending decisions on over 95% of U.S. consumers and more than 90% of traditionally unscorable consumers.**

LexisNexis® RISK SOLUTIONS

The LexisNexis® Risk Solutions difference:

Breadth and Depth of Data

Access to **84+ billion public and proprietary records from over 10,000 sources**

Sophisticated Linking

Superior linking technology (via LexID®) that allows you to quickly aggregate and **match data to produce meaningful insights that indicate creditworthiness**

GAIN TRACTION IN ANY MARKET.

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About LexisNexis Risk Solutions

LexisNexis® Risk Solutions harnesses the power of data and advanced analytics to provide insights that help businesses and governmental entities reduce risk and improve decisions to benefit people around the globe. We provide data and technology solutions for a wide range of industries including insurance, financial services, healthcare and government. Headquartered in metro Atlanta, Georgia, we have offices throughout the world and are part of RELX (LSE: REL/NYSE: RELX), a global provider of information-based analytics and decision tools for professional and business customers. For more information, please visit www.risk.lexisnexis.com and www.relx.com.