

# 6 Ways To Use the FCRA-Compliant AutoPass Score To Increase Your Auto Loan Automation



Point Predictive provides insight into auto lending fraud risk through the combination of a unique data consortium and artificial intelligence (AI)-powered models. These insights are delivered through a real-time solution called Auto Fraud Manager (AFM). Key definitions in the Fair Credit Reporting Act (FCRA) limit the use of the AFM score; while it can be used to reduce stipulations and direct underwriting activities, it cannot be used to make credit decisions.

With the introduction of AutoPass™, an FCRA-compliant, application-level fraud score, that has changed. Auto lenders can now use AutoPass to increase automation resulting in increased loan pull-through and increased portfolio profitability.

Here are six ways to use AutoPass to boost the financial performance of your auto loan portfolio:

## 1. Increase Auto-Declines on the Highest Risk Applications and Avoid Costly Stipulations and Manual Review

One of the easiest and fastest ways to recognize the benefits of AutoPass is to implement an automated decline strategy. AutoPass provides FCRA-compliant, customer-facing, adverse action reasons. This means your organization can now decline high fraud risk applications quickly at the front end of the application workflow – without spending time and money reviewing applications that would not be approved for other reasons. Your team no longer has to waste resources pulling credit bureau reports, vehicle valuations, or reviewing stipulations on applications for loans you would almost certainly not fund.

## 2. Enhance Risk-Based Pricing to Better Manage Risk on the Margins and Maintain Profitability

Whether your organization uses a traditional pricing sheet or a complex risk-based pricing model, your team can use AutoPass to price more effectively to account for early payment defaults due to fraud and misrepresentation on the application. Most risk models used by auto lenders are designed around credit risk. Fraud is a growing source of losses that are typically not accounted for in these models.

If you build your own models, you can include the AutoPass score as a factor in both credit decisioning and pricing models. While there is a correlation between fraud and default risks, the unique information derived from the data consortium, captured in the AutoPass score, will add value to your models.

If including the AutoPass score in modeling is not a short-term option for your organization, you can still recognize value quickly using rules. A simple rules-based approach could include increasing the contract rate by a certain number of basis points for any application with an AutoPass score over your selected threshold or requiring a minimum down payment of a higher percentage of the purchase price. Another approach would be to have a different pricing model for high fraud risk applications.

### 3. Adjust Contract Structure to Reduce Risk of Losses and Default

In addition to augmenting your credit decision and pricing strategies, you can further reduce risk by adjusting the contract structure. You can lower the maximum term, modify the loan to value requirements, adjust the allowable amount financed, and more based on the AutoPass score. While this would not necessarily reduce the frequency of default due to fraud or material misrepresentation, it would reduce the severity of any losses.

### 4. Increase Automation With More Than 100 Red Flag Indicators

The AutoPass report also includes the same flags and actionable alerts provided by AFM that can be used for workflow automation, placing or waiving stipulations, or triggering underwriting review. These flags and alerts cannot be used for approval or decline decisions. Only the AutoPass score can be used for that. But these flags and alerts can still add substantial value to your automation efforts.

### 5. Change Dealer Dynamics by Adjusting Limits and Help Dealers Reduce Buybacks

The lender-dealer relationship is always complex. Having a reliable fraud risk score can facilitate productive conversations with dealers and allow for reasonable adjustments in the financial relationship when warranted.

Most dealers look to maximize the sale of back-end products to increase their profit margins. Lenders often set limits on these back-end products either in absolute dollar amount or some measure of loan-to-value. The AutoPass score can be used to adjust these limits appropriately to reduce the severity of loss when fraud scores are high.

Applications with a high risk of default due to fraud or misrepresentation are much more likely to result in dealer buybacks. Dealer buybacks are costly for both the dealer and the finance company. Your team can use the AutoPass score to limit the number of high fraud risk contracts booked from a particular dealer or increase the length of the buy-back period.

### 6. Reduce Your Compliance Risk While Funding More Good Loans

Lending origination process automation increases productivity, enabling your team to manage more application volume while maintaining or reducing headcount. With increased automation comes a reduction in manual decisions that reduces the opportunity for discretion, and more importantly, discrimination. Every time a decision is automated, there is one less opportunity for a human to inadvertently make a decision that creates discrimination. This is vitally important in a highly regulated field like lending.

Auto lenders face market pressures to expedite the lending process and improve the customer experience. Automating the underwriting process is paramount to profitability – reducing operating costs while effectively identifying applicants with a high risk of fraud or material misrepresentation that would likely result in early payment default (EPD) if funded. In addition to auto-decisioning loan applications based on fraud-related EPD risk, AutoPass also effectively identifies applicants eligible for a streamlined approval process, as well as favorable pricing and credit terms.