

# SubPrime

Auto Finance News

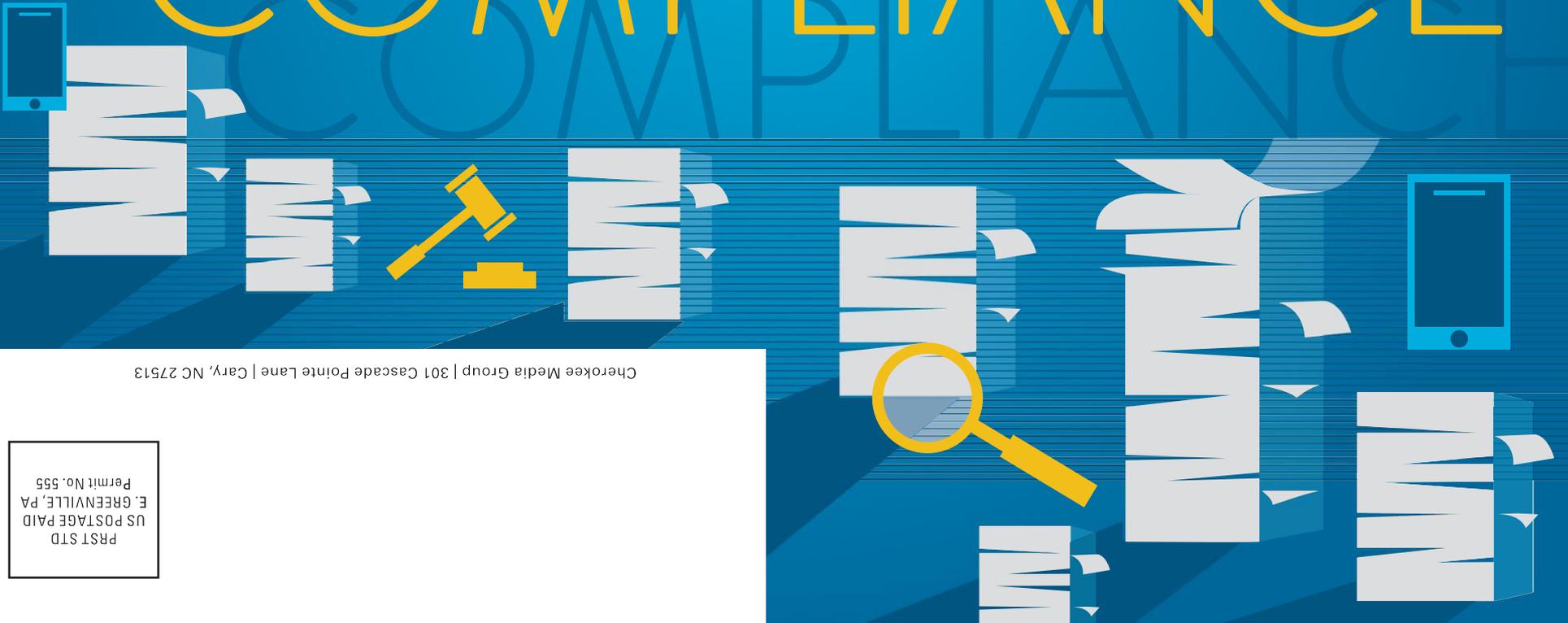
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**BHPH** REPORT

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## Evaluating the impact of starter-interrupt / GPS on automotive portfolio performance



**JOEL  
KENNEDY**

Equipping subprime collateral with a GPS/SID device generates significant improvement to key recovery metrics.

SAN DIEGO — I have been fascinated about the advancement of technologies that improve collections and recoveries in non-prime automotive applications. In particular, I was introduced to the starter-interrupt device (SID) back in 2007 when I took a job running credit and funding operations for a \$60 million subprime finance company. At that time, the device we used was a starter-interrupt device with no GPS. Borrowers would receive a code upon making a successful payment that when entered into a key fob would enable the vehicle to run for the next payment cycle. When customers missed a payment, the vehicle would be disabled and could only be turned back on by a new code — issued once a payment cleared.

The results of the SID on strengthening payment performance were profound. So profound in fact, that it became a major strategic and foundational basis for a non-prime auto finance company that I founded in 2009 and grew to more than \$110 million. By the time that we started the company, we were able to tap into the additional functionality afforded by the inclusion of GPS functionality coupled with the SID — all in one unit.

TruDecision was recently retained by PassTime to perform an independent analysis of the impact of its starter-interrupt (SID) and GPS device on automotive loan portfolio performance for a non-prime automotive lender. This article outlines the scope and format of the test, discusses the analysis we performed, and summarizes the results.

### Test structure

To evaluate the impact of the PassTime SID/GPS, we evaluated a single operator — a North American subprime auto finance company that has been in business since 2012. The lender has six distinct program tiers, with Tier 1 being the lowest, and Tier 6 being the highest program tier. For this particular lender, the PassTime SID/GPS is required on Tiers 1-4. The lender exclusively used the PassTime device. So, the test groups were:

A. Loans equipped with the PassTime SID/GPS device (Tiers 1-4)

B. Loans not equipped with a PassTime SID/GPS device (Tiers 5-6).

TruDecision evaluated loans funded between January 2016 and December 2017 and the evaluation outcome (results) observation window was from January 2018 through June 2018.

### Methods and findings

Statistical tests were performed on the two populations to determine if the differences observed between them were statistically significant. All tests showed well below a 1% chance that the data came from the same population — indicating that they are statistically distinct outcomes with a high probability. Statistical tests performed on the two groups during the test window demonstrated the following:

- Percentage of units recovered was higher for the SID/GPS equipped cohort
- Recovery values were higher for the SID/GPS equipped cohort
- Speed of recovery was quicker for the SID/GPS equipped cohort

Let's break down each of these results.

### Positive impact on recoveries

For the client subject, vehicles equipped with the SID/GPS were recovered at a rate of 74.9% compared with the non-equipped group at 60.5%. This represents a 23.9% improvement in vehicle recovery that can be tied exclusively to the SID/GPS, as no other variations exist in the treatment of these accounts.

**Figure 1. Average Percentage of Units Recovered for SID/GPS Enabled vs. Non-Enabled Contracts/Collateral**

	Average Percentage of Units Recovered
<b>SID/GPS Group</b>	74.9%
<b>Non SID/GPS Group</b>	60.5%
<b>Difference</b>	14.5%
<b>% Improvement</b>	<b>23.9%</b>

### Positive impact on recovery dollars and percentage

For the client subject, recovered vehicles equipped with the SID/GPS generated higher recovery dollars and percent (as a percentage of remaining principal balance) of 41% versus only 34% for the non-equipped group. This represents a 20.6% improvement in recovery funds that can

**Figure 2. Average Recovery Rate (net of fees) for SID/GPS Enabled vs. Non-Enabled Contracts / Collateral**

	Average Recovery Rate (net of fees)
<b>SID/GPS Group</b>	41.0%
<b>Non SID/GPS Group</b>	34.0%
<b>Difference</b>	7.0%
<b>% Improvement</b>	<b>20.6%</b>

be tied exclusively to the SID/GPS, as no other variations exist in the treatment of these accounts.

### Positive impact on average days to recover

For the client subject, vehicles equipped with the GPS/SID device took (on average) 8.2 days to recover compared with 14.6 days to recover for non-equipped vehicles. This represents a 43.8% improvement in average days to recover that can be tied exclusively to the PassTime device, as no other variations exist in the treatment of these accounts.

**Figure 3. Average Days to Recover for SID/GPS Enabled vs. Non-Enabled Contracts/Collateral**

	Average Days to Recover
<b>SID/GPS Group</b>	8.2
<b>Non SID/GPS Group</b>	14.6
<b>Difference</b>	6.4
<b>% Improvement</b>	<b>43.8%</b>

### Improvement summary

Equipping subprime collateral with a GPS/SID device generates significant improvement to key recovery metrics. By utilizing a high-quality collateral protection / recovery device, subprime automotive lenders can:

1. Recover nearly 25% more units, significantly reducing a finance company's charge-offs (e.g. static pool losses as measured in units) and allowance for uncollectable accounts
2. Improve Recovery Rates (net of fees) by over 20%, improving a finance company's charge-offs (e.g. static pool losses as measured in dollars) which has significant implications for their continued access to debt/securitization markets
3. Reduce Average Days to Recover by over 43%, which can significantly improve a finance company's ability to have more control over their monthly recoveries, and improve the throughput of the recovery process.

### Positive impact on a typical lender P&L

The improvements seen in key recovery metrics from pursuing an SID/GPS collateral protection strategy are impressive. Let's take it one step further to show how those improved metrics impact a lender's profit and loss. For our example, we take the case of a lender managing a \$50 million portfolio with typical rates of recovery, NCOs, charge-offs, recoveries and more.



**Figure 4. Summary of Bottom-Line Results for SID/GPS Enabled vs. Non-Enabled Contracts / Collateral**

	Non SID/GPS Group	SID/GPS Group	Difference	% Improvement
<b>Average Percentage of Units Recovered</b>	60.5%	74.9%	14.5%	<b>23.9%</b>
<b>Average Recovery Rate (net of fees)</b>	34.0%	41.0%	7.0%	<b>20.6%</b>
<b>Average Days to Recover</b>	14.6	8.2	6.4	<b>43.8%</b>

By applying the 23.9% lift in recovered units, this particular lender recovers 743.4 units versus the baseline of 600, resulting in an incremental recovery of 143 units worth \$1.30 million in additional recovery dollars. Next, by applying the 20.6% increase in recovery rate, this lender's recovery rate improves from 40% to 48.2%, resulting in an additional \$927,000 in additional recovery dollars. In total, this \$50-million lender has increased their recoveries by nearly \$2 million.

**Strategic considerations**

Pursing a PassTime SID/GPS strategy and doing it well does require some planning and forethought. There are a number of significant considerations that can impact this strategy, and from our experience the biggest of them are:

**1. Legal and regulatory**

While a vehicle disablement using an SID is legal in most states, there are a number of states where the device has been subject to some regulatory encroachment. Some states have made consumer notice arduous in its requirements and lead-times, that it removes the tiger's teeth. Many states treat the act of disablement as a "paper repossession," which requires various notices and lead times to remain compliant. Some states worth noting (not an exhaustive list):

- Nevada: 30 days' notice to the consumer prior to the disablement command can be sent
- New York: Have to confirm that the borrower still resides at same res as time of purchase
- New Jersey: Either written or verbal consent to borrower prior to disablement, and if by mail it needs to be certified
- Connecticut: Either written or verbal consent to borrower prior to disablement, and if by mail it needs to be certified

**2. Operational planning and staffing**

You will need a GPS SID administrator/analyst to manage a number of things, including:

- Monitoring for devices that have gone offline, and attempting to contact the borrower to schedule a repair or replacement
- Monitoring devices that have recently gone offline, that could have been tampered with by the borrower or their mechanic — and

continuing to check if offline devices have come back online

- It is a good idea to centralize the vehicle disablement process and have a well-documented record of all device disablements, re-enablements, and management will want to have a hand in making the call on any disablements
- Managing device installations; while many lenders let the originating dealer install the device, it is a better idea to control this activity with your own installers or via a network of outsourced providers that exist
- Identifying vehicles and devices that have tripped geo-fences of interest – in particular, known impound lots – this helps you to minimize the accumulation of runaway storage fees.
- Manage device functionality including setting ping cycles, drive and stop reports and geofence reports — in particular for any delinquent accounts.
- Renewal of GPS device airtime (this is often done on a monthly basis)

**3. GPS/SID Device Functionality & Quality**

There are a number of devices (providers) available in the marketplace today. Choosing between various devices can be tough. It has been our experience that the following considerations are the most important in making your decision:

- Core device functionality: Many may choose to go with SID/GPS, while others may only want the GPS. Some devices have audible warnings, while others do not. Today, there are GPS devices (GPS-only that is, no SID) that run on a self-contained battery and can be installed anywhere on the vehicle, thereby reducing the likelihood of tamper.
- Website functionality and interface: This is a big one that you really need to run by your GPS analyst, you want to give them the best tools to do their job. Website functionality really varies across providers. Further, device providers vary in terms of the changes that you can make en-masse versus having to hunt and peck and make changes on a unit-by-unit basis.
- Device installation/wiring schematics: Are they easily understandable or confusing and incoherent? Is it as easy to install on a Toyota Tercel as it is to install on a Mercedes Benz C Class?



**Figure 5. P&L Impact of Engaging an SID/GPS Strategy**

<b>Portfolio Size</b>	\$50,000,000
<b>Annual Gross Charge-off</b>	\$11,250,000
<b>Annual Recovery Rate</b>	40%
<b>Annual Recovery Dollars</b>	\$4,500,000
<b>Annual Charge-offs (Net of Recoveries)</b>	\$6,750,000
<b>Average Amt Financed</b>	\$15,000

Application of SID/GPS Results		Incremental Units	Incremental Dollars
Improvement in Units Recovered	23.9%		
Total Recovered Repos	743.4	143.4	\$1,037,642
Improvement in Recovery Rate	20.6%		
New Recovery Rate	48.2%		\$927,000
<b>Improvement with GPS/SID (Annually)</b>			<b>\$1,964,642</b>

• The network that the devices run on. Is this network broadly available in your region or are there dead spots?

• Reputable company with a proven track record, quality hardware and software along with support for both users and consumers backed by a compliant data security infrastructure.

**Final summary**

As you have seen, applying an SID/GPS strategy to a non-prime automotive lender can deliver substantial lift and deliver bottom-line improvements to your P&L. For lenders that are interested in pursuing this strategy, we have called out a number of operational, regulatory, and technical considerations that should be evaluated and continuously re-visited.

Obviously, the issue of improving payment streams and controlling account roll through delinquency buckets is something that the SID

itself delivers, and that is something that both PassTime and TruDecision are excited to evaluate in the coming year. The bottom-line to many will be nothing more than cutting through the noise of the vast array of third-party products and services available to lenders, all promising to improve portfolio results.

In this particular instance, the facts and the numbers are clear that the PassTime SID/GPS device can deliver bottom-line improvement to recoveries and the P&L.

*Joel Kennedy is chief operating officer of TruDecision. As president of the National Automotive Finance Association, he is passionate about growing and improving auto finance ecosystem. He has over 24 years' experience helping big banks down to start-up finance companies to build, grow, improve, and repeat. He can be reached at (240) 308-2169 or joel.kennedy@trudecision.com.*