Payment Devices Best Practices - NABD Study #3

In April 2012 the National Alliance of Buy Here, Pay Here Dealers (NABD) completed an online survey which focused on payment device best practices. This study was the third conducted by NABD during the last 18 months and included 164 respondents from 37 states, Canada, and the U.K. and covered approximately 180,000 units. The three surveys conducted by NABD collectively covered approximately 450,000 devices, and all survey results can be downloaded free at the NABD website*www.bhphinfo.com*. All of the survey respondents were users (both large and small) of the devices and all results were independently compiled by Zoomerang^{TM}. NABD was not compensated for any of the surveys and has no economic interest in any payment device providers, and the results should therefore be considered credible.

For purposes of all three NABD studies, the definition of payment assurance devices included both starter-interrupt devices (with and without a GPS feature) and Global Positioning Systems (GPS). Some of the GPS systems surveyed also included starter interrupt functionality which allows for enabling or disabling vehicles remotely.

The most recent survey was discussed during the NABD 2012 National Conference in Las Vegas, Nevada on May 16-18, 2012. During this conference, experts from several of the nation's leading device providers discussed the results and answered questions from more than 1300 attendees.

This white paper summarizes the more important findings and provides insight into industry best practices from operators who use these devices. The survey covered industry best practices in five different areas: implementation, experience and perceptions, disclosure, disabling and GPS technology differences, and survey conclusions.

IMPLEMENTATION

A common concern of operators who use payment assurance devices is whether customers will object to having a device installed on the vehicle; and if so, will buy the vehicle from a competitor. Contrary to this concern, the survey found that only 1% of respondents indicated their customers objected to the installation of these devices at the time of the sale.

<u>COLLECTION COST IMPACT</u>

One of the most significant benefits of payment assurance devices is the ability for collectors to handle a larger number of accounts per collector than without the devices. The survey noted that 91% of respondents believe their collectors can work a larger number of accounts when using the devices. This increased efficiency allows operators to grow their portfolios without incrementally adding more employees, thereby increasing profitability and cash flow. In the inflationary economic environment of today, such operating efficiencies are more significant than ever before.

<u>UTILIZATION VARIES</u>

The survey asked respondents to explain how they utilize these devices after installation. Answers varied as follows: 14% - track or disable immediately when a customer misses a payment; 30% - have a short grace period; 54% - use discretion; and 1% use them only as a threat. These utilization differences directly impact performance results.

DEALER EXPERIENCE AND In addition to improving the collection process, payment assurance devices also have a positive impact on consumers as discussed below.

<u>IMPROVING CONSUMER</u>

In the survey, 100% of respondents indicated that their customers experienced improved credit ratings when using a payment assurance device on the vehicle they financed.

Payment Assurance Devices (especially ones equipped with payment reminders) facilitate more consistent repayments by consumers. In the survey, 94% of respondents believe the use of disablers enhance the repayment collection process. Positive repayment behavior over the life of the contract (when reported to the credit bureaus) improves a consumer's credit rating.

LOWER RISK, GREATER FLEXIBILITY

Perhaps the biggest consumer benefit of Payment Assurance Devices is the ability (when used properly) to reduce the overall risk of financing subprime consumers. Subprime consumers have historically experienced higher default rates, creating more collection risk. In historical models (without the use of device technology) financers had limited ways to mitigate the higher risk. Such options were typically to increase the interest rate and/or require a larger down payment.

However, with devices, operators now have an additional tool to reduce risk. Devices alleviate their dependence on such other risk mitigation methods (higher interest rate or larger down payment) and enhance the customers' experience by allowing greater flexibility in their credit granting criteria. Seventy-eight percent (78%) of the survey respondents indicated that the use of devices allows greater credit-granting flexibility.

With regards to credit risk, the survey posed the question of whether devices actually reduce repayment defaults. An overwhelming majority of 81% of the respondents indicated they believe the use of devices does lower the overall risk of customer default.

HIGHER VALUED VEHICLES

Another benefit to the consumer from devices is their ability to obtain more financing for a higher Actual Cash Value (ACV) vehicle than would otherwise be possible. Operators will finance larger amounts when they perceive default risk has been reduced. Higher quality vehicles create a real benefit to the BHPH customer. From the survey, nearly 70% of respondents indicated that they believed the use of devices allowed them to sell higher value (ACV) vehicles with less risk.

DISCLOSURE

One of the most important aspects of utilizing Payment Assurance device technology is full customer disclosure. Informing the customer of the device, what it does, and how it will be used is paramount to a positive customer experience, and to compliance with various laws and statutes.

Historically, the argument against disclosing (assuming they were not legally required to) was that the customer would object to the installation and would buy a vehicle from somebody else. However, the survey results indicate that customer objections to the installation of devices is minimal.

Only 1% of respondents indicated "yes" when asked if their customers object to the installation of a device as a condition of their financing/leasing. With such a minimal number of objections from consumers, operators should fully disclose the installation of these devices in writing.

The method of disclosing is important. Many device providers offer written disclosure forms that can be used. A signed consent from the consumer is the best way to ensure that the customer understands and agrees with the use of a device. Written consents are needed for compliance with Right to Cure and other regulations.

Ninety-four percent (94%) of survey respondents indicated that they use written disclosure forms from device providers. The use of disclosures improves the customer experience and leads to referrals and repeat business.

DISABLERS vs. GPS TECHNOLOGY DIFFERENCES

While payment disablers or collection technology devices are frequently considered to be an alternative to GPS systems, they actually perform quite differently. Payment Disabling Devices focus on facilitating the collection of customer repayments, while GPS units help locate a vehicle for repossession and recovery. Operators must first decide on their overall objective before selecting which device best meets their particular needs.

DISABLING AND PAYMENT ASSURANCE DEVICES

Survey respondents who used payment assurance technology indicated they experienced one or more of the following results: customers call us (the financer); closer attention is given to customer repayment patterns; customers have more interaction with the financer; they afford greater flexibility in credit granting decisions.

The survey noted that 91% of respondents believe the use of devices reduced their overall cost of collections.

When integrated into the collection department, payment assurance devices improve the overall performance of a portfolio by facilitating customer interaction and encouraging more consistent repayment patterns. This allows the collection department to focus on a smaller percentage of delinquent accounts and handle more accounts with better results.

GPS DEVICES – FOCUS ON REPOSSESSION AND RECOVERY

GPS tracking devices focus on repossession and recovery of a vehicle after a customer default. Their primary goal is to more quickly recover the vehicle after the customer has missed a payment. Based upon the survey results, the devices achieve this goal. Ninety-eight percent (98%) of survey respondents believe that the use of GPS devices results in faster recoveries. If a consumer defaults and repossession is necessary, the loss or repossession is directly related to how long it takes to recover the vehicle. The cost of repossession, the cost of impound fees that may occur, and the subsequent costs to recondition the vehicle (after recovery) are reduced by locating the vehicle with GPS technology.

The survey also indicated that 80% of the respondents believe the use of GPS technology allows them to fund more contracts. If financers believe they can quickly and easily recover vehicles when customers default, the perceived risk is lowered and more contracts will likely be originated.

CONCLUSIONS

PROVEN BENEFITS

The survey responses support that payment assurance devices (both disablers and GPS) benefit both financers and consumers. Survey responses indicate that disabling devices did one or more of the following: reduced collection costs, reduced delinquencies, altered customer behavior, and reduced defaults. Overall, 84% of the respondents indicated that these devices achieved ALL of these benefits.

In addition, 87% of respondents believe that payment devices reduce charge offs. This results because GPS technology provides a psychological deterrent to not paying, enforces the theory a dealer can recover the vehicle quicker, and facilitates retrieval after a default.

APPROVAL

To the survey question: I would recommend the use of these devices by other operators, a nearly unanimous 99% indicated that they would. In addition, 79% of all respondents said they plan to install them on all the vehicles they sell.

FINAL POINTS

In summary, this survey confirmed that customers accept the use of these devices as a condition of their financing and rarely object to their installation. The consumer benefits of these devices range from a potential improvement in their credit score, a greater probability of being approved for vehicle financing and/or for a larger amount financed.

Financers benefit from reduced risk which allows them wider credit granting flexibility. Payment Assurance devices reduce overall collection and recovery costs and enhance collection efficiency.

The three surveys conducted by NABD over the last 18 months confirm that payment devices (both disablers and GPS) benefit both the users and the consumers. We sincerely thank everyone who participated in the aforementioned studies and acknowledge the expertise and insights offered by the device providers and users. Participation in future surveys is encouraged and appreciated.