*Financial Focus*

# Unlock Hidden Value to Boost Portfolio Value

By John Sidman

The auto industry has had a pretty good run lately.

Since bottoming out in 2009, sales have made a steady climb back to record levels over the past few years.

There are signs now, though, that the market might be slowing. And just as a hot market warms an entire industry, a cooling market can freeze industry growth.

Softening market conditions lead to a logical question for the entire industry – particularly automotive lenders: Where will growth come from when the market has reached high tide?

Answers could come from close examination of vehicle portfolios. By taking advantage of data, lenders can ensure they maximize remarketing dollars on every vehicle.

Lenders looking for additional profits essentially have two available assets they can tap: their customers and the vehicles in their portfolio.

With both assets, lenders typically follow traditional strategies. They create customer acquisition campaigns, closely manage their customer relationships and manage collections to create revenue streams.

Those strategies use tried and true marketing techniques that are important to normal operations. But those activities are just standard operating procedure and aren’t likely to unlock additional sales.

Similarly, activities such as remarketing, repossession and basic total loss notification processes impact portfolio value. But most lenders still don’t dig deep enough to find ways to maximize their vehicle portfolio’s value.

That’s a shame, because there are several options that can unlock hidden revenue or value – particularly in the vehicle portfolio space. For example, lenders often don’t realize vehicle appraisal estimates on vehicles with accidents are frequently much lower than actual market value.

How can lenders proactively make sure they unlock that hidden value?

Here are a few strategies lenders can employ to find hidden dollars as the rest of the market tightens.

**Accident analysis:** Knowing whether a customer has been in an accident is a predictor of future sales.

The more data points that can be learned about an accident, the more customers can be segmented into likely buying groups. For example, knowing the type or severity of the accident has an impact on the likelihood of a customer returning to market.

In an Experian analysis of 134,000 accidents, the overall vehicle purchase rate for vehicle owners who were in an accident was 32 percent.

But what happens when we look at another key data point – airbag deployment?

In accidents in which the airbag deployed but the vehicle didn't need to be towed, owners purchased a vehicle 50 percent of the time. If the airbag deployed and the vehicle was towed, the purchase rate jumped to 61 percent.

Accident severity also impacts time to market. The average time to market for a customer in an accident was 65 days. But for vehicles in which airbags deployed and/or were towed, owners came back to market in less than 54 days on average.

**Undervalued totaled vehicles:** Another area where lenders can better manage their portfolios is ensuring they receive accurate valuations for totaled vehicles.

Experian analyzed several thousand VINs of totaled vehicles and found estimates from insurance carriers were approximately 10 percent less than estimates from independent resources.

So if the true average totaled vehicle value is $17,000, lenders may be losing roughly $1,700 per vehicle.

On average, nearly one in 200 portfolio vehicles is totaled in an accident. If a lender portfolio has 1 million vehicles, totaled vehicles that are undervalued can cost some $8.5 million in portfolio value.

How can lenders guard against that type of loss?

All lender claims need to be reviewed for fairness, accuracy and compliance with local laws. That should be done by a third party that can review the manufacturer's invoice and the insurance company's total loss settlement offer.

Then the third party can provide a more accurate total loss appraisal and negotiate a new settlement offer.

While that process will never make up for the lost value in all totaled vehicles, Experian's study showed about $1,000 more in value can be recovered on approximately 40 percent of all vehicles.

That works out to about $2 million in recovered portfolio value.

**Diminished value claims:** The impact of understanding vehicle valuations extends well beyond totaled vehicles.

Any accident diminishes vehicle value, and it's important to recognize how that impacts the overall portfolio value.

Lenders frequently aren't notified about accidents. The vehicles are included in the lender's portfolio and drive down the value.

In cases in which a third party damaged the vehicle in their portfolio, lenders might have a diminished value claim against that third party.

It's estimated 50 percent of accidents don't result in a diminished value claim. While collecting diminished value claims can be difficult and time-consuming, it also can result in significant value to lenders.

Claims can be settled for as little as $500 and as much as $50,000, with the average claim at $1,200. Lenders can work with a third party to assist them in the retention of the loss in value due to previously damaged vehicles in their portfolio.

There are two subsets of vehicles that should be monitored closely: lease vehicles and repossessed vehicles.

Truly understanding vehicle value and working with a third party to reclaim loss in value will help make sure revenue is maximized during the remarketing process.

**Repo damage:** Lenders often overlook damage done to repossessed vehicles. If physical damage is present on a repossessed vehicle and occurred while a borrower's auto insurance policy was in effect, the lender is entitled to make a claim for the damages from the borrower's insurance carrier.

Recovery on those claims is often thousands of dollars, and an estimated 33 percent of repossessed vehicles have some damage.

Of course, not all those vehicles are properly insured. But if they are, any recovered money can be applied to the borrowers' deficiency balance.

If lenders take the time to repossess and remarket a vehicle, it makes sense they should invest the time required to maximize the vehicle's value.

## HOW DO LENDERS GET STARTED?

A growing number of lenders are monitoring their vehicle portfolio for accidents and other events for early notification of potential disposals and loss in value.

Information that should be monitored weekly or monthly includes accident data, salvage data, event severity such as airbag deployment or towing services, and odometer readings.

Like any successful business function, there must be tools and systems in place to achieve success.

The first step in monitoring the vehicle portfolio is for lenders to make sure they have access to the right data, including vehicle monitoring, public records and crash records.

It also helps to have a legal team with claims management experience and the capacity to manage thousands of claims.

Finally, a delivery system that monitors claims, tracks payments and provides custom reporting must be in place. Compared to the potential payback in portfolio value, it's worth the investment.

In many cases, there are service providers in the market that can make it as easy for lenders as supplying VINs and cashing checks.

Small Gains can make a big difference in a flat market. Portfolios lose millions in value annually thanks to physical damage, diminished value and lack of processes to monitor those losses.

Using third-party data to recapture that lost value is critical.

Unlocking that hidden value is imperative for future success. With a relatively flat market, double-digit portfolio growth is not likely in the foreseeable future. But finding $1,200 in additional claims for diminished value, maximizing a vehicle’s value at auction or getting full value for totaled vehicles add incremental value to portfolios and lenders’ bottom lines.

As lenders continue to develop best practices based on improved understanding of data and its power to help monitor portfolio values, they’ll be able to capture millions of dollars in lost claims.

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