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HONING LOSS MITIGATION AMID DETERIORATING PERFORMANCE

MIAMI — Effective default management starts before a loan is even a single day past due.

With delinquencies and chargeoffs on the rise industrywide, lenders must revisit not only servicing and forecasting procedures, but underwriting processes, as well, said **Charles Einhorn**, director of risk management at **World Omni Financial Corp.**, at the Auto Finance Risk Summit.


Charles Einhorn

For starters, lenders should update origination models, particularly used-car values, which affect the amount of money recouped should a loan sour. They should also beef up validation efforts. These days, Deerfield Beach, Fla.-based World Omni pays closer attention to the bureau score differential for co-applicants. A noticeable discrepancy could translate to higher-than-desired risk.

The competitive landscape should also be on lenders' radars. "As your competitors pull back, you might be an aggressive outlier, which results in negative selection," Einhorn said. "Keep an eye on your value proposition: Why do dealers choose you?"

SERVICING STRATEGIES

In this difficult environment, sometimes lenders must take a short-term approach to resolving performance issues. "Focus four feet in front of you instead of four months ahead of you," Einhorn said.

With servicing, though, the key is prioritization. Should calls be made at five days past due? Seven days past due? Lenders must "bring salvageability into the equation," he said, by asking themselves: "Can I do anything with this customer once I get them on the phone?"

Metrics are critical to making those determinations and to ensuring that changes to servicing protocol are prudent. "Take a look at a particular risk group: How many more calls will you make if you change from calling at 29 days past due to 23 days past due?" Einhorn said. "Then layer in the cost to collect. Calling people earlier could cost three times more."

Here are some of Einhorn's other tips for bolstering loss-mitigation efforts:

• After chargeoff, put together a risk or fraud team to go after early-payment defaults — those that defaulted within 90 days of origination.

• Consider using a "relative" score, one that contains information on a borrower's parents, siblings, or other relatives. The rationale is that if something bad is happening to a relative, it may be happening to your customer.

• Try to move beyond traditional scores to "toxic" scores, which measure loss over 12 months.

• With forecasting and loss prediction difficult in today's environment, review loss-to-liquidity reports.

• Strive to incorporate related economic data into loss-prediction models. For one, World Omni has noticed a strong correlation between losses and the unemployment rate.

• Make sure to keep track of what strategy was in place when. To be successful, there needs to be close coordination between the risk department and servicing centers.

Overall, for default management to be effective, it must be "surgical and targeted," Einhorn said, adding that sometimes, "the 'direction of travel' is more important than the ultimate destination."

—Marcie Belles
Senior Editor, Auto Finance News

Charlie Einhorn is director of Risk Management for CenterOne Financial Services LLC (CenterOne). Einhorn provides strategic leadership for the company's risk-based underwriting and collections strategies, including loan origination systems.

Einhorn has worked in the automotive industry for more than 15 years. Before joining the company, Einhorn served in a management role at AutoNation. Einhorn graduated from the University of Florida in Gainesville, Fla. with a bachelor's degree in Finance.

About CenterOne Financial Services LLC

CenterOne Financial Services LLC, a subsidiary of World Omni Financial Corp., is headquartered in Deerfield Beach, Fla. and leverages more than two decades of experience in the automotive industry. Bringing a wealth of knowledge and expertise to its clients, CenterOne's servicing solutions include origination processes for captives, loan and lease servicing, collections, pro-active "pre-term" remarketing, repossession remarketing, back-up servicing and training. From start to finish, its services are designed to provide value-added solutions. In 2004, in recognition of the company's servicing processes, CenterOne was the first retail auto loan and lease servicer to earn the highest Standard & Poor's servicer rating of "STRONG," a rating that the company maintains today.