SENSITIVE AND PRE-DECISIONAL
OCTOBER 31, 2013

Discussing direct vs. indirect auto lending channels using Experian AutoCount data

Case Study: [redacted]

Note: This document was used in support of a live discussion. As such, it does not necessarily [redacted]*t discussion nor the relative emphasis of topics therein.*

Consumer Financial
Protection Bureau

Methodology

Overview

- Sample lender: [redacted]
- Sample state: [redacted]
- Sample data range: January – December 2012

Key statistics for [redacted]

- Direct business operates under [redacted]
- Indirect business operates under [redacted]
    - Combined accounted for almost [redacted] of the auto finance market in [redacted]
- Nationwide split of direct and indirect is [redacted].

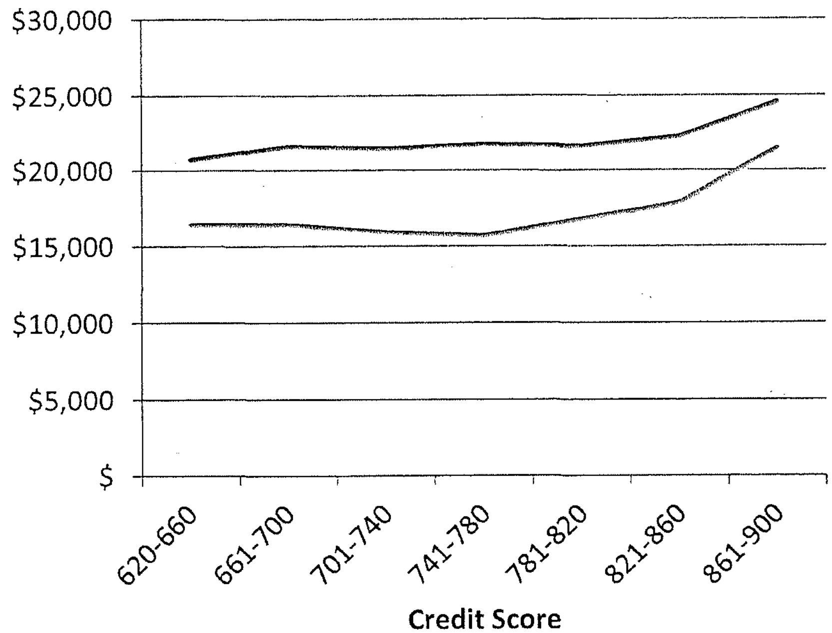
Why [redacted]?

- Accounted for over [redacted] of [redacted] total auto lending business in [redacted], second behind [redacted] which originated [redacted].
- [redacted] state for branch locations with [redacted] banks, following [redacted] with [redacted], respectively.
- Close match of nationwide split of direct and indirect with [redacted].

Analysis

- Run tests for loan characteristics (amount financed, loan term, interest rate and monthly payment) for both channels.
- Limit analysis to loan analysis to credit scores ranging from 620 – 900 using [redacted] which is on a similar range scale as FICO.

1. Amount Financed

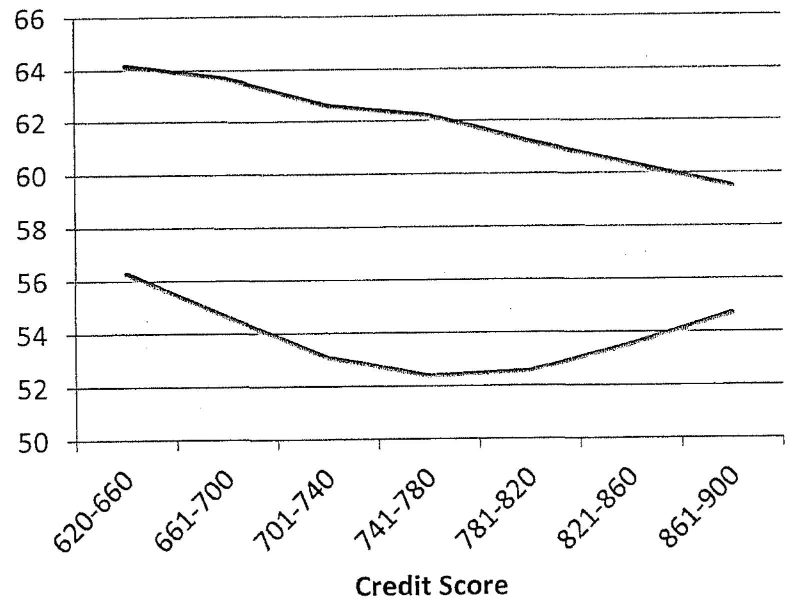


[redacted]

Takeaway:

- Not surprising borrowers with better credit are approved for larger sized loans. Both channels trend upwards as credit scores increase.
- However, borrowers are financing more through the indirect channel perhaps because there are more products and services bundled in the loan at the dealership.
- Also, borrowers may be putting more cash down through the direct channel.

2. Loan Term (in months)

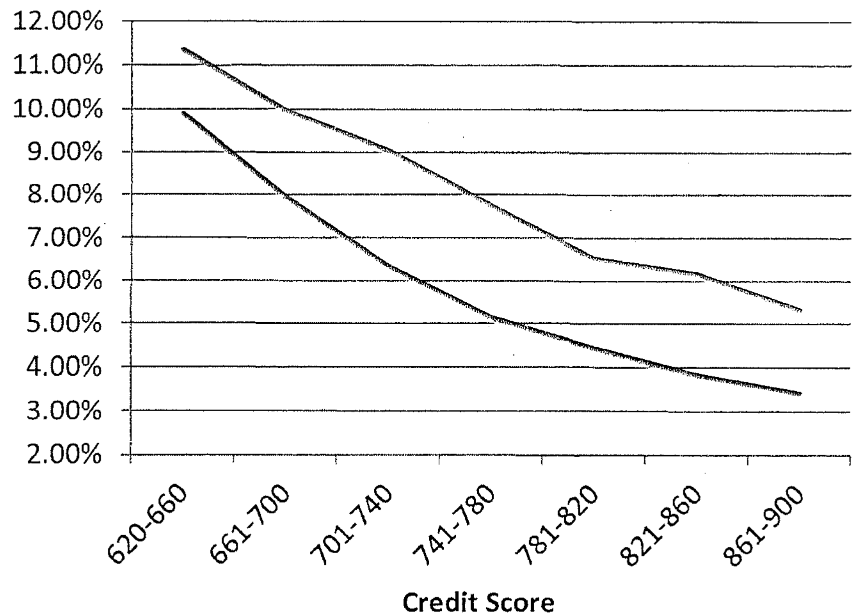


[redacted]

Takeaway:

- Overall, borrowers are approved for longer loan terms via the indirect channel. The shorter on average loan term in the direct channel may be a result of the type of borrowers, perhaps more prime, using this channel. The negotiation may be less standardized and borrowers may have more say in their loan agreements.
- Borrowers with better credit receive shorter terms in the indirect channel because they can afford higher monthly payments or should be less likely to miss a monthly payment.

3. Interest Rate

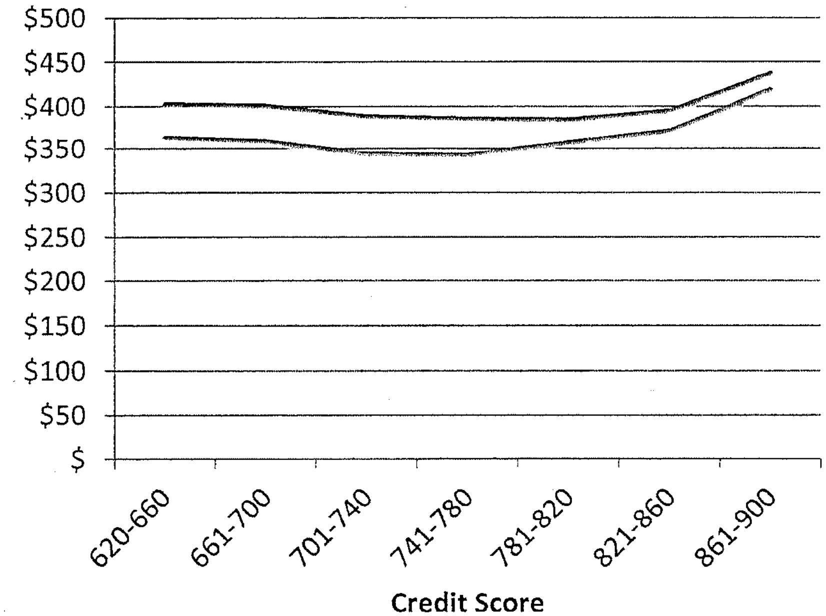


[redacted]

Takeaway:

- Interest rates sharply decrease as credit improves for both channels. This is not surprising given credit is used a determinant for likelihood of repayment. However, what stands out is the increasing gap among more prime borrowers.
- Borrowers with equal credit scores get a better interest rate through the indirect channel which already includes dealer mark-up. Market competition is most likely driving interest rates down.

4. Monthly Payment



[redacted]

Takeaway:

- Borrowers using the indirect channel pay more on average on their monthly payment due to larger amount financed, shorter loan terms, and higher interest rates. These loan characteristics combined yield a slightly higher payment.
- The average credit score for loans for new vehicles was 751 for both channels; however, the average score for used vehicles was 736 and 722 for the direct and indirect, respectively. This suggests slightly more prime borrowers may be using the direct channel, which also explains the overall lower monthly payment.

Appendix

[redacted]