

Bridging the Operational Gap at End of Term

Success in the auto financing industry during the next two years will at least partially depend on how well companies brace for an anticipated wave in lease expirations. A [2017 Reuters](#) report estimated that 12 million North American automotive leases with 36-month terms are set to expire by the end of 2019, the result of increased leasing during a strong run of new-auto sales between 2014 and 2016.

Coping with the expected rush of end-of-term lease agreements will require the proper infrastructure, processes and manpower to accommodate the influx of vehicle maturities. Compounding that operational challenge are borrower and compliance risks lenders may face if they don't have a solid strategy to bridge the lease maturity management gap.

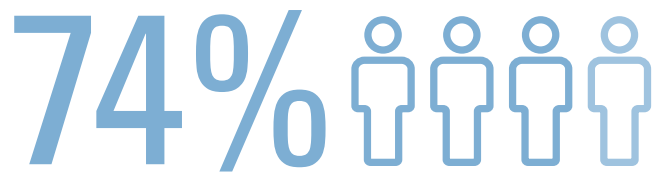
One solution is for financing providers to outsource lease maturity management to overcome those end-of-term challenges.

Don't Put Retention at Risk

The end-of-term experience for a lessee is a critical engagement point. It heavily influences whether a borrower will stay with the same lease financing provider or move on to someone else.

Recent quarterly consumer research from Fiserv only underscores how much the borrower experience drives retention. According to the Expectations & Experiences: Borrowing and Wealth Management survey, 74 percent of consumers who have a loan said prior experience with a lender influences their subsequent lender choice.

Driving Retention



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Source: Expectations & Experiences: Borrowing and Wealth Management, Fiserv, 2018

To attain greater end-of-term retention, lenders can help borrowers navigate the multistep process of bringing their lease to maturity. That also presents an opportunity to align the future interests of borrowers with prospective auto dealers.

As borrowers approach the end of their lease periods, a courtesy call goes a long way. It's the perfect moment to offer basic information about the pre-inspection and turn-in processes as well as any brand loyalty offers that may be available. It's also likely borrowers forgot the commitment details embedded in their contract two to three years earlier, so the call offers an opportunity to ask about agreed-upon mileage or disposition fees. Providing proper contact information for future questions minimizes confusion as the contract nears termination.

Proactive and courteous customer service is even more important when challenging conversations are part of the maturity process. Borrowers often carry some liability when they reach the end of term and return their vehicles. Perhaps there is excessive wear to the vehicle or a disposition fee. Those liabilities introduce friction and must be taken into account.

Many leasing financiers make the mistake of sending end-of-term liability to a collection agency. Some leasing companies might think it's the right thing to do, while others might not realize an alternative, educate-the-borrower approach can have a powerful effect on retention. For example, an educate-the-borrower conversation over a fee could go like this: "This disposition fee is in your contract, but if you get into that next same-brand vehicle, we may be able to waive that charge."

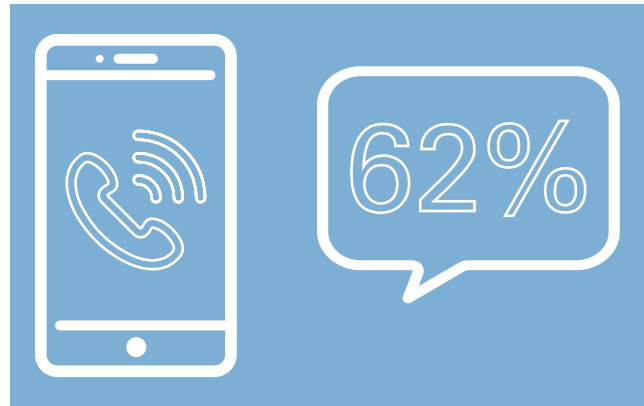
A nurturing approach can help retain the borrower, as opposed to an unfriendly, unhelpful call from a collection agency.

Ideally, outreach should begin at least six months from the end of the lease term and continue in shorter intervals throughout. Bringing awareness and education early and often enhances the entire borrower experience. Borrowers may have had a great experience throughout the three years of the lease, but that can be forgotten with a poor experience at the end.

Keeping up With Compliance

The Expectations & Experiences research showed that 62 percent of lessees will likely wait for their lender to contact them to find out what they want to do at the end of their lease. That further supports the need for outreach to borrowers as their leases approach maturity.

The Importance of Outreach



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Source: Expectations & Experience: Borrowing and Wealth Management, Fiserv, 2018

There's more to that outreach, though, than enhancing the borrower experience.

Part 1013 of Regulation M under the Truth in Lending Act, introduced in 2011 as additional protection for borrowers, stipulates the fair disclosure of lease terms. As such, lenders have a six-month window after the date when a borrower's lease matures to send the necessary disclosure forms and initiate re-contracting.

If lenders don't keep up with over-term contracts, borrowers may inadvertently continue to make payments beyond the six-month window. While the borrower's monthly payments to continue driving the vehicle can be applied against the purchase amount, the borrower and lender are operating outside of the agreed-upon legal contract. That would put a lender in violation of regulations and risk fines and other penalties from the Consumer Financial Protection Bureau.

Bridging the Gap

Even with the right lease maturity management processes in place during the next two years, lenders still have to ride the rising wave of end-of-term volume. With millions of borrower relationships on the line and regulatory risk a real concern, lenders have two choices: They can carry on as usual and try to add staff, or they can manage the cost of operations and keep borrowers happy by turning to a specialist in auto financing business process outsourcing.

Such a partner can provide the process expertise and a highly trained staff ready to handle fundamental changes in the auto financing market. To truly support lenders, business process outsourcing providers can manage account activity from the first contact with a borrower through the final account resolution. That seamless experience for borrowers includes refinances, term extensions, dealer referrals and vehicle returns.

Financing providers recognize the value of a customer over a lifetime and, by extension, understand the importance of retention. The benefits of those strong relationships cover new financing, service and referral business. Auto financing business process outsourcing can be key to not only making sure all the regulatory I's are dotted and T's crossed before end of term, but also to ensuring lenders offer the right level of borrower support to bridge the gap between end of term and long term.

About the Author

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