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SOFTWARE AIMS TO END "SHOTGUN" LOAN PRICING

Loan-pricing strategy is a battle lenders fight daily, particularly these days, when margins are tight and competition stiff.

To that end, technology firm **Nomis Solutions** unveiled an optimization solution in September that enables lenders to monitor their performance, analyze their opportunities, and improve performance. The software, called Price Optimizer Suite 3, aims to provide finance companies with pricing recommendations, based on historical evidence, most likely to be accepted — and generate the highest possible profits.

Nomis is in talks with a handful of auto lenders and captives, as well as home equity and consumer finance companies, about using the technology, said **Robert Phillips**, Nomis's co-founder and chief technology officer. The software has already been implemented in the airline, hotel, manufacturing, and retail industries.

Straying from rate-sheet pricing is all-too common in the auto finance industry, said Phillips, who has spent the past 25 years studying how businesses establish prices. So imagine his frustration when no one could tell him why more than 50% of agents at a local bank offered auto loan rates below the established rate sheet.

"There's very little going back to evaluate that" decision to veer from the rate sheet, Phillips said. "Very little saying why did you do that for this guy and not [that] guy."

Phillips contends that there is no way to gain competitive advantages through cost- or risk-based pricing because the approaches are so widely used. Profit-based pricing, he said, is the next frontier because it enables lenders to consider dealer and customer price sensitivity when making a price recommendation.

In fact, Phillips contends that pricing methodologies in the financing industry are flawed, because they are based on "fear" of losing money and "speculation" of what will make money.

Currently, many lenders have pricing committees in place, led by the finance and credit-risk divisions, according to a study conducted in April on behalf of Nomis by **BenchMark Consulting International**. In most cases, cost of funds, loan-to-value ratios, credit losses, and customer risk drive pricing decision-making, according to the survey, which polled 22 or the top 25 banks and finance companies. "Customer sensitivity" — a customer's likelihood to reject or accept a loan offer — received the least amount of consideration, the survey revealed.

Findings from the survey support the functionality of Price Optimizer. The software creates a range of prices to be offered based on specific criteria: prime or nonprime credit history, young or old applicant, previous or existing customer, in-person or online application, and numerous other factors that establish customer sensitivity. The institution's findings are then compared against market conditions and local competition — based on information collected by research groups **Power Information Network**, **Autocount Data**, and **Informa Marketing Research Inc.** — to generate the suggested prices.

Eight captives, six national banks, five regional banks, and two independent finance companies responded to the survey. Names of respondents were undisclosed.

CUSTOMER PRICING TRENDS

Through its engagements with finance companies, Nomis discovered the following customer pricing trends:

- Customers are more likely to reject online loan offers compared with those made at the same rate during an in-person visit to a bank or dealership. Consequently, local branches may be able to charge higher rates for in-person visits. "The critical point is evaluation," Phillips said. "You might find out, [the local banking agent] is dropping on his price too quickly."
- The better the credit score, the more "sensitive" customers were to the initial rates being offered. Those with poor credit scores were less likely to have a knee-jerk negative reaction to rates, even if customers thought they were too high. "Those came through loud and clear, and while that's more of an intuitive result, you put those all together and it helps [lenders] understand how many bands they should have, and where the boundaries should be," Phillips said.
- As a rule, lenders base pricing largely on happenings in their operational footprints.

—Marcie Belles and J.J. Andrews