



By Gregory Arroyo

Laser-Targeted Lending?

Did you catch that news item about “subprime” being voted the Word of the Year? Apparently, the American Dialect Society thought the adjective dominated the attention of the press and the public throughout 2007.

If I had my vote, I would have chosen “full spectrum.” Not a month went by that I didn’t hear about another lender adopting the approach. Its emergence wasn’t a total surprise, especially with the amount of merges and acquisitions that occurred in the years prior to 2007.

However, as 2007 moved along I began to hear that some lenders were struggling

Optimization, a book preaching a business approach first adopted by the airline industry during the pricing wars of the ’80s. The strategy is also used by credit card lenders, and has made its way into the retail industry over the last few years. So, what about lending?

Well, according to an Aug. 21, 2007, report from Gartner Inc., the finance industry has been very tight-lipped about its interest in price optimization. The report, however, warns not to read into the industry’s silence — my reason for speaking to Dr. Phillips.

As it turns out, AmeriCredit announced

pressures, increased competition, government regulations, and increased risks.

Financial institutions spend millions collecting and storing transaction and customer data. The profit-based approach allows them to leverage this information to price their loans to achieve their objectives. Nomis does this via software that puts this information into a virtual dashboard that allows lenders to push and pull levers on a loan-by-loan basis.

And that’s what AmeriCredit’s Preston Miller said the company is after, saying the move to the Price Optimizer was more about getting the right price, both from a regulatory and business standpoint.

Remember, aside from better pricing, the software makes lending more transparent, and takes customer and dealer loyalty into account. Think of it as *laser-like* lending.

“The product kind of looks at each loan like a little business deal,” Miller said. “You have to make sure that an expected value given is the best estimate of your risk, and that the price you’re offering is going to make money on the deal.”

Nomis Solutions isn’t the only game in town. There are about nine other competitors and more on the way. As for dealers, you may see quicker pricing decisions and better pricing, but that’s about it. What you need to keep in mind is, if you want that lender to buy up and down that credit spectrum, make sure to send them a balanced diet.

“Dealers probably won’t see any difference between those using our technology and those who don’t,” Dr. Phillips said. “We think they’ll get better prices and quicker pricing decisions, but this is not going to change the fundamental relationship between the lender and the dealer.” ■

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Nomis Solutions

with buying deeper. Others realized they didn’t have the reputation to buy higher. So, was it a bad idea?

“Full spectrum is a nice idea, and I don’t think the strategy is done just yet,” said Dr. Robert L. Phillips, the founder of the San Bruno, Calif.-based Nomis Solutions. “In the short run, my impression is it’s not going to be the focus like it was the last few years. Instead, lenders will be looking intelligently on a loan-by-loan basis.”

So, who is Dr. Phillips? He’s been a sought-after speaker at credit conventions around the world, including last August’s Credit Scoring & Credit Control conference in Edinburgh, Scotland, where the subprime mortgage woes took center stage. He’s also author of *Pricing and Revenue*

last October that it was looking to the Nomis Price Optimizer to fuel its full-spectrum efforts. And on Jan. 15, Ford Credit gave me the green light to tell you that it is also adopting Nomis Solutions’ software. So why now?

Well, in a June 2006 survey conducted by Benchmark Consulting International, 81 percent of 20 of the top 25 indirect auto lenders said they planned to improve pricing. Ninety percent said they were interested in price-optimization software.

The problem is pricing in financial services is very complicated. As Dr. Phillips noted, selling a loan is just the start of a relationship with a customer. There’s the built-in uncertainty of whether he or she will default. There’s also margin and cost