Automotive Lenders Are Overlooking the Value of Alternative Data and Instant Decisioning, Open Lending Research Finds

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Three in five automotive lenders are seeing rising delinquencies as prime-focused lending standards prevail

AUSTIN, Texas--(BUSINESS WIRE)--May 23, 2024-- Open Lending Corporation (NASDAQ: LPRO) (“Open Lending” or the “Company”), an industry trailblazer in automotive lending enablement and risk analytics solutions for financial institutions, today released its second annual Lending Enablement Benchmark Report. Report findings reveal that traditional methods of assessing borrower creditworthiness are exposing automotive lenders to risk and volatility as delinquencies rise.

Open Lending surveyed senior leaders across banks, credit unions, insurance companies, and more to understand how macroeconomic factors shape automotive lending challenges and identify opportunities for success through lending enablement solutions (“LES”). Despite more financial institutions using LES, many lenders still rely primarily on traditional credit scores to measure creditworthiness. This report reveals why quick, comprehensive loan decisions are necessary to build a resilient portfolio and increase yield on existing assets.

Key findings from the study include the following:

- **Three in five lenders are seeing rising delinquencies, with prime borrowers driving them.** When asked about the credit tiers' impact on driving delinquencies, lenders reported an 8 percentage point increase in the "mostly prime/+" category and a 12 percentage point decrease in the "mostly near- and non-prime" category year-over-year. This shift illustrates the need for alternative data to give a more clear and accurate picture of borrower risk beyond traditional credit scores alone.
- **There is a positive trend in the adoption of alternative credit data, but there is still room to grow.** “Low credit score” is financial institutions’ top reason for denying loan applications, with only 40% using alternative credit data for loan decisioning. While this figure is up from 34% in 2023, it still shows a concerning oversight given heightened delinquency rates.
- **Slow loan decisions are costing businesses crucial opportunities.** Only half of lenders provide auto loan decisions with rates within minutes after application submission. The lenders who don’t may find that their prospective borrowers will seek and obtain loans from institutions that provide faster decisions.

“Most lenders are satisfied with their current lending enablement platforms but underestimate the importance of harnessing alternative credit data and receiving decisioning information more quickly,” said Kevin Filan, senior vice president of marketing at Open Lending. “Using the right LES empowers lenders to be inclusive and competitive while growing return on assets and reducing risk exposure.”

For more insights, access the full report.

Methodology

Open Lending surveyed 113 senior leaders (director-level and above) from across the U.S. auto lending industry, including representatives from financial institutions of all sizes. Open Lending denotes near- and non-prime as a credit score less than or equal to 659. Prime and super-prime is denoted as a credit score greater than or equal to 660.

Learn more about Open Lending at openlending.com.

About Open Lending

Open Lending (NASDAQ: LPRO) provides loan analytics, risk-based pricing, risk modeling, and default insurance to auto lenders throughout the United States. For over 20 years, we have been empowering financial institutions to create profitable auto loan portfolios with less risk and more reward. For more information, please visit www.openlending.com.

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