StateNational

6 REASONS WHY A TRACKED PROGRAM IS BETTER

At State National we've built our business around collateral protection insurance (CPI), including comprehensive insurance tracking, for almost 50 years, and we've seen it successfully manage risk for thousands of clients and borrowers.

But we also know that deciding how to safeguard your institution's loan portfolio can seem like a complicated decision and it can be tempting to go with the option that seems easiest on the surface. However, as with most things in life, there's a lot more underneath it all than meets the eye.

> *"We've got to know what we have in our portfolio. We can't just pray they have insurance, we have to take the responsibility to figure out what we've got. Now (with State National) we can worry about doing loans, doing the things we're good at, versus the stuff that's not fun on this end. That has been a huge benefit for us."*
>
> ***– Corey Rupp, Affinity Plus CU***

Why a Tracked Portfolio Protection Program Is Better for Lenders

1. Improved borrower profiles within loan portfolio

Tracked programs encourage non-compliant borrowers to obtain their own insurance, ensure it is sufficient, and keep it in force. Considering that an average of 1 in 8 drivers in the U.S. is uninsured — reaching as high as 1 in 4 in some states — programs that don't have a tracking component often find that the number of uninsured borrowers within their portfolio increases because there is no mechanism to resolve deficiencies.

2.Improved financial strength from comprehensive coverages and claims payments

Without a tracked program, there is nothing to ensure a borrower will add your institution as lienholder and loss payee — which means that if a covered loss is incurred, the claim payment goes directly to the borrower. Unfortunately, sometimes the borrower pockets the money instead of repairing the collateral and there is no protection for the lender when this occurs. Tracking lienholder status is essential to ensure that if you need to repossess the vehicle, you will be compensated for any potential damage.

3. Reduction in charge-offs

Our tracked programs reduce charge-offs by as much as 1/3. Lenders can see an increase of up to 50% in additional charge-offs when they move from a tracked program to another form of insurance.

4. Only noncompliant borrowers are impacted

By tracking your entire portfolio and placing a policy only on those who do not have acceptable insurance, you are benefiting all of your borrowers as a whole. The average penetration rate (percentage of policies placed relative to the entire portfolio) of a tracked program is very low — so the vast majority of your borrowers who keep proper coverage in place are not affected. Plus, reducing charge-offs and keeping your portfolio's uninsured rates low also helps your lending rates stay more competitive because your institution does not need to cover these charge-off costs (or premium costs for a blanket policy).

5. Provides coverage regardless of borrower risk profile

In some cases, borrowers are unable to obtain their own insurance due to poor driving history or other circumstances. A tracked program offers the ability (at the financial institution's discretion) for physical damage coverage to be extended to these borrowers. That way, they can have the vehicle repaired and can continue driving it, enabling them to keep working and making their loan payments.

6. Proactive risk mitigation strategy with an auditable trail

When a borrower drops insurance coverage, it can be a red flag indicating possible future delinquencies. Our tracked program and the extensive reporting it provides allows your collections department to be aware of potential future repayment issues so they can work proactively with the borrower to find ways to keep payments current. Early identification of vehicles at risk allows lenders to take action to repossess while the collateral still holds value as opposed to later on when that value could drop significantly.

> *"State National helps protect our portfolio, and at the end of the day, that helps our profitability."*
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> ***– Mark Fessler, CFO, Pronto Finance***