



# Today's Technologies in Auto Finance

by **Nicholas Levenstein**

**A**s professionals in auto finance our job is threefold: We must provide excellent rates of return for our lenders and/or investors. We must make sure that the businesses (in this context, car dealerships) that we finance profit from the relationship with us. And we must report to and communicate with both dealers and lenders/investors on the state of our enterprise and the businesses that we finance. The following technologies have been fundamentally important in doing our jobs over the last three years.

### **Voice Over Internet Protocol (VOIP)**

Voice Over Internet Protocol (VOIP) is fundamental to our business and we have not had a conventional phone line for three years. There have certainly been many times when frustrations with a new technology have tempted us to switch to a conventional switchboard and PBX system. In most cases, the consultants we have brought in have told us that we were where everybody else wanted to be and that we could have plenty of problems with an old-fashioned phone system also. We use and adapt a consumer electronic application for our company's phone network.

The functionality and flexibility are so compelling that we have always stayed the course and not switched back to normal phone lines. First of all, VOIP seamlessly gets us a local presence wherever we want to go, in the US or Canada. We can order a local number within a matter of hours. That virtual number can then be routed to the US, Russia or India based on the time of day. As a bit of background, we collect payments directly from non-prime credit customers (obligors) of the businesses that we finance. Ironically, I do not think establishment of a local number is an issue of cost at all, even for poorer obligors. Most obligors use cell phones, and there are no long-distance charges within the US (or Canada, in the case of Canadian obligors). Even though many small companies have become national or international relatively quickly, the businesses we are financing are local enterprises and their customers do not want to think they

are dealing with somebody in San Francisco or Delhi on service issues.

### **Video-conference technologies**

The web cam in our conference room has culturally transformed our company. Video conferencing has been pretty common for at least 10 years. When I worked for an investment banking firm in the late '90s, we had video conferencing and the quality was really good, but it was very expensive. Last year we spent \$500 on a Polycom phone, \$750 for three wide-angle web cams, and \$20/month for unlimited time with a dial-in conference number. We can get people on three continents together for a conference every day; there is no marginal cost – zero. We have to pay for some extra line capabilities so we have clear communications, but it is likely that most of this expense would have been incurred anyway.

Some old technology also comes into play in making video-conferencing successful. Without realizing it, we had basically set up a sound and video studio. Window shades (pretty old technology!) and sound insulation are important. As soon as we got our technology set up, our first monthly meeting was interrupted by a pro-Hezbollah rally around the corner from us. Only in San Francisco!

### **Instant messaging**

Instant Messaging (IM) is amazing. We use ICQ, Gmail and Yahoo. IM costs nothing and is a very convenient way of communication. Everybody in my office appears to prefer IM to the phone for one-on-one communications. If you can think clearly, you can write clearly.

It does not seem like an innovative or new technology, but makes a huge difference in our business so I wanted to mention it. Considering how efficient and effective IM is, it is a shame that many large corporations do not allow the use of IM. There are, of course, nuisances with regard to computer security and people

doing personal things at work, but the pros outweigh the cons in our case.

### Virtual Private Networks (VPN)

The availability and affordability of Virtual Private Network (VPN) and server technology has transformed our business. The functionality of two of our two main enterprise applications was not available via the World Wide Web when we acquired the applications. We are probably more spread out geographically than other small companies, but we still face the same problems as many large and small enterprises – managing and backing up data. Our employees in Delhi, Saint Petersburg and San Francisco and clients in North America have to share the same data, and those applications and data they use have to be backed up daily and redundant in real time. Data sharing, backup and redundancy are significantly more expensive than the other applications I will describe, but still more than cost effective when considering the alternatives. We could have all of our employees in San Francisco's financial district and pay roughly four times what we do now for occupancy and labor or invest in technology to spread the work, literally around the world. Once the computing, storage, backup and security

hardware is purchased and high-speed data lines are established the rest is not so bad. Microsoft has utilities in Windows to use a VPN and the Internet is basically free.

My rule of thumb would be to basically budget \$4,000/employee per year to properly establish and maintain a virtual private network, all-inclusive. This is probably significantly less than other financial firms in my own experience have paid in the past for leased lines and mainframe verses server computing. Our line quality is not as high as the president has or stock traders experience, but our speed is fine for our own uses.

### Mon Dieux! Shelves, doors and locks?!?

Shelves, doors and locks may turn out to be quite important, although I would assume these technologies were also available during Mesopotamian times. We have learned that there is a difference between cheap equipment and valuable information. As we built computing and communications technology we did not always adequately protect the physical devices. Actual disasters that occurred before we blocked off access to the equipment included cocktail party spills, a parent of a certain executive turning off the network when he left the

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office, a dog chewing a cable, and a new secretary (a recent summa cum laude graduate of UC Berkeley) physically moving the network and shutting off 10 people in the middle of a busy day. He read the header of the assignment “move servers to the new room” without the contents that involved a scheduled time of 6 PM to 7 PM Saturday or Sunday evening, use of paid experts and re-wiring of the server room.

### Radio Frequency Identification (RFID)

Our business is no longer involved with inventory finance. However, if your business finances inventory or manages inventory, I have to sing the praises of RFID technology. It involves placing cheap chips (two to four dollars each) in a vehicle to serially identify the vehicle. The vehicle can then be located and date stamped through a stationary or mobile “magic wand” application. RFID was really effective, once we got it working. It allowed us to track hundreds of vehicles, moving between lots, literally hundreds of miles apart from each other. Such technology significantly reduces the cost and headache in tracking large vehicles stored outside in all weather conditions. Also the time stamps do a lot to keep your inspectors honest, or at least monitor their progress.

Clipboards and VIN-checking may be necessary, but only to double check the seemingly perfect machine results you can get all the time with RFID. I do not want to go that far into it in this article, but I have written about RFID on other occasions and you can e-mail me any time if you would like to have more information.

### Global Positioning System (GPS) and Starter Interrupt Devices (SID)

GPS and SID have been the subject of many articles in non-prime auto publications. Let me briefly explain the three major benefits that we gain from using the devices as a finance company: Mitigating losses from defaults on Retail Installment Contracts (RIC) is probably the most common use. I remember listening to one client on his cell phone in rural Texas perplexed as to why he could not see a vehicle that his GPS report put between two homes. After 20 minutes he realized the obligor had covered the SUV in camouflage netting. Needless to say, GPS is invaluable in recovering the vehicles of professional deadbeats, who can be pretty good at hiding cars. Also, a GPS that shuts down vehicles or an SID that disables the starter can mitigate delinquencies when a repossession



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of the vehicle might otherwise be necessary. The devices are not panaceas for collections, but both technologies seem to help collections efforts. For us, as a finance company, SID and GPS can help detect potential fraud in cases when a dealer has converted or fraudulently made a payment on behalf of the obligor. Both technologies have possibilities for auditing dealers, though there are legal complexities.

### **Custom Development of Management Information Systems (MIS)**

In the case of MIS we were thrust into doing custom development faster for a small company than we would have thought necessary. MIS even at a really small scale can significantly increase profit and yields by reducing the direct marginal costs of doing business and increasing our capabilities. I was previously in consulting and we set up pricing and trading systems for mid-size brokerages that had hundreds of millions of dollars in trading revenue already. In securities trading the ability to price and trade quickly, particularly in derivative financial products, was indispensable.

But does a small company that finances auto dealerships need custom development? Yes. You can use a computer to do complex repetitive tasks to save time and reduce errors. Do it right, too. Demand professionalism of the contractors or staff and monitor it on the highest levels. For both settling our accounts with our clients and doing weekly portfolio analysis for them, we have moved from a manual process (now 20 pages long!) with Excel macros and manual table exports to an automated system, which we hope to unveil this year. Granted, there are packages available for common functions like general ledger and receivables financing. An enterprise must use the commercial packages where possible, but no package can solve all of a business' problems or propel it as far as it should go. Every business is unique and serves its own market for its own reasons. Your enterprise has something special to offer no matter how big or small, you can always do a better job of it by streamlining your processes through MIS and improving MIS each year.

### **Customer Relationship Management (CRM)**

CRM software allows you to track tasks, information and interactions for people and enterprises.

CRM is critical to auto finance for both service and legal reasons. When a customer calls, you want account and collection information at your fingertips. And if a

reporter or consumer lawyer calls, you really want account information at your fingertips. Unfortunately, we are forced to run different systems for businesses that we financed and obligors, because the obligor's payment and account information has to be integrated. There are a variety of excellent packages available via the web for business, such as Siebel, SAP and Salesforce.com. We run two parallel systems, but it would be wonderful in the future if we could integrate CRM for both consumers and businesses into the same system.

Nobody likes to repeat himself. Proper use of CRM can reduce repeat conversations by 90 percent.

### **The scanner**

The scanner and simple programs that scan and digitize incoming messages, documents and faxes are worth their weight in gold. No matter how much we try, papers keep stacking up in our main office, even if they are only going to be read once or never even examined in our main office. Scanned documents are easier to send, easier to store and easier to find. Aside from saving the forest and saving money, keeping documents electronically allows you to make your best use of urban commercial real estate, rather than burying it in file cabinets. In auto finance, there is going to be a minimal amount of paper you need – titles and RICs as an example. But if you're like us, you're probably sitting on and storing more paper than you need.

### **Summary**

Our product is not simply money – it is money, information, knowledge and communication. The world is awash in capital, and it always will be now with modern communications and decreasing trade barriers. We can differentiate ourselves through our people and systems. We were very lucky to be born when we were and to have the powerful and cheap communications and computing capabilities that were not available a decade ago. We can seize these opportunities for our customers, our lenders/investors and our own benefit.

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