

Why Low Balance Letters Are Not Working for Automotive Lenders

MIAMI, Fla., Oct. 3, 2019 (SEND2PRESS NEWSWIRE) – South Florida-based AI Fintech company **Aclaró**, whose mission is to deliver data transparency and personalized insights to its auto lending clients, has developed an innovative, technologically advanced method of increasing borrower retention rates. Instead of sending out thousands of low balance letters with the hope that customers will open these letters and follow up with the lender, Aclaró has made the process much simpler and easier.



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Ultimately, with Aclaró, auto lenders can forego the low balance letter and leverage Aclaró's innovative software to increase their retention rates.

Inefficiencies in the Auto Lending Space

The auto lending industry—like many other industries—contains certain business practices that are strictly followed even though they aren't the most efficient or most profitable practices. Inertia takes over. The legendary **Rear Admiral Grace Murray Hopper**, a pioneer of computer programming used to say that the most dangerous phrase in the language is, "We've always done it this way."

One commonly-held practice in the auto lending industry can be seen by the vast number of subprime lenders who send these so-called low balance letters at the end of the loan term. These letters invite borrowers to either extend their loans or purchase a new vehicle. Although it may appear to require less work, sending these notices through the mail is an inefficient and ineffective way to generate more business or build closer relationships with borrowers.

These low balance letters are intended to address customer retention, which is a mission-critical task in auto lending. The general principle holds that it is much cheaper to obtain business from a current customer than generate business from a new customer. In fact, a rule of thumb is that it costs *five times as much* to attract a new customer than keep an existing one.

While sending letters to borrowers at the end of the loan term is a step in the right direction, but it is an archaic and inefficient way of finding repeat business. This marketing strategy might appear cheap since the only up-front costs are postage and printing costs. However, this cheap strategy often leads to unsatisfactory and costly results.

An auto lender's follow-up letter is essentially fighting and often lost within every other piece of mail in a borrower's mailbox. More so, even if the borrower opens the letter, lenders have no way of knowing whether the borrower immediately tossed the letter out or took some time to contemplate a call to that financial institution.

Also, lenders are sending the same generic notice or follow-up to each of their borrowers. While this may seem more efficient on a larger scale, not every borrower is the same. They have their own needs and wants, and by sending them a mass mailer, lenders are foregoing a chance to treat each borrower as an individual.

Using Aclaró To Increase Borrower Retention

"We are living in a world where the use of digital technologies is almost a prerequisite for business success. And while the auto lending industry does use technology for things like evaluating the risk within their portfolios, lenders are missing out on massive opportunities to use these technologies to increase customer retention," said Carlos Galarce, CEO of Aclaró.

This is where Aclaró comes in. The company noticed these inefficiencies in the auto lending market and developed a platform to correct them by offering the first and only machine learning system for subprime lenders.

As part of this system, Aclaró predicts risk and helps lenders complete the loan lead life cycle to help increase their customer retention rate. From Aclaró's Nexus Score to the new Aclaró AutoMarket, their many tools have been built to help subprime lenders consistently generate business from their current customers. Instead of sending out a mass mailer and hoping for positive responses, auto lenders can use the alternative data developed by Aclaró to present compelling, personalized offers to current borrowers.

This intense customization undoubtedly increases the odds of making further sales to those current borrowers. In addition, lenders who utilize Aclaró's ES software can offer lower rates to those borrowers who qualify via a machine-predicted low propensity of default—even though this lower risk is not indicated in the traditional credit score.

Moving Beyond Letters

“To put it simply, the customer retention rate is an important key performance indicator (KPI) in the auto loan market, yet it is often overlooked and undervalued,” said Galarce. “While a lender may think that letters are the best way to generate new business from current borrowers, letters are archaic and inefficient.”

Instead, there is a better way. Auto lenders who apply the tools offered by Aclaró can leverage cutting-edge technology that is designed to address this specific task. In the end, lenders using Aclaró are in a much better position to increase their number of returning borrowers.

To learn more about Aclaró, visit Aclaro.io or click [here](http://aclaro-4642182.hs-sites.com/aclaro-es/automotive-finance):
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