MOVING THE METAL
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DRIVEN BY DATA: AUTO FINANCE TRENDS UNCOVERED

Brooke Conkle: Welcome to Moving the Metal, the premier legally-focused podcast for the auto finance industry. I'm Brooke Conkle, a partner in Troutman Pepper Locke's Consumer Financial Services Practice Group.

Chris Capurso: And I'm Chris Capurso, an associate in Troutman Pepper Locke's Consumer Financial Services Practice Group.

Brooke Conkle: Today, we'll discuss a recent TransUnion report on credit industry insights for the fourth quarter of 2024.

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Brooke Conkle: For today, as I mentioned, we'll be discussing a recent TransUnion quarterly report on Consumer Credit Insights. Chris, tell us a little bit about how we got here.

Chris Capurso: Well, we're here right now to discuss a TransUnion report discussing quarterly year-over-year trends in the auto-finance industry. The reason why we're looking at this is because we're in a bit of a wilderness setting with data right now. I mean, this would typically be the time that the CFPB would be releasing its annual complaint report. Who knows if that's coming, but it's not here yet. And usually it's a March release. So, we don't have it yet, and that's usually a great way to see complaint data. Obviously, this report isn't about complaint data, but it tells us a lot about the industry and where things are going. Obviously, as everybody who's listening knows, things are very influx in literally every facet of daily life.

We have in our financial services world, CFPB, FTC, all of these things influx as far as how the people running them are going to run them. Will we get to five commissioners for the FTC? These types of questions that we just don't know the answer to. But also, in the auto industry, we have tariffs, will they, won't they tariffs, on top of the just general auto tariff, and that's creating some concern and confusion in the industry as to what that's going to mean for bottom lines and everything else. Obviously, that would change the cost of cars. You'd have to start thinking about the financing costs if you still wanted to be able to sell these things. All these things, there are macroeconomic impacts of any of these decisions.

So, any kind the data we can get a hold of is going to be super valuable, even if it's over the past year, we can kind of get an idea where things are going. That's why we're looking at this report. We're trying to get whatever we can.

Brooke Conkle: That's exactly right, Chris. We're looking for kind of whatever information we can get out of some of the key players here in the industry. So, what does the report say? Well, the key takeaway, frankly, is that things are more expensive than ever, which frankly is not a newsflash to any American. But specifically, in terms of auto finance, loan-to-value ratios continue to increase. That means, essentially, when consumers are driving off a lot, they are owing, in many cases, more than the value of their vehicle. Additionally, average monthly payments are increasing, and that increase is at a rate higher than inflation. Frankly, some scary percentages being thrown out by TransUnion.

Then third and finally, account delinquencies are also increasing. Again, the data for those increases is data that is comparable, if not greater than the Great Recession. We're seeing consumers who are owing more money than ever on auto finance deals and then also increasingly are becoming delinquent on their auto loan accounts. So, we're seeing the elements of potentially a perfect storm here for the auto finance industry.

So, Chris, tell us a little bit about what TransUnion found specifically with respect to low-devalue ratios.

Chris Capurso: There are some key highlights from this, but there's also some underlying data that I think is really fascinating. The big highlights, I think, would be that loan-to-values on used vehicles have risen to an average 127%, which means that the loan is 127% of the value of the car. And they also noted that now more than half of all used cars being financed are being financed for more than what they're worth. Those are pretty big findings from this report. They said that the share of used vehicle originations with a starting LTV of 120% plus has more than doubled over the last three years from 27 to 54. And three years is just, I guess this is a 2024 report. So, 2021, that seems very recent. Part of that's COVID brain and 2019 feels like it was yesterday. But these are some very startling numbers.

Another one that I found very interesting was the charts that they have in the report go back to 2019, so that five-year period I was talking about. In 2021, the average loan-to-value for used vehicles and new vehicles was the same. It was identical, 105%. So, you think that makes a little bit of sense. On average, people finance the full value of the car, plus a few extra things. They're going to finance some, it'd be physical add-on things, they're going to finance some credit insurance or GAP or things like that, but it's at 105%.

Since 2021, it's been a pretty stark difference between new vehicles and used vehicles. Obviously, as I mentioned, used vehicles are now at 127%, so that's a pretty large increase, but new vehicles has actually dropped. Q4 last year, it was at 100%. It was even. The LTV was perfect. It was the perfect ratio. So, it's very interesting that there was a point in time in Q4 2021 where it was even, and since then it has just gone completely differently. Some of this was kind of forecast in one of our earlier podcasts about the negative equity report that the CFPB released, talking about, oh, coming out of COVID, there's going to be a lot more negative equity. That's what they've been seeing because, as everyone knows, the cost of vehicles went up greatly when dealers didn't have any inventory and rates were low, so people were buying.

Now, we're getting to three or four years down the road from that, and Brooke is going to talk about the length of term here in a bit, but a lot of these contracts are still going, and if folks are looking for new cars now, they may have more of their vehicle left to pay off, that they already had higher value vehicles anyway, so the trade-in probably isn't going to be the same. So, the gap there between the trade-in and what they paid is going to be different. This is all the stuff that the CFPB noted in that negative equity report. We're sort of seeing that play out in this TransUnion report that the LTVs, at least for the used vehicles, are going up drastically because negative equity could be included in that too.

Brooke Conkle: Exactly, Chris. And just as you mentioned, the TransUnion report notes that the average monthly payments continue to increase in Q4 2024. Just as you mentioned, comparing the end of 2024 with the end of 2021 is pretty stark. The data that TransUnion provided showed that the average balance per consumer for a motor vehicle loan is up $3,000 since the close of 2021. That's a pretty significant difference. That is, in a lot of instances, a 10% increase on the balance for motor vehicle loans.

That's frankly a lot of money. And for a long time, a lot of prognosticators for auto finance really looked really looked at $400 as being the sweet spot for consumers, that that was the amount that a consumer felt like was a reasonable monthly payment for a car loan. And what we're seeing now is in Q4 2024, the average monthly payment for a used vehicle was $523. And according to the TransUnion data, that is essentially an outsized amount compared to what consumers are paying for the rest of their monthly bills, whether it's housing, whether it's food, the increase in the average monthly payment for used vehicles is exceeding the increase in other standard sort of consumer buckets. What's interesting is that it's more likely that consumers who are stressed are going to be financially stressed because of an auto loan. And auto loans likely are going to play a more significant factor in monetary stress than they would have historically.

So, that is interesting data. It's a little bit scary. But as Chris mentioned, you look at sort of the delta between what was happening coming out of COVID versus where we are right now. I think we all thought in 2021, we're seeing significant prices for vehicles. Yet, here we are, three years later, where we're potentially on the verge of tariffs that could again increase car prices, but we've got consumers who are already pretty stressed based on the average monthly payment that they're incurring for a motor vehicle loan and also that average balance that just continues to increase.

Chris Capurso: One of the other big things that this report notes is delinquencies and obviously that's kind of what we're building to up to the mountain. We're talking about loan-to-value, we're talking about average monthly payment. What's the next thing that's going to come in if you're guessing, it's going to be the delinquencies? And much like with the loan-to-value ratios, you found one overarching highlight and then underlying that as a lot of interesting data. So, the big highlight is that account-level delinquencies of over 60 plus days has climbed 5 basis points year over year. And that may not sound like a lot, but that actually took us above the kind of high watermark set in Q4 2009. And obviously, most people listening to this are going to remember 2008, 2009 and what that was like.

So, we're now above that in terms of just gross percentage of delinquencies. This isn't about how much of a delinquency or this has nothing to do with the changing times. This is just a gross amount of people who are delinquent by 60 days. We are now at a point higher than where we were in Q4 2009. Now, it's not all doom and gloom. Auto is still in a better spot than, say, unescure personal loans, or bank credit cards, or things like that. That's something that, to your report, especially notes, still just slightly ahead of mortgage. But it's not like it's going too far afield. But again, it is still ahead of the high-water mark.

There are a couple interesting tidbits underlying a lot of this data. First, very generally, the delinquency rates on used vehicles are higher than the delinquency rates on new vehicles. So, that's kind of just a general point that seems to permeate the report. Another interesting one is that delinquencies independent and bank financing options are higher than delinquencies for captives and credit unions. So, some of that could be, I mean, you would say credit unions, they have their members, they may know their members better. There's a different level of underwriting that may take place because there's a little bit more of a relationship who knows. With captives, they may be looking for more of the super prime type folks to fit their incentives, things like that. But there is a difference in delinquencies between independent financing companies, banks. And I should say, independent financing companies, the delinquency rate is considerably higher than a bank, which is higher than a captive in a credit union.

Brooke Conkle: So, what does this all mean? We see these numbers and they are, frankly, I think a little bit different than what we necessarily would have expected. But to Chris' point, it's not all doom and gloom. For dealers and auto finance companies, where do we go from here? Really, it likely means that loan mods and extensions are going to become more popular. They're going to become necessary for some customers. Customers owe more on auto loans. Auto loans are taking up a bigger sort of the monthly budget for consumers. And also, consumers are in the loans for a longer period. This is a relationship that is going to last, frankly, longer than it did in the Great Recession, where in 2008 and 2009, the average term of a retail installment sales contract was around 48 months.

So essentially, a four-year term and ticking out payments on a loan mod didn't necessarily mean you were extending the relationship a significant period of time. Currently, the average term on retail installment sales contracts, they're getting longer and longer, where 48 months had been the standard. It went to 60 months, and now we're seeing deals that are 72 and 84 months long. When you kick those out even further with loan mods and extensions, you're creating a relationship that's going to last a really long time between the auto finance company and the customer. So, what does that mean? How do you manage that relationship when a consumer is already stressed? Pushing out payments can have more of a drastic effect than it could when the term of the account was going to be much less.

So, kind of balancing that, making or your customer service reps know how to get customers the relief that they need, what do those customers qualify for, what loan mod or extension works best for them, and how can they stay in the vehicle if that is what the customer wants, if that's what the auto-finance company wants, how can you work together to make that happen. Then on the other side, preparing for additional repossessions. With these many consumers being delinquent, we're going to see a rise in repossessions, checking out your vendors, making sure they are where they need to be, and making sure that you have those sort of compliance building blocks in place to make sure that your repossession hygiene is where it needs to be. Then finally, storing up how you communicate with customers.

Chris, we're going to have a shameless plug for our TCPA episode here, but making sure you have the right consents to call, text your customers, and also emailing your customers, making sure you're compliant with CAN-SPAM, all of that, making sure that you are where you need to be to communicate with customers who may be running behind on their payments.

Chris Capurso: One final note on that. I would just say that, and I think we've echoed this in the past, but 2020 COVID kind of afforded an opportunity to really dust up on these things previously, only in that sense, it was more of a shock with the amount of delinquencies and loan mods and things like that. Delinquencies that would have come into play if not for finance companies and banks and any other type of financing outfit helping their customers through that time, we may be entering another one of those. And those types of processes that you had in 2020 could be helpful now so you got to make sure that like Brooke said, they got to be up to snuff. If something didn't work the first time around you've now had a test period. You can kind of look back at the data and say, “Oh, maybe I should change this communication method or maybe we should be looking at mods like this,” anything like that.

We had a period to look at this type of situation where delinquencies might be increasing or consumers are going to be looking for help. We may be entering that again. So, I would just say, don't forget what you did in 2020 because that could come back and help you in 2025 if you did it right the first time.

With that, that's a wrap for today's podcast. Thank you to our audience for tuning in. Don't forget to check out our blogs where you can subscribe to the entire blog or just the specific content you find most helpful. That's the consumerfinancialserviceslawmonitor.com and the troutmanfinancialservices.com blogs. And while you're at it, why don't you head on over to troutman.com and sign up for our consumer financial services mailing list, so that you can stay abreast of current issues with our insightful alerts and advisories and receive invitations to our industry insider webinars. Of course, please mark your calendars for this podcast, Moving the Metal, which we will be releasing every two weeks in 2025. That will be generally on the 2nd and 4th Tuesdays of each month. And as always, if you have any questions or if we can help in any way, please reach out to us. Until next time.