AUTO LOAN BORROWERS CONTINUE TO FALL BEHIND ON MONTHLY PAYMENTS

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(18Nov22) … A recent study by TransUnion shows that delinquency rates in the auto loan market are rising with nearly 3.5% of borrowers now behind on their payments. This could indicate that more households are struggling with debt. And if households are struggling, it soon becomes a matter of prioritizing which outstanding debt to pay. Oftentimes, that points to paying down mortgages, then car loans, then credit cards.

POST-PANDEMIC AUTO LOAN DELINQUENCY RISING … The study also shows that people who may have missed car loan repayments during the pandemic were able to meet them due to government support and the stimulus program. Now they are once again falling behind. Moreover, foreclosures are rising in both mortgages and vehicle loan markets. In addition, approximately 3.3% of auto loans were more than 30 days delinquent and 1.43% were more than 60 days late. This is the highest rate in five years, and a significant rise over the past two years. Federal Reserve policy-makers continue to remain cautious about what could lie ahead if consumers can't keep up with their payments. "While household balance sheets overall appear to be in a strong position, we are seeing rising delinquencies among subprime and low-income borrowers with rates approaching pre-pandemic levels."

POST-PANDEMIC/STIMULUS BACKLOG … TransUnion suggested a number of reasons for this rise. First, they point out, there was likely a backlog of delinquencies created by the pandemic. Many people who might have fallen behind on their car loan repayments during the pandemic didn’t because of government relief, stimulus programs, or car loan providers offering temporary help to their customers. Secondly, although the number of car loans that are delinquent is at a five year high, the total number of car loans has decreased since 2018. This is partly due to limited supply during and immediately after the pandemic, which meant that many customers had difficulty even finding a car to finance.

HIGHER PRICES, HIGHER FINANCING RATES … Car loans are also more expensive - the average cost for a new vehicles is above $48,000, a record high. Also, cost are higher because of rising interest rates. Last month the weighted average auto loan rate across all loan credit scores and all types has increased by 2.8 percentage points to 10.6%. People with low credit scores are likely to be hit hardest by these price increases. In October, a deep subprime borrower, with a credit score under 580, saw an average rate of 18.2% on a new-vehicle loan and 21.8% on a used-vehicle loan.

FACED WITH PRIORITIZING DEBT REPAYMENT … The TransUnion study found that most people regard their monthly car loan payment as one of their most important financial commitments – just behind their mortgage repayments, and far more important than credit card repayments. Auto loan debt currently makes up over 9% of all outstanding household debt. Its growth accompanied a rise in total household debt, which stood at $16.15 trillion as of August 2022, which is an increase of $2 trillion since the end of 2019. Auto loan debt is the third-largest category of American household debt after mortgage debt ($11.39 trillion) and student loan debt ($1.59 trillion), both of which have also increased steadily since 2011.

AUTO LOAN DEBT HAS DOUBLED SINCE 2012 … Americans now shoulder $1.5 trillion in auto loan debt, according to the latest Quarterly Report on Household Debt and Credit from the FRB New York. That's enough to buy 60 million Toyota Camrys at $25,000 a pop. The current level of auto loan debt is nearly double what it was just 10 years ago, and the figure has risen almost every quarter since 2010. In the second quarter of 2022, credit bureau TransUnion estimated that the average auto borrower had an outstanding balance of $28,523. The median credit score for auto loan borrowers was over 700, which is little changed from a year before. That's considered a "good," but not a "very good" or "excellent" credit score.

TRUST BUT VERIFY … Auto loan debt continues to rise among Americans. Higher interest rates and elevated inflation may cause car buyers to spend less, but for now, consumers’ borrowing and buying habits indicate continued optimism about the economy.