

# Autofacts<sup>®</sup>

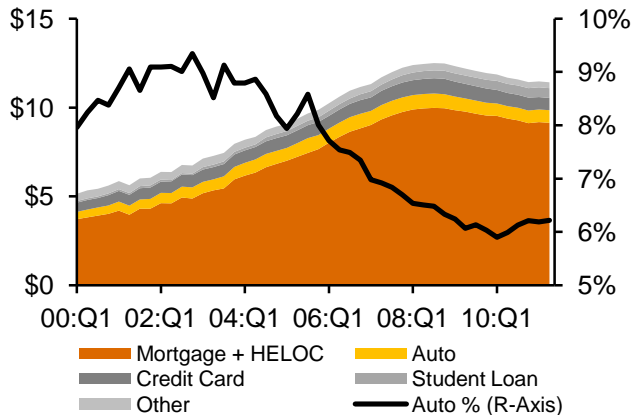
November 2011

## US Automotive Finance

### *Auto loans perform amid deleveraging cycle*

During the economic and industry downturn, casual observers may have associated auto loans with other non-performing debts related to outsized mortgages, untenable credit card balances, and mounting student loans – but an array of strong auto lending metrics now defy comparison.

US: Consumer Debt Balance Outstanding  
2000 Q1 – 2011 Q2 (trillions)



#### **The post-recession auto lending outlook**

Impacts of the 2007 recession on the US housing sector and mortgage industry are widely known, but the longer-term effects of the automotive downturn on auto finance companies remains a lesser known, yet important industry storyline.

Although auto loans as a percentage of total consumer debt outstanding have declined from 8.3% to 6.2% since 2000 (comparable to credit card debt trending), vehicle loan performance has outshone nearly all other asset classes in terms of delinquency and default. Naturally, the rise in unemployment, home foreclosures, and credit contraction emanating from the recession caused auto loan distress in 2008 and 2009. But that period quickly gave way to an environment characterised by lower interest rates, record low delinquencies, and fewer repossessions.

Although total loan originations declined with the 37% contraction in new vehicle sales from 2007-2009, more stringent underwriting standards (combined with the decision of many consumers to prioritise vehicle payments over mortgages) has yielded a slightly smaller, but better performing loan pool. The relatively short duration of auto loans (compared with mortgages), has also allowed the lending industry to closely monitor loan performance and proactively intervene via modification or repossession. In addition, historically low interest rates (APRs) are translating into better outcomes for both prime and non-prime consumers although current APRs have created lower lender yields.

#### **Will current auto loan trends last?**

Gradual macroeconomic improvements continue to support the US auto sector recovery, but captive and commercial auto lenders are concurrently benefitting from several unique industry circumstances. Supply shortages and increased demand for used vehicles caused residual values to surge, which has boosted lender recovery rates, eased loss severity, and ultimately decreased near-term charge-off losses. Lenders are also reaping the benefits of investor demand for auto-backed structured products. With the mortgage-backed security market severely diminished, auto securities currently represent 73% of all issuances in terms of total value.

The US auto lending landscape will likely preserve much of the near-term momentum, but increases in consumer spending via revolving credit (as was observed in 2011 Q3), combined with the pressure to increase originations by expanding into subprime will likely represent a perpetual risk for auto lenders and investors.

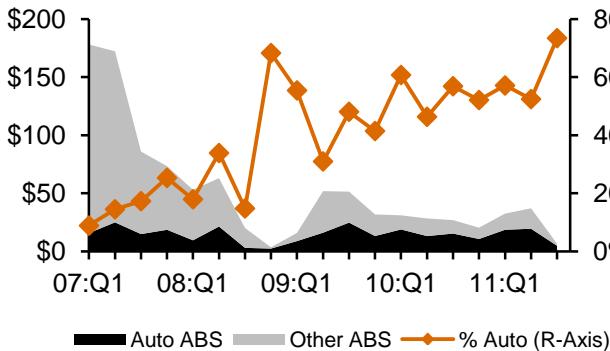


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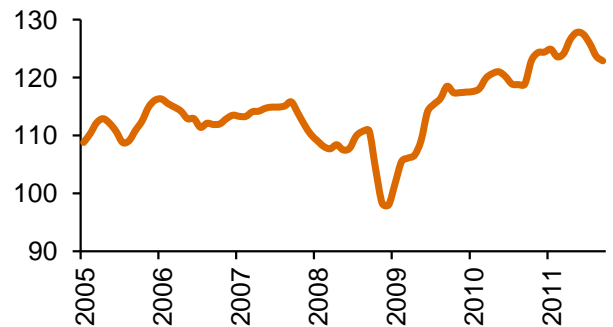
## Analyst Note

**At PwC, our deep auto finance expertise allows us to help clients understand, assess, and respond to complex regulatory and economic changes. PwC is invested in the automotive finance industry and this investment, combined with our historical knowledge of industry dynamics, enables us to consistently provide proactive, well-planned guidance.**

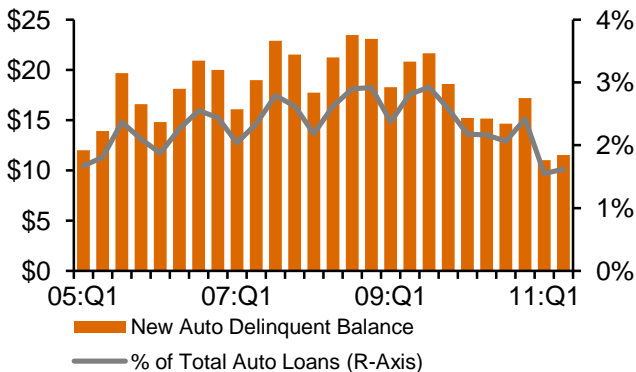
US: Total Asset Backed Security Issuance  
2007 Q1 – 2011 Q3 YTD (billions)



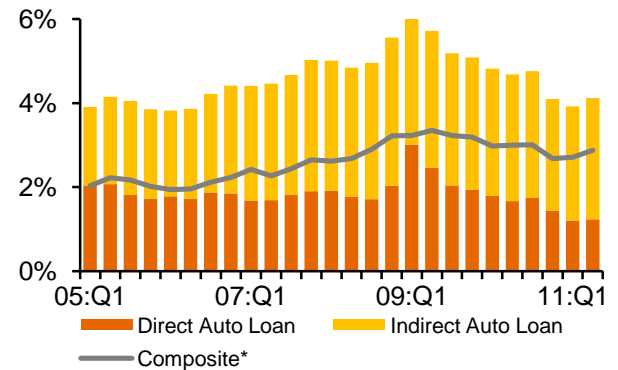
US: Manheim Used Vehicle Value Index  
2005 – 2011 YTD (1995=100)



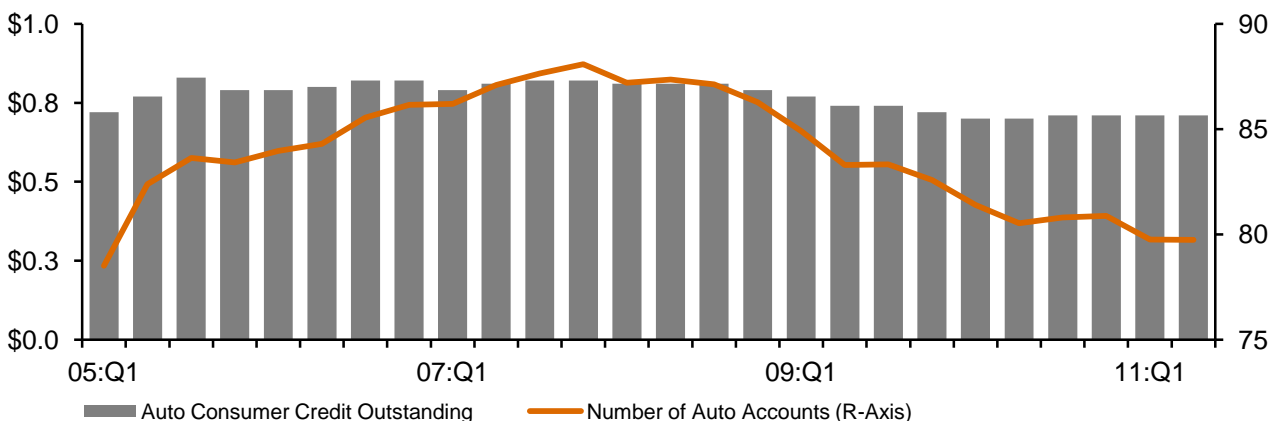
US: New Automotive Delinquent Balance\*  
2005 Q1 – 2011 Q2 (billions) \*30+ days delinquent



US: Consumer Credit 30-day+ Delinquency Rates  
2005 Q1 – 2011 Q2



US: Automotive Consumer Credit Outstanding vs. Number of Accounts  
2005 Q1 – 2011 Q2 (trillions vs. millions)



Source: US Federal Reserve Bank of New York, American Bankers Association, SIFMA, Manheim Consulting

\*Composite includes direct auto, indirect auto, personal, home equity (closed-end only), home improvement, recreational vehicle, mobile home and marine loans. Bank credit cards, open-end home equity lines of credit, revolving credit, and education loans are excluded.

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