TransUnion

QUICK GUIDE

A Critical Eye on Auto Performance

Auto delinquencies continue to rise in 2022. With uncertainty looming and consumers adjusting to ongoing shifts in income and expenses, auto lenders need to know how 'real' this increase is and how they can best prepare in this dynamic environment.

To better understand the trajectory of this trend, TransUnion conducted a study – A Critical Eye on Auto Performance – to find answers to the following questions: :

- → Why are auto loan delinquencies rising?
- → How are recent auto vintages performing?
- → How do consumers prioritize their debt obligations during times of stress?
- → How can auto lenders spot early warning signs of auto performance deterioration?

Study overview

We looked at key components and drivers of the auto 60+ DPD portfolio account delinquency rate, and examined origination vintage cohort performance of all auto loans and leases over the past several years.

We also revisited our payment hierarchy study to better understand what drives consumer payment behavior and specifically what cross-wallet performance deterioration means for auto lenders.

Finally, TransUnion looked at CreditVision® attribute changes (over the past 36 months) amongst auto consumers who have a serious delinquency in Q2 2022 versus consumers who did not. Attributes examined include aggregate excess payment (AEP), revolving availability, card utilization, and recent card delinquencies in the prior three months.

Key findings

- → The rise in auto delinquencies is real but may be misleading:
  - The number of delinquencies ('numerator') is growing – largely due to the release of the backlog of likely delinquencies that were temporarily in pandemic-driven accommodations and improved consumer liquidity bolstered by other stimulus programs that have ended
  - The number of auto loans and leases ('denominator') shrunk – primarily due to falling originations caused by decreasing demand in 2020, then dwindling vehicle supply in 2021 and 2022. Rising repossessions and payoffs in 2021 and 2022 were also contributing factors
- → Auto vintages performed well until recently; slight deterioration began with the Q4 2021 cohort at six months on book
- → Consumers continued to protect secured products with a positive equity position, paying their auto loans before credit cards – but after their mortgages
- → With auto above card in the payment hierarchy, auto lenders can use trended attributes to spot early signs of serious delinquency

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How lenders can continue to lend confidently amid shifting market dynamics

Lenders can take action to better position themselves to make strategic, sound lending and portfolio management decisions. For one, they can implement a solution like TransUnion CreditVision which uses trended credit and alternative data to deliver a more robust view of borrowers and their longer-term performance. Trending up to 30 months of historical data on a consumer – how they've changed credit usage and payment activities, for example – allows lenders to see patterns and behaviors invisible in point-in-time views. These enriched data and analytics enable them to identify potential vulnerabilities earlier than with traditional datasets alone – and can help refine projections for loan loss and prepayment.

Lenders can also view up-to-date insights on origination and repayment trends occurring for all automotive loans and leases (both securitized and non-securitized), in addition to additional credit obligations (e.g., mortgage and card). Armed with a more well-rounded understanding of capacity and payment behaviors, lenders can make more confident decisions on an even broader spectrum of consumers.

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