TransUnion

MARKET BRIEF

Originating Auto Loans With Confidence

The US auto market has faced its share of turbulence over the past five years. In 2020, the onset of the COVID pandemic brought with it uncertainty as lockdowns were implemented, credit tightened and auto sales slowed. Pent-up demand briefly drove auto sales back up at the start of 2021 — before they fell again due to supply shortages and rising interest rates. Fast-forward to today and the auto market looks very different compared to pre-pandemic — with rising delinquencies, tighter lending standards and less demand for vehicles.

To better understand how auto lenders can originate with confidence during periods of instability, TransUnion conducted a study that sought to answer the following questions:

- **How has the auto lending market changed before, during and after the pandemic?**
- **Is today's auto lending market "back to normal" or have we entered a "new normal"?**
- **If we're in a "new normal," how will that impact the way lenders approach underwriting?**
  - Have scores and attributes most predictive of future delinquencies and losses changed pre-pandemic vs. post-pandemic?
  - What concrete actions can lenders take to align their underwriting methods to an evolving industry?

STUDY OVERVIEW

Part 1: Market context

The first half of the study laid out changes in the auto lending space (from pre-pandemic to post-pandemic), including shifts in consumer saving rates, credit score migration, delinquencies and consumer debt payment inflation.

KEY FINDINGS

- **Score migration hiding delinquency risk:** Increased consumer savings in 2020 and 2021 led to an upward shift in credit scores in 2022. But consumers with the highest positive score migration were also at greater risk of delinquency (controlling for risk tier)
- **Growing cross-wallet debt:** The average monthly debt payments for consumers with auto loans increased by 18% over the last two years — nearly double the 10% growth in the Consumer Price Index (CPI)
- **Payment-to-income ratio (PTI):** Auto payments are rising faster than incomes, placing pressure on payment performance particularly for consumers with below-prime credit

Part 2: Effects of delinquency risk

The second section of the study highlighted concrete underwriting implications for lenders.

Proof-of-concept (POC) risk models were developed to identify and compare leading drivers of delinquency risk before and after the pandemic. Samples from 2018 auto loans were considered "pre-pandemic," while auto loans originated in 2022 were considered "post-pandemic." The study focused on loans 60+ days-past-due (DPD) in the first 12 months, and leveraged TruVision™ static and trended credit variables and TruVision alternative data as attribute inputs.

KEY FINDINGS

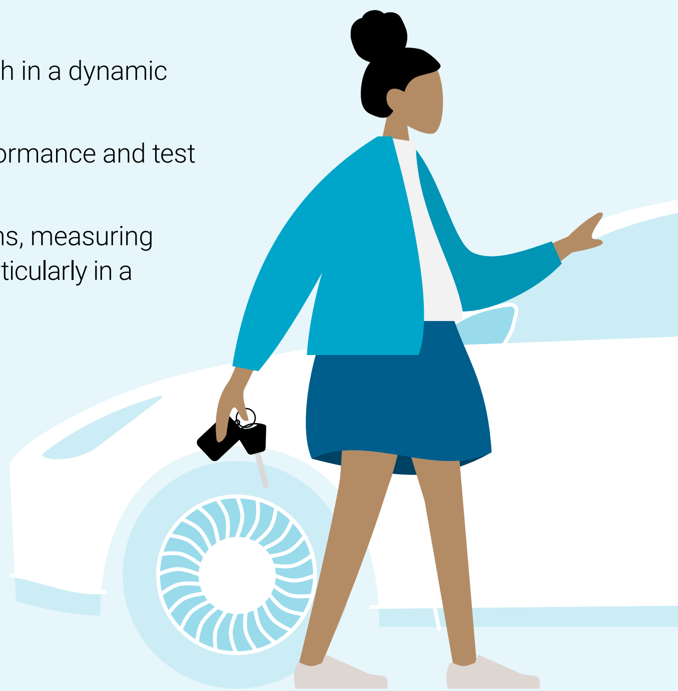
- **Pre- and post-pandemic POC models:**
  Faltering population stability — stemming from major shifts in the consumer makeup of auto originations post pandemic — and corresponding changes in delinquency rates indicate opportunities for model rebuilds. This case was affirmed as the post-pandemic POC risk model outperformed the pre-pandemic model at every risk tier, with TruVision Trended Liquidity Algorithms rising to the top.

IMPLICATIONS FOR LENDERS

In "normal" times, auto lenders should continually monitor their credit underwriting risk models for stability and accuracy. When the market is more turbulent, circumstances could warrant a score tuning or complete model rebuild.

To stay competitive, originate more confidently and maintain profitable growth in a dynamic environment, we recommend auto lenders:

- Conduct retrospective and lost sales analyses to benchmark market performance and test alternative treatments
- Continuously track and monitor model performance of sample populations, measuring Population Stability Index (PSI) and attribute stability across cohorts — particularly in a continually changing market
- Overlay secondary scores to create dual score strategies (which can provide an incremental lift) when a full model build isn't feasible
- Tune or rebuild underwriting models or deploy dual score strategies as needed



TransUnion offers a suite of risk assessment products including TruVision trended credit scores and algorithms, premium attributes and alternative data, which can be used to rebuild underwriting strategies based on a lender's portfolio — yielding material performance improvement across risk management and origination goals.

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For additional study insights, contact your TransUnion representative or reach out to **tu_info@transunion.com**.