TransUnion

MARKET BRIEF

Impact of Unsettled Vehicle Values on Lenders and Consumers

It's no secret the pandemic significantly impacted the auto market. Supply chain challenges saw inventory levels tighten, causing auto prices and values to reach historic levels. These higher car prices led to record-high monthly payments for borrowers, and affordability challenges have resulted in rising loan-to-value (LTV) ratios since early 2021.

As vehicle inventories begin to return, however, vehicle values are likely to come down and stabilize. Given this anticipated change in the market, in partnership with J.D. Power, TransUnion conducted a study driven by the following questions:

- How do equity positions impact loan payment performance? In particular, what is the impact of a high LTV at origination?
- What impact does depreciation have on post-origination performance?
- What is the distribution of equity positions in current portfolios?
- What will vehicle values look like moving forward?

STUDY OVERVIEW

To first determine how vehicle originations and financing have changed during the last few years, TransUnion examined vehicle values, originating LTVs and implied negative equity at origination. TransUnion then studied the performance of auto loans originated between 2018 and 2021 to better understand the impact equity position had on loan performance. The study focused on loans 60+ days-past-due (DPD) for 12- and 36-month terms, and further segmented the results by originating LTV, risk tier, term, and payment amount for both new and used vehicles.

The study also includes projections on future vehicle values supplied by TransUnion partner J.D. Power.

KEY FINDINGS

- **LTVs are rising and many recently originated loans are in a negative equity position today, particularly among used vehicle, subprime borrowers.**
- **Used vehicle loans with high LTVs at origination are more likely to perform worse across all risk tiers.**
- **Within the used vehicle market, slower depreciation and improved LTVs are correlated with lower delinquencies, while borrowers with faster-depreciating, used vehicles are more likely to go delinquent.**
- **Within existing portfolios: older, low-LTV loans continue to outweigh newer, high-LTV loans**
- **Per J.D. Power, there are expected to be several downward pressures on vehicle values moving forward which could result in less equity at trade in — though continued supply chain challenges could prolong elevated values.**

IMPLICATIONS FOR LENDERS

Vehicle financing is rapidly evolving as the market continues to emerge from pandemic-related disruptions. While many lenders and consumers have benefited from elevated vehicle values and lower delinquencies during the pandemic, vehicle values are expected to decline. This will be especially important for lenders to monitor given the possibility accelerated depreciation will result in negative existing LTVs for longer periods. And loans with higher negative equity positions not only run a larger risk of defaulting, but could lead to unwanted loss exposures for lenders.

TransUnion offers auto lenders the tools and resources needed to successfully optimize each phase of the vehicle financing lifecycle regardless of the economic climate. At underwriting, trended credit and alternative data can improve risk selection and pricing — particularly for higher LTV deals — and extending terms can improve payment performance. Portfolio management can be enhanced through segmentation by vehicle type and forecasted depreciation curves, helping inform pre-collection strategies and loss forecasting. Consumer outreach is improved with continually refreshed, accurate contact information, and should vehicle equity decline, focusing on dealer relationships can help offset any fall-off in demand.

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