Auto Finance Companies Pull Back on Subprime Lending as Loan Delinquencies Surge, says Auriemma Consulting Group

The delinquency rate for subprime auto loans originated by captive finance companies has reached the highest level since 2010, as recent vintages hit their peak loss performance curves. Meanwhile, captives have already pulled back on subprime lending: approval rates have been declining for several years and are well below their post-recession peak.

NEW YORK (PRWEB) February 21, 2018 -- Delinquencies for a key segment of subprime auto loans have reached recession-era levels, according to data from Auriemma Consulting Group – but lenders have already hit the brakes.

The delinquency rate for subprime auto loans originated by captive finance companies – loans made through the finance arm of an auto manufacturer – rose to 7.8% in the third quarter of last year, the highest level since 2010. The rate, a measure of balances at least one payment past due, has increased by more than two percentage points from its post-recession low in 2012. By comparison, delinquency rates for borrowers with prime credit scores have held steady.

The deterioration in loan performance is largely a function of the credit cycle. Borrowers with credit scores below 620 struggled to gain access to loans in the wake of the financial crisis. Originations began to rebound in 2011 and 2012, and vintages booked in the years since have entered the period when loan defaults – and financial losses for lenders– are most likely.

“Our analysis points to credit expansion and vintage seasoning as the driving forces behind recent upticks, rather than underlying change in borrower behavior, which would be more concerning,” said Ed Falco, Senior Director of Auriemma’s Collections Roundtables, a business intelligence and benchmarking platform for senior collections executives. “Still, recent developments mean that lenders should be closely monitoring their delinquency and chargeoff performance.”

Many captives have already pulled back on subprime lending, even as originations in other credit tiers have continued to grow. In fact, subprime approval rates among the captive lenders Auriemma tracks have been declining for several years and are nearly one-third below their peak in 2013. In addition, several lenders have raised minimum FICO scores in an efficiency play, moving away from deep subprime approvals that require more verification, documentation, and manual work.

The slowdown in approvals comes as auto sales drop off, vehicle inventories rise, and pressure to approve applicants increases. The confluence of these factors is leading to longer repayment terms, with some topping 96 months – a development generally viewed as unsustainable. Pressure on auto sales could be amplified in the coming years as a deluge of off-lease vehicles enters the marketplace, ride hailing apps become more widespread, and consumer attitudes toward vehicle ownership change.

“We’ll be watching how more conservative credit criteria and the need to sell more cars plays out, particularly with captive lenders seeking the right balance between the financing and manufacturing aspects of their business,” Falco said.

About Auriemma Consulting Group

For more than 30 years, Auriemma's mission has been to empower clients with authoritative data and actionable insights. Our team comprises recognized experts in four primary areas: operational effectiveness, consumer research, co-brand partnerships, and corporate finance. Our business intelligence and advisory services give clients access to the data, expertise and tools they need to navigate an increasingly complex environment and maximize their performance. Auriemma serves the consumer financial services ecosystem from our offices in New York City and London. For more information, visit us at www.acg.net or call Ed Falco at (212) 323-7000.

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