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### Title

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# Automobile Debt Increased Substantially during the Pandemic

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## Issue

Most car buyers use some form of financing to purchase a vehicle, and almost half of all California borrowers carry some amount of automobile debt. While automobile loans enable lower-income households—who might otherwise be priced out of vehicle ownership—to make payments over time, this debt can significantly strain household budgets. The COVID-19 pandemic elevated the importance of owning a private vehicle as concerns over viral person-to-person transmission made traveling by car an even more attractive compared to communal transportation (e.g., public transit). Moreover, a host of pandemic-related services, including testing and vaccination, were either only or best accessible by car.

To better understand how COVID-19 impacted car ownership, we explored whether automobile loans (and in turn debt) in California—particularly in communities of color where workers were more likely to work outside of the home—increased during the pandemic. We drew on a one-percent sample of the University of California Consumer Credit Panel, a dataset from Experian of every loan and borrower in California.

## Key Research Findings

**Californians borrowed more for cars after the initial shock of the pandemic receded.** After a decline in early 2020, the growth rate for outstanding balances of new automobile loans rebounded and increased enormously

from the second to the third quarter of 2020, across all neighborhoods by race and ethnicity (See Figure 1). Both the number and size of new loans rose.

**Growth in outstanding balances of new automobile loans was particularly steep in heavily Latino/a neighborhoods.**

This was potentially due to the overrepresentation of Latino/a adults among essential workers who needed reliable transportation to their jobs. These neighborhoods (the top quintile of census tracts by share of Latino/a residents) saw new automobile debt rise faster than in predominantly white, Black, and Asian neighborhoods and for the state overall (See Figure 1). The high growth rate in Latino/a neighborhoods was primarily due to an increase in the number of new automobile loans there rather than the size of the loans.

**The average size of new automobile loans grew during the pandemic.** The average size of new loans increased similarly across neighborhoods by race and ethnicity

**The increases in automobile debt may have been spurred by federal financial support, including stimulus payments and unemployment insurance.** A study from the National Bureau of Economic Research shows that people with financial constraints spent more of their stimulus funds, and some of that went to buying cars. Though those federal programs have largely expired, continued economic assistance could provide poor households with the financial security they need to purchase essential goods such as automobiles.

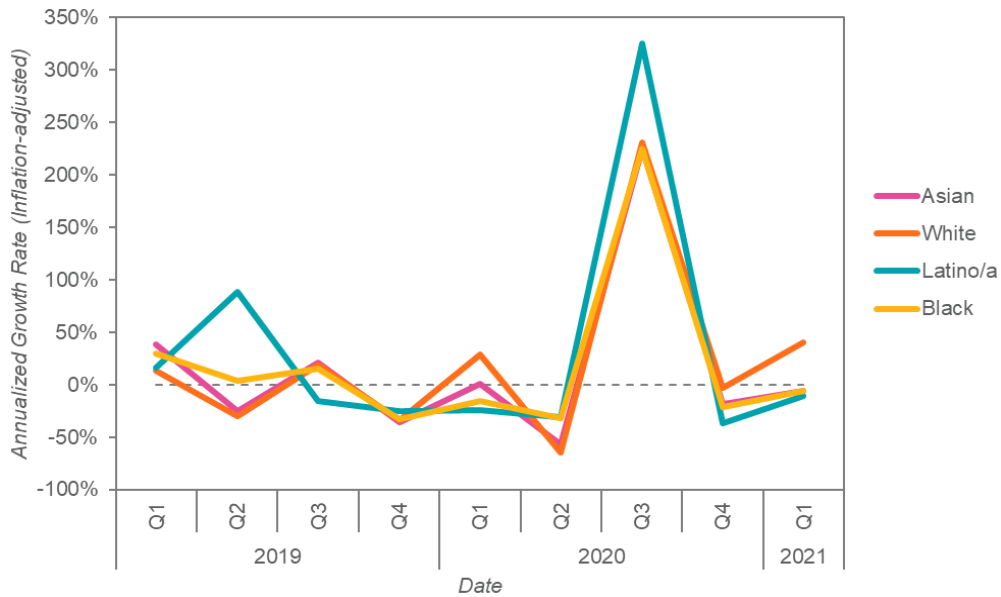


Figure 1. Growth Rate for Outstanding Balances of New Automobile Loans in Neighborhoods in the Top Quintile by Race/Ethnicity, California, 2019-2021

### Recommendations

Low-interest loans for car purchases and repairs and lower-cost car insurance for lower-income households could lessen the financial burden of automobile ownership. Economic assistance must be coupled with fair lending rules and enforcement to combat racially discriminatory practices.

Well-regulated car-based services—car sharing, ridehailing, etc.—can also provide households with the benefits of automobility without the financial burden of car ownership.

Policymakers should seek to restore and expand public transit service and mitigate rider concerns exacerbated by

the pandemic while also addressing the underlying factors that contribute to automobile dependence and debt, such as low-density development that limits the access benefits of public transit (and other modes) relative to the automobile.

### More Information

This policy brief is drawn from the journal article “Driving A-loan: Automobile Debt, Neighborhood Race, and the COVID-19 Pandemic” in *Transport Policy*, available at <https://doi.org/10.1016/j.tranpol.2024.07.007>. For more information, please contact Evelyn Blumenberg at [ebumenb@ucla.edu](mailto:ebumenb@ucla.edu).

### Data Sources

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