DATA POINT

APRIL 2023

CALIFORNIA POLICY LAB

Startling Increase in California Auto Loans

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During the past ten years, there has been a dramatic rise in the size and length of new auto loans, especially since the start of the pandemic. The average new auto loan (for a new or used car) in California is now over $34,000, and is a full $7,300 more than it was just 3 years ago. Loan lengths and monthly payments have also risen considerably over that period. The share of car loans that are 30+ days delinquent is also starting to tick upwards, from 1.5% in mid-2021 to 2.7% by the end of 2022.[1] This publication uses nominal dollars, but the California Credit Dashboard includes an option to adjust for inflation.

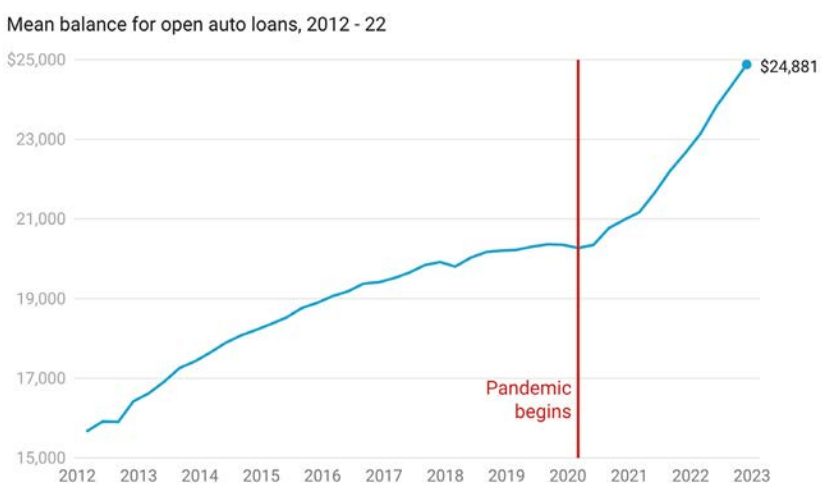
RECENT SURGE

Nearly 8 million Californians have auto loans and they owe an average of $24,900.[2] The auto lending market in California is second only to mortgages in size.

But auto debt was not always so prevalent — and the loan bills were not always so large. Over the last decade, the number of Californians with auto loans increased by 36% and the average amount owed by Californians on their auto loans surged by a startling 51%.[3] The average auto debt in Q4 2012 was about $8,500 lower than it is today. The monthly payment on a newly originated auto loan rose 48% over the last decade, from $405 in Q4 2012 to $598 in Q4 2022.

This escalation in auto loans was steady through the 2010s, but when the pandemic began in 2020, it rocketed upwards (Figure 1). Average balances climbed $1,500+ per year over the past 3 years, driven by larger loan amounts for new originations, which have climbed $2,500+ per year over the

FIGURE 1. Average auto-loan balances are increasing substantially



Notes: The denominator includes only consumers who have auto loans. We do not apply an adjustment for joint accounts, so some of these balances are shared among multiple borrowers.

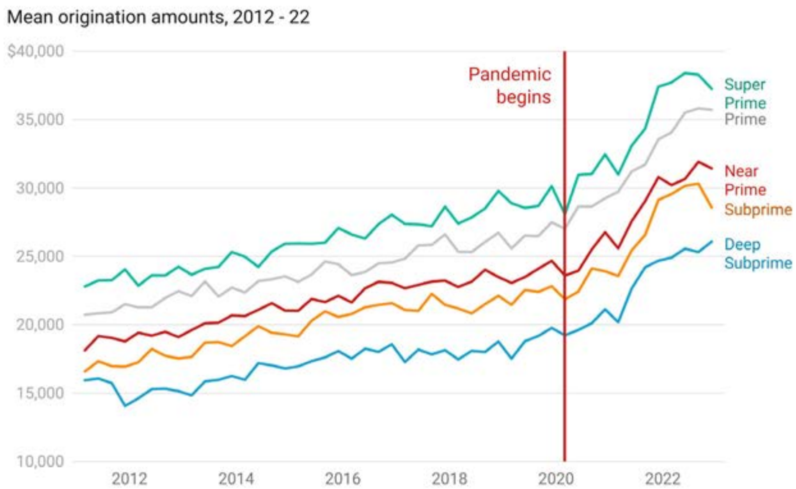
past 3 years. Perhaps surprisingly, these increases in loan amounts have been consistent for consumers across all credit ratings (Figure 2).

One way that auto dealers and lenders have made larger loans more palatable to consumers is by lengthening loan terms, thereby reducing the monthly payment. The average length of new auto loans has steadily increased from 60 months in 2012 to 68 months in 2022 (Figure 3).

Longer loan terms means consumers pay more interest over the course of the loan and also increases the risk of negative equity.

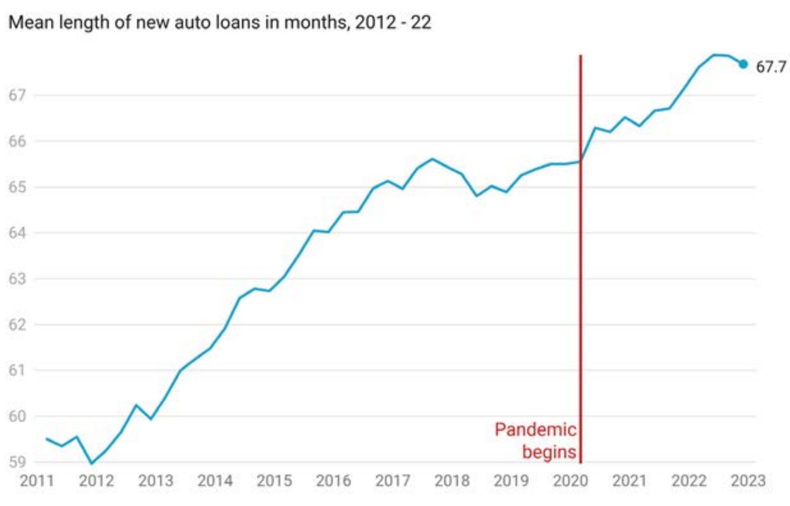
Despite longer loan terms, monthly payments on new loans have risen considerably (Figure 4). In just the past three years, monthly payments have surged by $120, now averaging nearly $600. Interest rates, which surged in 2022, are partially to blame, but most is driven by larger loan amounts.

FIGURE 2. New auto-loan amounts are increasing across credit ratings



Notes: We do not apply an adjustment for joint accounts, so some of these balances are shared among multiple borrowers. We use a generic VantageScore® (version 4.0) provided by the credit bureau. The range is 300-850 (the same as FICO®), with five scoring buckets defined as follows: deep subprime (300-580), subprime (580-619), near-prime (620-659), prime (660-719), and super-prime (720-850).

FIGURE 3. The average length of auto loans is trending steadily upwards



DELINQUENCIES LOW BUT RISING

With rising auto loan balances, larger monthly payments, and longer loan terms, one might expect delinquencies and repossessions to be on the rise. This is happening to some extent, but not appreciably more than other loan types.

Figure 5 shows that auto loan delinquencies have been rising since mid-2021, resetting to pre-pandemic levels. There is a similar pattern across all loan types, which can be seen in the April 2023 California Credit Dashboard update.

Pandemic-era policies — including federal and state stimulus checks, the Child Tax Credit, enhanced unemployment benefits, enhanced food stamps, and loan forbearance programs — all functioned to prop up the balance sheets of most low- and middle-income households. With the withdrawal of those policies, financial distress indicators have rebounded.

FIGURE 4. Monthly auto payments for new loans are surging

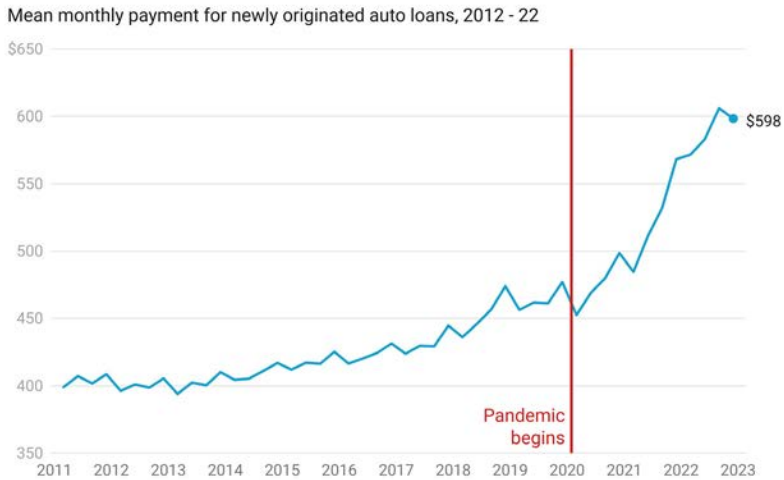
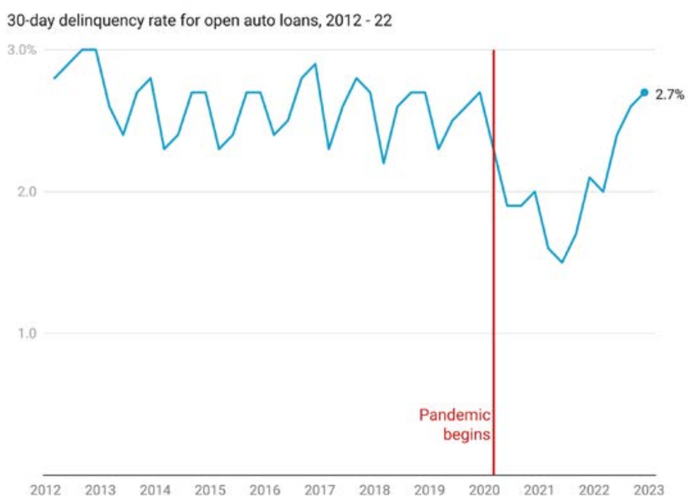


FIGURE 5. Auto loan delinquency rates remain low but are rising



Notes: Numerator is the number of consumers with an auto loan that is open but delinquent by 30 days or more. The denominator is the number of consumers with an open auto loan. Repossessions, charge-offs, and other closed loans are not included in either numerator or denominator.

Auto-loan delinquencies have risen to 2.7% from their low of 1.5% in mid-2021. Delinquencies are highest among younger consumers (the delinquency rate among ages 18-26 is 4.0%).

CONCLUSION

Dramatic increases in auto lending over the past decade have accelerated in the past three years. New loan amounts, average balances, and loan lengths are all up. Delinquencies are still low but rising, and are an area to watch in coming quarters.

BACKGROUND: THE CALIFORNIA CREDIT DASHBOARD

California is the fifth largest economy in the world, and one of every eight US loans is originated by a consumer in California. What happens in California affects the world.

The California Credit Dashboard provides detailed information about household finances and debt, information that has not historically been available to the public at the state-level. The Dashboard, which we aim to update quarterly, will help measure the financial health of California households. What type of debt do Californians have? What is the current pace of originations? How many people are struggling to make payments? Are credit scores up or down? We also break out data by loan types, regions, credit ratings, and age groups, and hope to add more breakouts and functionality over time (tell us what you want to see!).

Our data come from the University of California Consumer Credit Panel, a dataset of credit-bureau data provided by Experian, one of the three nationwide credit reporting agencies. We use a 1% subsample of Californians for calculating the estimates in this Data Point. A technical appendix with methodology information is available on the dashboard website.

Want to receive an email announcing the quarterly updates? Add your email and name here.

FUTURE ADDITIONS

Credit-bureau data provide a unique and near-real-time perspective on the financial health of Californians. Pending funding availability, we plan to update the California Credit Dashboard on a quarterly basis, as well as provide more in-depth analyses on specific credit issues. We also hope to build new features into the Dashboard, such as tracking new outcomes and expanding the ability to break out the data into smaller geographies and new demographic groupings.

Want to support this effort? The California Policy Lab is seeking philanthropic support to maintain and improve this Dashboard as a tool to inform policymakers and the general public about the financial health of Californians and our state's economy. Please reach out for more information.

ACKNOWLEDGMENTS

This research was made possible through support from The James Irvine Foundation, Tipping Point Community, the University of California Office of the President Multicampus Research Programs and Initiatives, M21PR3278, and the Woven Foundation. The views expressed are those of the authors and do not necessarily reflect the views of our funders. All opinions and errors should be attributed entirely to the authors.

Endnotes

1 This publication uses data from the University of California Consumer Credit Panel from Q1 2012 through Q4 2022, and analyzes auto loans for both new and used cars in California. Auto loans include loans for cars, trucks, and other vehicles. We use a 1% subsample of Californians for calculating the estimates in this Data Point.

2 An additional 820,000 California consumers have auto leases, but this Data Point discusses only auto loans. Our California Credit Dashboard combines loans and leases into the "Auto" loan type, so many of the figures in this Data Point are not comparable to the public Dashboard.

3 We present nominal results throughout, but even adjusted for inflation the average auto debt has risen by 17%. The Dashboard includes an option to adjust for inflation.

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