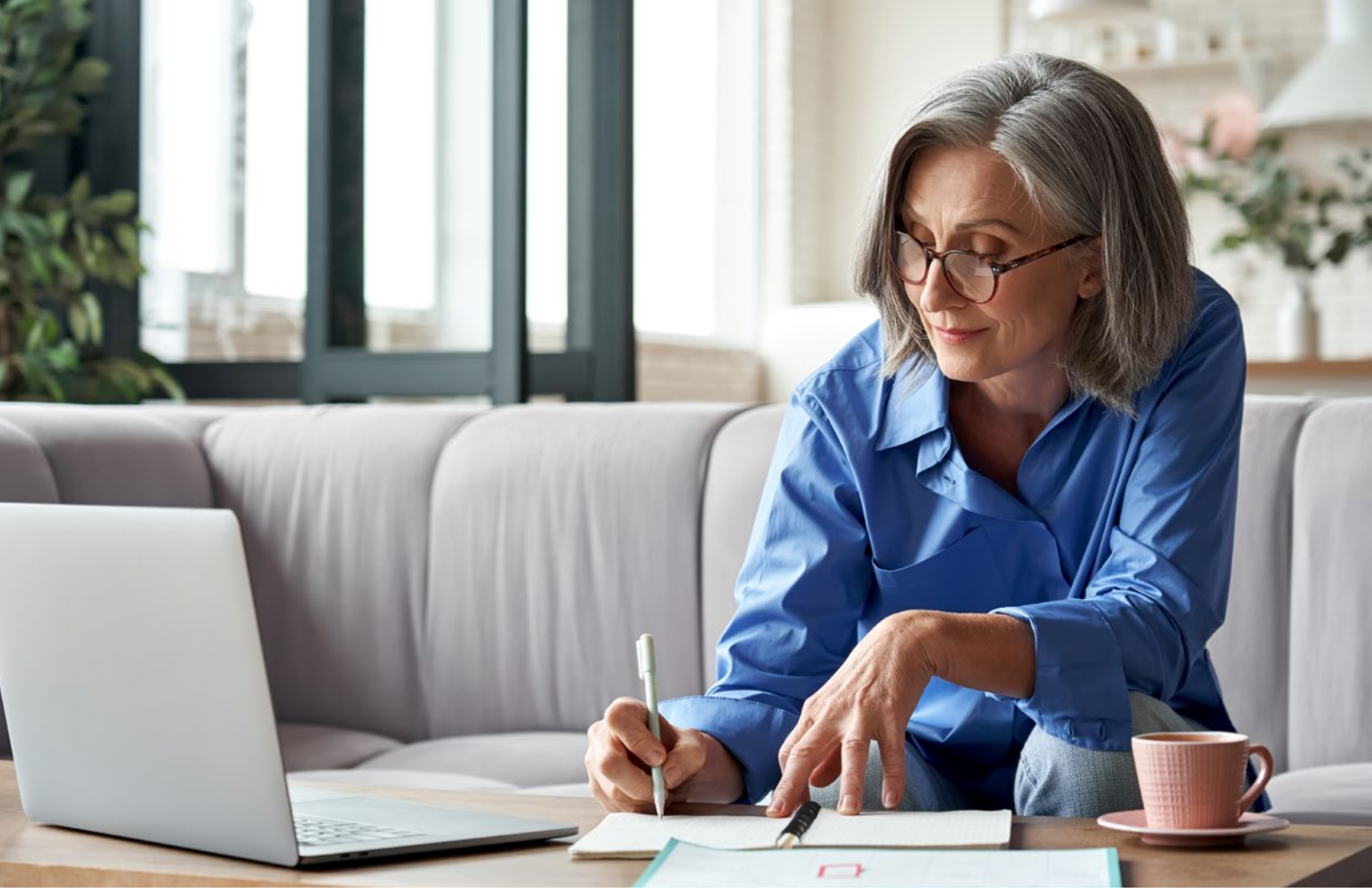
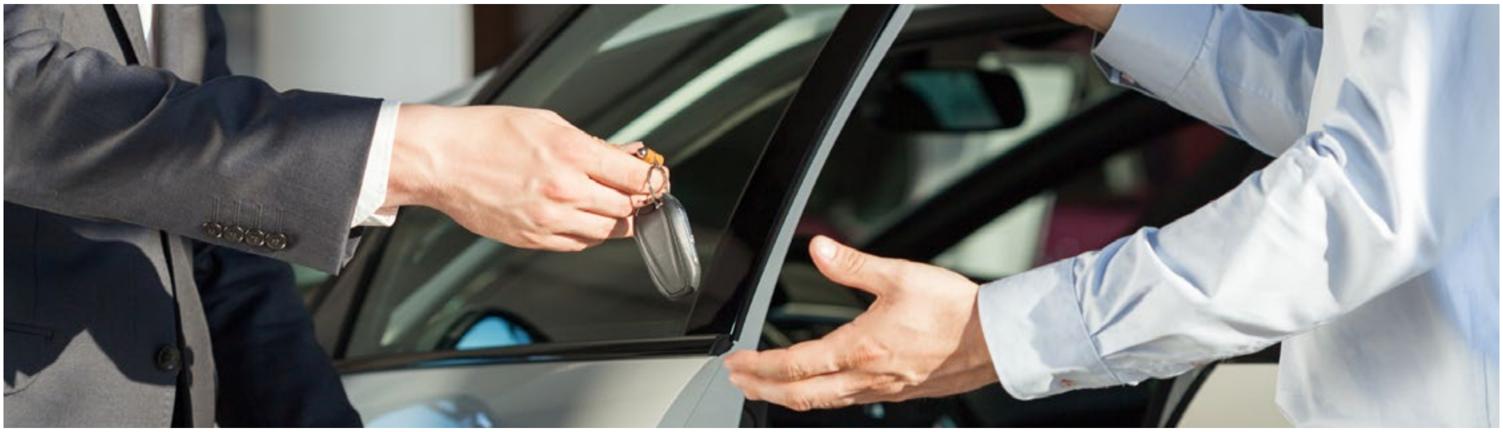


Lien Solutions

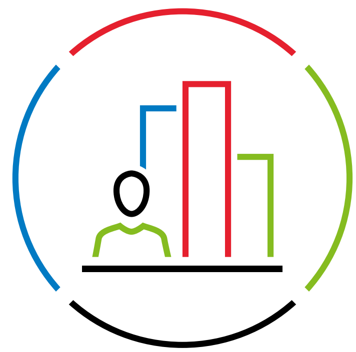
A new round of repossessions could be just around the corner

Are you ready?



Warning lights are flashing once again in the auto loan market. The combination of record-high vehicle prices, a slowing economy, and rising inflation is stressing already overextended borrowers, and pushing growing numbers into delinquency. As expected, subprime loans make up a large part of delinquencies, but this time around, even borrowers with good credit are struggling to keep up with their auto loan payments.

Prudent lenders should be assessing the potential impacts to their lending portfolios. Lenders must proactively prepare for a flood of loan defaults, credit losses, and vehicle repossessions. With this trend likely to continue for many months, lenders face substantial risks if they fail to prepare across all jurisdictions where they have loan interests.



Credit reporting agency TransUnion predicts that consumer loan delinquencies will soar to a 13-year high in 2023.

What's driving the latest round in repossessions?

The flood of repossessions predicted during the pandemic never materialized, in large part because lenders could afford to be lenient. Many offered forbearance programs, or extended loan terms to keep consumers in their vehicles. This made sense at the time because the scarcity of new vehicles had caused demand for used cars to spike, inflating prices. If repossession did prove necessary, lenders stood a good chance of recovering their costs.

Now, with the pandemic and most forbearance programs in the rear-view mirror, the situation is different. Although the economy continues to expand, growth has slowed significantly, unemployment has increased, and the threat of a recession looms. Stock market volatility has eroded consumer savings, and persistent inflation is making it harder for households to make ends meet. Many are turning to credit cards to cover everyday expenses.

Meanwhile, the cost of new cars has risen dramatically — the average price soared above $48,000[1] in 2022, driving a 26 percent increase in the average monthly car payment since 2019.[2] Borrowers have been hit with a combination of record-high sticker prices, rising interest rates, and skyrocketing gas prices. One in six now spends $1,000 each month on car payments.[3] Not surprisingly, with the combination of all these stresses, consumers have begun to fall behind on payments.

Loans originated in 2021 and 2022 are looking particularly troublesome; performance is far worse than loans originated during the pandemic.[4] Total auto loan debt increased $33 billion in the first half of 2022 alone,[5] driven by larger loans. The average amount financed reached $40,602 in June 2022.[6] Many consumers may have financed more expensive cars than they could really afford. Luxury vehicles accounted for 18 percent of new cars sold in 2022, up five percent from a decade ago.[7]

$1.52 trillion
loan and lease outstanding values.[8]

10.8%
of auto debt is 30 or more days past due.[9]

$41,655
average loan amount for new vehicles.[10]

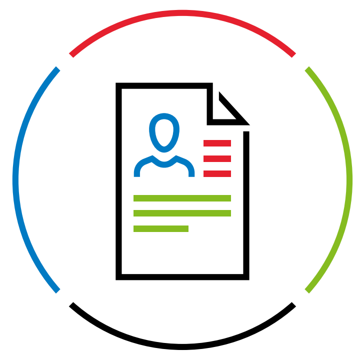
9.2%
auto loan's share of US consumer debt.[11]

According to the Consumer Finance Protection Bureau, the rate at which auto loans are transitioning into delinquency is accelerating. The delinquency rate for loans originated in 2021 is a full 13 percent higher than for loans originated in 2018. This trend is even more pronounced for loans made to sub-prime borrowers in 2022, which are becoming delinquent at a rate 33 percent higher than in 2020.[12] With no safety net in sight, it appears that this trend is likely to continue; Fischer Jordan predicts 1.1 million repossession transactions in 2023.

Lenders need to get ahead of the curve now. Knowledge of the many diverse jurisdictional requirements is essential to ensure compliance. Transactions are still likely to be under a microscope, especially with economically stressed borrowers. Those who have the ability to track the progress of necessary paperwork will have an advantage. A digital process can streamline and automate transactions to minimize errors and costs. Going forward, it's important to pay close attention to how you are managing your default portfolio. Document your approach to handling motor vehicle repossessions to ensure that your practices are compliant across jurisdictions and implemented in a consistent manner.

Perform quality control assessments to ensure that your Compliance Management System (CMS) matches what is communicated to customers. All your consumer-facing documentation, as well as the interplay between what your CMS and default servicing systems report, must be in sync to avoid improper repossessions. Remember, any action taken, whether part of the repossession or deferral process, is going to be under a microscope from regulators because it has a direct impact on economically disadvantaged consumers during this extremely challenging time.

Key considerations for lenders



Although most, if not all, COVID-related consumer protections have now expired, the federal government and many states require that the property exemptions under bankruptcy laws, which include motor vehicles, are updated every three years to keep pace with inflation. The federal consumer exemptions were updated in April 2022. As lenders prepare for repossessions, it's critical to stay on top of this complex landscape and closely monitor state legislative guidance to ensure compliance. Other considerations for lenders during these challenging times include:

Reviewing your portfolio for exceptions

Be ready for the anticipated defaults and repossessions by making sure your titles are properly secured, so you don't add time and complexity to the process. Doing this ahead of the repossession will spare you from any hassles and save time and money.

Adjusting your timelines

Take into account existing delays at the Department of Motor Vehicles and start your title requests earlier to accommodate these delays.

Considering automation or outsourcing

It can be challenging to manage the volume of repossession with existing staff. A third-party provider can help you streamline your repossession titling process, reduce pain points, and provide transparency.

Conclusion

Lenders need to pay close attention to the ins and outs of repossession titling. Any gaps that exist in the repossession titling process make the retrieval of a vehicle, and the ultimate collection of a debt, more difficult, if not impossible. As states lift the repossession moratoria, lenders must proactively prepare themselves to handle the avalanche of vehicle repossessions coming their way. After all, regulators are watching.

Visit Wolters Kluwer's Lien Solutions for additional repossession titling resources:
Wolters Kluwer/repossession-titling

---

1 Market monitoring insights: Examining the potential credit impact of high vehicle costs for consumers
2 Increase In New Car Repossessions May Be Bad News For Us All
3 Record Share of New-Car Shoppers Jumped Into a $1,000+ Monthly Payment in June, According to Edmunds
4 Car Repossessions on the Rise
5 Total Household Debt Surpasses $16 trillion in Q2 2022; Mortgage, Auto Loan, and Credit Card Balances Increase
6 Record Share of New-Car Shoppers Jumped Into a $1,000+ Monthly Payment in June, According to Edmunds
7 Americans Keep Buying More Luxury Cars
8 Average Car Payment and Auto Loan Statistics 2023
9 Average Car Payment and Auto Loan Statistics 2023
10 Average Car Payment and Auto Loan Statistics 2023
11 Average Car Payment and Auto Loan Statistics 2023
12 Market monitoring insights: Examining the potential credit impact of high vehicle costs for consumers

Any gaps that exist in the repossession titling process make the retrieval of a vehicle, and the ultimate collection of a debt, more difficult, if not impossible.

About the authors

Martin Hoff is the Marketing Manager for Motor Vehicle at Wolters Kluwer's Lien Solutions.

Rick Vanko is the Senior Product Manager for iLien Motor Vehicle at Wolters Kluwer's Lien Solutions.

About Lien Solutions

Wolters Kluwer's Lien Solutions, which is part of Wolters Kluwer's Governance, Risk & Compliance (GRC) division, provides award-winning solutions for lenders. Its flagship iLien offering gives lenders the ability to conduct public record searches, retrieve and view UCC and corporate records, create filings, and manage their entire lending portfolio. Its iLien Motor Vehicle offering is an award-winning SaaS platform that transforms vehicle and equipment titling work, helping lenders maintain loan perfection, monitor and manage vehicle liens efficiently, and release titles effortlessly.