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Auto Finance State of the Industry

2024

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Summary

The auto finance industry in 2024 is characterized by significant growth in total American auto loan debt, rising car costs, and shifting borrowing patterns. According to recent data, total auto loan debt has reached approximately $1.595 trillion, marking a notable increase over the past decade [1]. Alongside this growth, delinquency rates have also risen, posing challenges for both borrowers and lenders. Additionally, average car payments for new vehicles have seen a steady increase, reflecting the overall trend of higher vehicle costs. This white paper examines key statistics and trends in the auto finance industry in 2024 and discusses their implications for consumers and stakeholders.

Introduction

The auto finance industry plays a crucial role in facilitating vehicle ownership for consumers across the United States. From financing new car purchases to leasing used vehicles, auto loans are a fundamental aspect of the financial ecosystem. In recent years, the industry has experienced significant growth, driven by factors such as interest rates, increased vehicle prices, and changing consumer preferences. However, alongside this growth, challenges such as rising delinquency rates have emerged, raising concerns about the sustainability of current trends.

As delinquency rates continue to rise, the industry is now at a critical juncture. However, amidst these challenges, there lies an opportunity for innovation, particularly in communication strategies. As debt dynamics shift across different generations, embracing technologies like texting can prove instrumental in reducing auto loan delinquencies and fostering a more sustainable lending landscape for both consumers and lenders.

Auto Loan Statistics in 2024

In 2024, the auto finance industry continues to witness steady growth in total American auto loan debt. According to data from the Federal Reserve Bank of New York, as of Q3 2023, total auto loan debt has reached approximately $1.595 trillion, representing an 88.8% increase over the last decade [1]. Moreover, the year-over-year increase in auto loan debt remains substantial, with a $71 billion rise from Q3 2022 to Q3 2023. This significant rise in debt levels highlights the growing reliance on auto loans among American consumers. Auto loan debt now ranks as the second-largest category of consumer debt in the United States, surpassing student loans and accounting for over 9% of American consumer debt [3].

Total Debt Balance by Debt Type

Debt Type	Q2 2022	Q2 2023	% Change
Mortgage	$10.99 T	$11.49 T	+4.5%
Auto Loans	$1.42 T	$1.5 T	+5.8%
Student Loans	$1.51 T	$1.39 T	-8%
Credit Cards	$0.87 T	$1.02 T	+16.3%
HELOC	$296.9 B	$322 B	+8.5%
Unsecured Personal Loans	$156.1 B	$189.4 B	+21.3%

Source: Experian Consumer Debt Study [3]

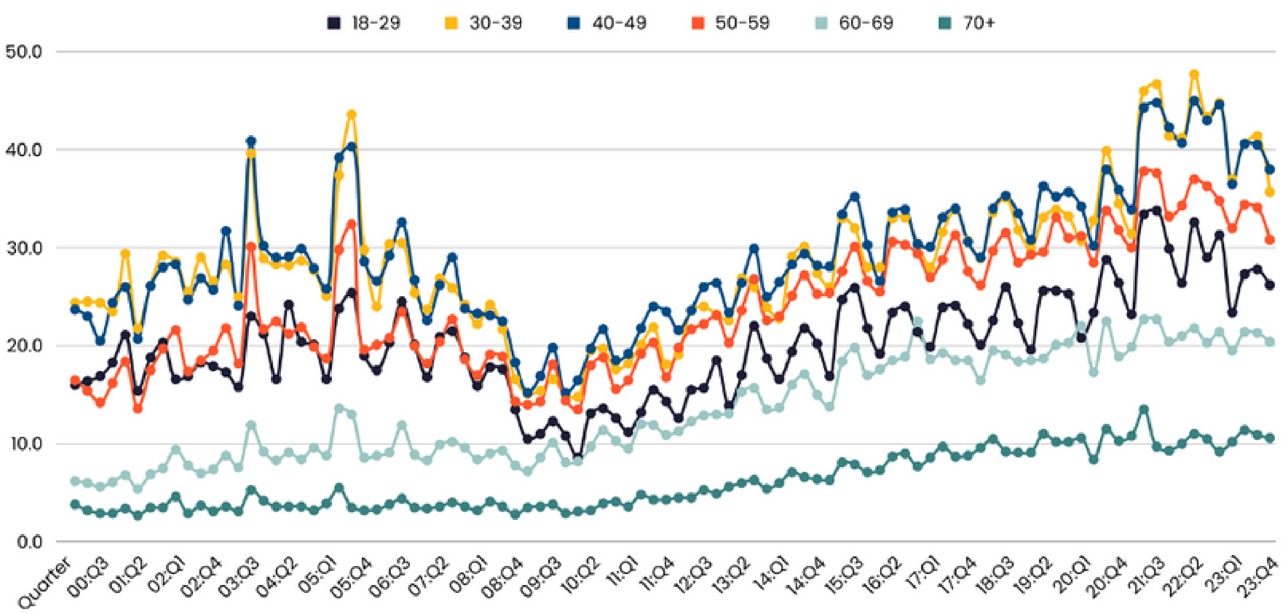
Delinquency rates on auto loans have also seen an uptick, with 2.53% of borrowers reaching serious delinquency (90 days or more delinquent) as of Q3 2023. A 20% increase from the previous year that highlights the financial strain experienced by many borrowers in meeting their loan obligations [1].

Increased Car Costs Heading into 2024

In recent years, car costs have seen a notable increase. Naturally, with the rising prices of vehicles comes rising car payment costs. According to data from LendingTree, the average car payment for new vehicles was $726 per month as of Q3 2023, marking a 3.6% increase from the previous year. The rise in car payment costs reflects the overall trend of higher vehicle prices and increased borrowing costs [1].

In Q3 2023, the average auto loan for new vehicles was recorded at $40,184. Buyers within the nonprime/fair credit tier (601 to 660) procure the largest loans for new vehicles, averaging $43,360 [2]. Although new vehicle loan amounts have experienced a decline over four consecutive quarters, they remain elevated. Conversely, the average loan amount for used vehicles has increased. Experian reports an average loan amount of $27,167 for used vehicles in Q3 2023, an increase from $26,863 in the previous quarter. Additionally, the average auto loan term has seen an increase. The average term for new cars is now 68.3 months, while it is 67.6 months for used cars and 36.2 months for leased vehicles [2]. Simply put, as a result of increased costs, borrowers are taking longer to pay off their loans.

Auto Loan Originations by Age Range
($ billons)



Source: New York Fed Consumer Credit Panel/Equifax Data [4]

Despite the rising cost of cars, monthly loan originations remains substantial, with Americans taking out an average of $59.8 billion in new auto loans each month in the third quarter of 2023 [2]. Notably, there is a discernible shift in the audience of auto loans, with a majority of the $59.8 billion monthly loans taken out in Q3 attributed to individuals younger than 50 years of age, totaling $36.6 billion. As debt dynamics evolve towards younger generations, auto lenders are compelled to reassess their business strategies comprehensively, spanning from marketing initiatives to collection practices, to effectively cater to the preferences and payment behaviors within this predominant demographic.

Implications and Outlook

The trends observed in the auto finance industry in 2024 have significant implications for consumers, lenders, and policymakers alike. The continued growth in auto loan debt, coupled with rising delinquency rates and increasing car costs, underscores the need for the adoption of new strategies and technologies to promote financial stability and responsible lending practices.

To combat growing delinquencies in 2024, there is a critical need for proactive measures to address rising debt levels and car costs. By embracing new consumer engagement and retention strategies, such as compliant text messaging, auto finance organizations can foster stronger relationships with their customers and promote responsible borrowing practices.

Lenders' adoption of text communication with consumers can provide greater accessibility and support in managing borrowers' auto loan obligations. By leveraging compliant text messaging solutions, auto finance organizations can deliver timely reminders, assistance, and educational resources to empower borrowers in making informed financial decisions. As borrowing costs continue to increase, it is essential for borrowers to assess their financial situation carefully and choose loan options that align with their long-term financial goals.

For lenders, the escalating debt levels and surging delinquency rates underscore the critical importance of robust risk management and prudent lending practices. However, amidst these challenges, there exists an opportunity for lenders to proactively implement innovative strategies tailored to address customers at high risk of default.

In response to rising delinquency rates, lenders can explore a range of tactics such as omnichannel payment reminders, targeted refinancing promotion marketing, and personalized customer service plans. By leveraging these strategies, lenders can effectively engage with borrowers, providing them with the necessary support and resources to navigate their financial obligations.

Furthermore, it is imperative for lenders to conduct comprehensive assessments of borrower creditworthiness, ensuring that loan terms are not only favorable at the outset but also sustainable over the long term. By adopting a forward-thinking approach to risk assessment and management, lenders can mitigate potential defaults and foster greater financial stability within their lending portfolios.

For policymakers, the trends observed in the auto finance industry raise questions about the broader implications for the economy and financial stability. As auto loan debt continues to rise, policymakers may need to consider regulatory measures to address systemic risks and protect consumers from predatory lending practices.

Looking ahead, the outlook for the auto finance industry remains uncertain, with ongoing challenges such as rising debt levels and delinquency rates likely to persist. However, by working together to promote financial literacy, responsible lending practices, and consumer protection, stakeholders can help mitigate risks and ensure a more sustainable future for the auto finance industry.

Conclusion

In 2024, the auto finance industry is being shaped by significant growth in total American auto loan debt, rising car costs, and shifting borrowing patterns. Challenges such as rising delinquency rates and increasing debt levels pose risks to the stability of the industry, underscoring the important role that auto finance organizations should play in promoting responsible lending practices more than ever.

By addressing these challenges through prioritization of new consumer engagement and retention strategies, auto finance organizations can promote financial stability and ensure a more sustainable future for the industry. One such strategy being the implementation of text campaigns. With most auto debt belonging to the Millennial and Gen X generations, and the trajectory rapidly moving toward Millennial and Gen Z majority share, it is crucial for lenders to utilize the preferred communication method of their largest audience. Text communications benefit both lenders and borrowers, while delinquencies benefit neither. Lenders can improve their payments revenue and reduce delinquency rates by leveraging text alerts to notify their consumers of impending payment dates, past due payments, and refinancing opportunities. Similarly, borrowers can stay up to date on their repayment progress and proactively construct financial plans to ensure on-time payments. Championing financial literacy through text communications is an effective strategy for auto lenders to support borrowers and mitigate delinquency risks.

Moving forward, a concerted effort towards leveraging technology and fostering financial education will be crucial in establishing a resilient future for the auto finance industry.

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SOURCES

- [1] Nasdaq
- [2] LendingTree
- [3] Experian
- [4] New York Fed

ABOUT

Solutions by Text (SBT) is the pioneer of FinText™, empowering consumer finance companies to engage, interact and transact with their consumers in real time. SBT has provided compliance-first conversational messaging solutions since 2008 and is reimagining text and payments to create a seamless and optimized bill pay experience for companies and their consumers.

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