Subprime Auto Loan Outcomes by Lender Type

Jack Gardner, Jasper Clarkberg, and David Low| April 8, 2022

Consumer Financial
Protection Bureau

Disclaimer

This presentation is being made by a Consumer Financial Protection Bureau representative on behalf of the Bureau. It does not constitute legal interpretation, guidance, or advice of the Consumer Financial Protection Bureau. Any opinions or views stated by the presenter are the presenter's own and may not represent the Bureau's views.

Introduction

- Americans owe auto lenders well over $1 trillion.
- Auto loans common among borrowers with subprime scores.
  - High interest rates
  - High default rates

Variation across lender types in interest & default rates.

Question:

How much of variation in interest rates is explained by variation in default rates?

Types of auto lenders

1. Banks
2. Credit unions
3. Captives
4. Finance companies
5. Buy-Here-Pay-Here (“BHPH”)

Data

<u>Autocount:</u>

- Merged credit record & DMV data
- Origination data only

<u>CCP:</u>

- Only credit record data
- Origination + servicing

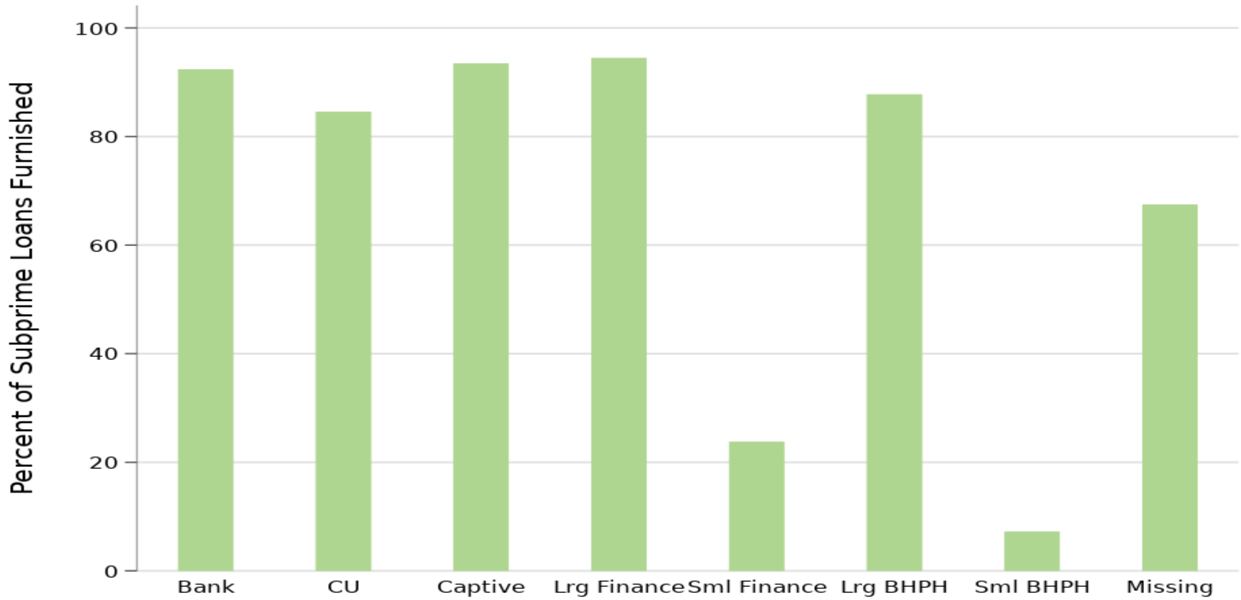
Sample selection

- Loans originated 2014-2016
- Performance measured three years later, 2017-2019
- Focus only on “subprime”, i.e. credit score < 620

Definition of default

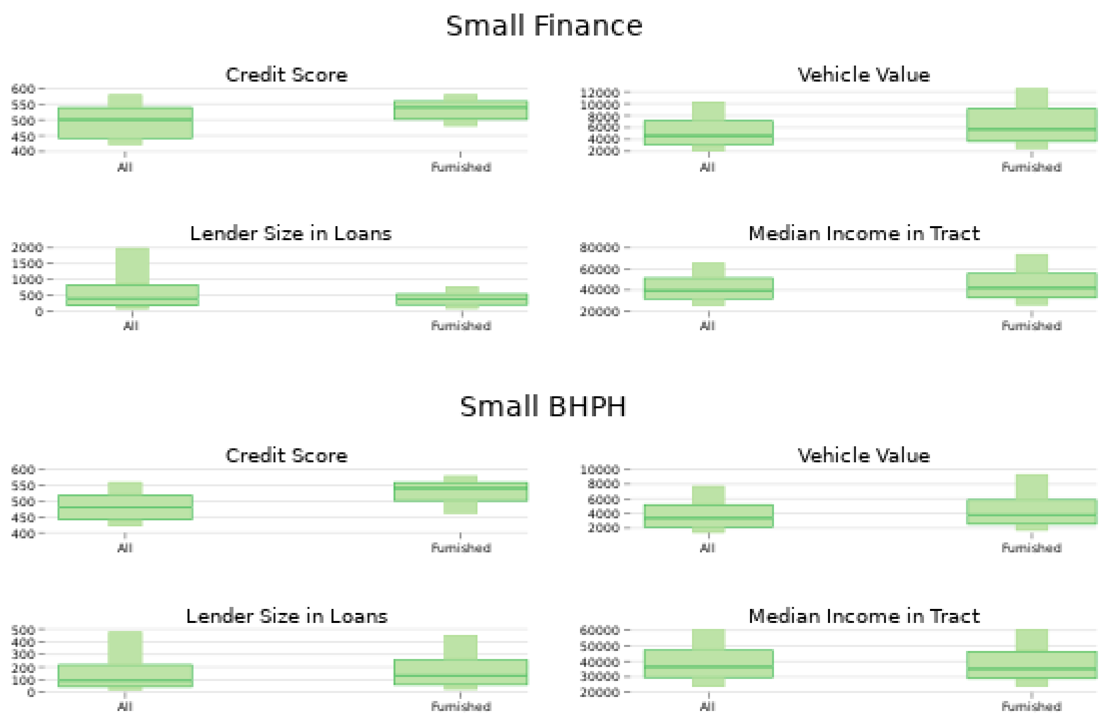
- 60+ day delinquency
- 90+ day delinquency

Furnishing rates across lender types



Small finance & BHPH lenders furnish at very low rates ➔ CCP data not representative

Furnished loans more creditworthy



Source: AutoCount

Small finance & BHPH loans in CCP relatively creditworthy

Observables by lender type, for furnished loans

Source: AutoCount

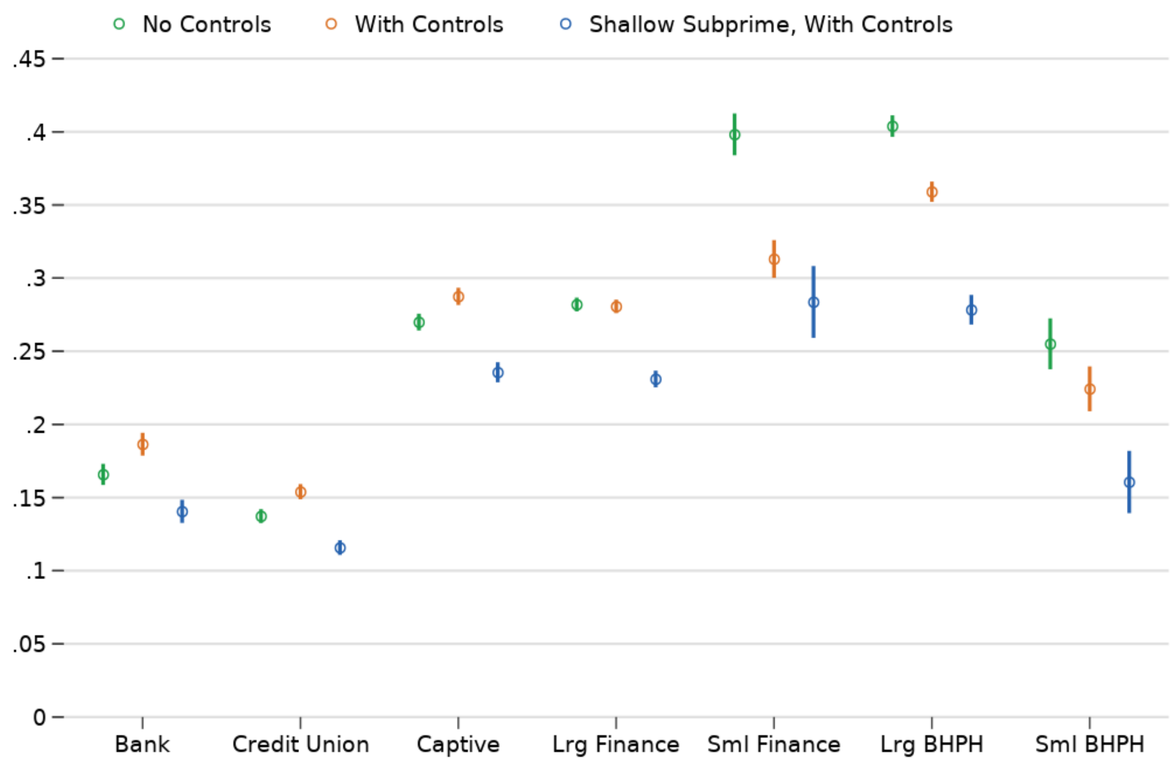
Default risk by lender type

Logit regression.

Controls:
- credit score
- age
- mortgage,
- co-borrower
- lender type FE

Considerable variation across lender types.

But with controls, comparisons possible.
- Small BHPH vs bank
- Small finance vs large



Interest rates by lender type

OLS. Controls:

- Same as before
- & default outcome

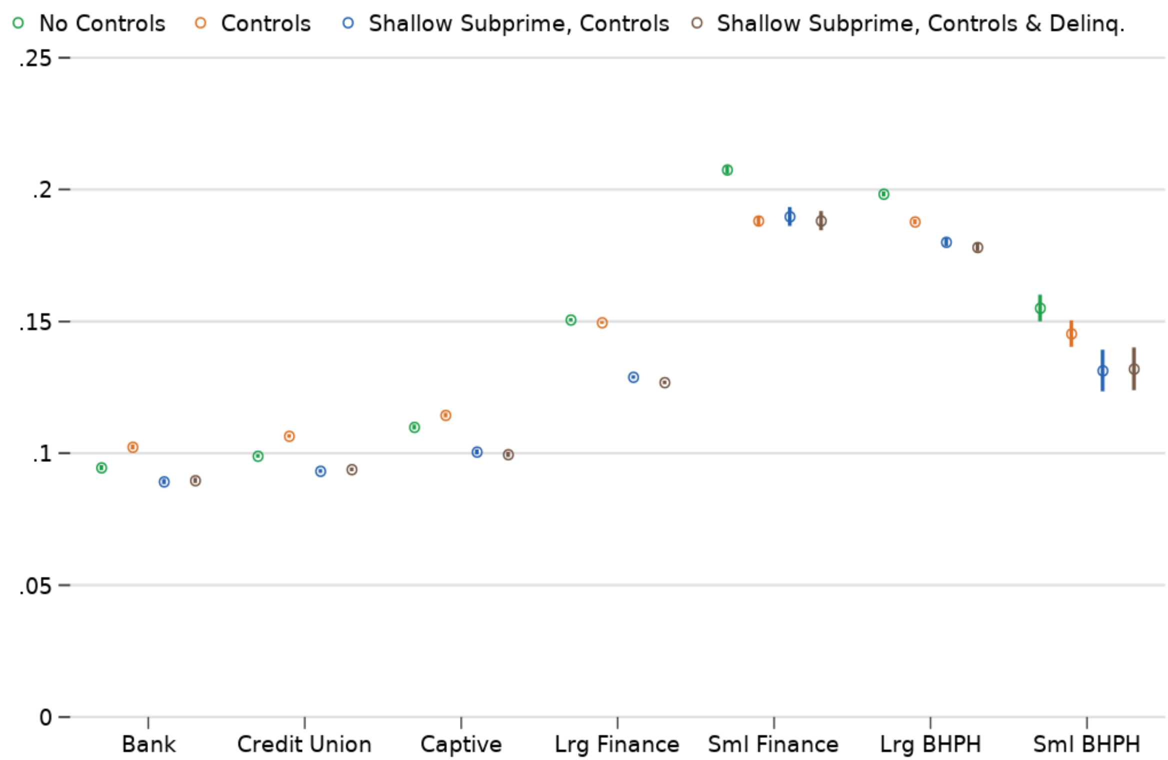
Comparable default risk. But large differences in interest rates.

Sml BHPH → bank

- 13 → 9% ($894)

Sml → lrg finance

- 18→ 13% ($1,348)



Interest rates by lender type & default status

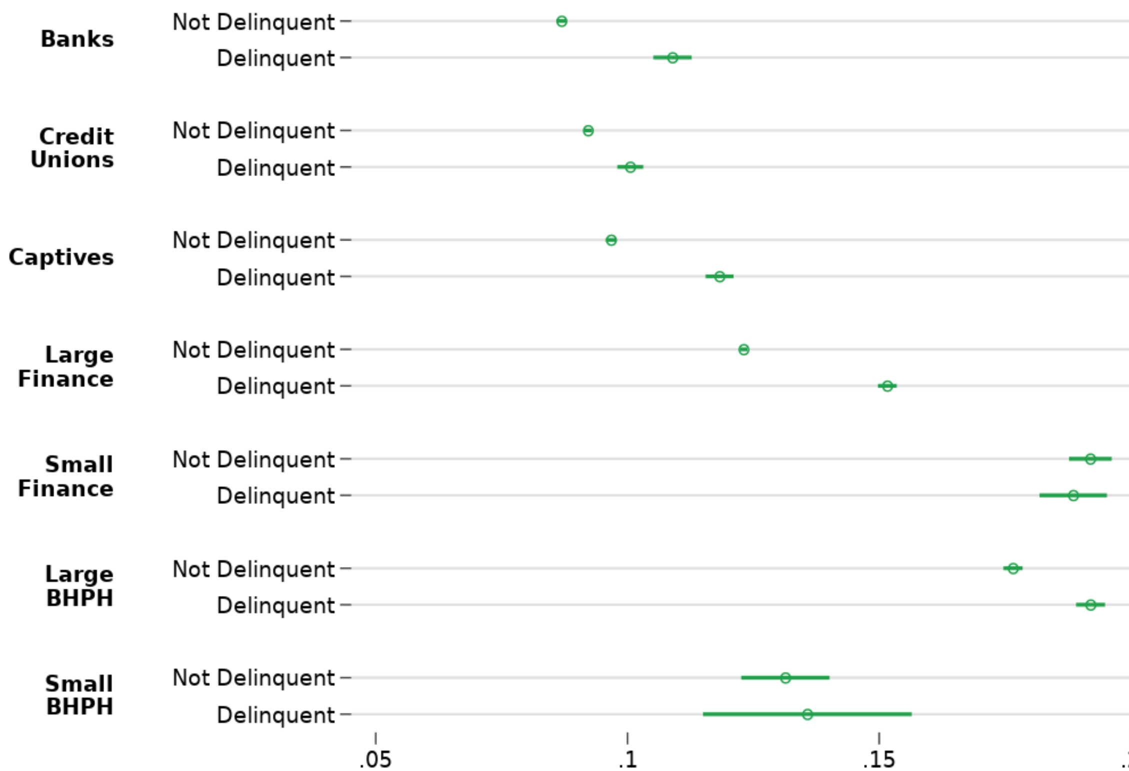
Why do conditional interest rates vary?

Many potential explanations. Loss given default may be:

1. Higher
2. Lower
3. Same

OLS as before, except FE for (lender type x delinquency).

➔ More evidence for (2) & (3) than (1).



Consumer Financial Protection Bureau

Discussion

Interest rates vary across lender types.

1. Default rates explain some of this variation.
2. Default rates leave much unexplained.
3. Some suggestive evidence on why.

Many remaining questions.

1. How can the CFPB improve market & borrower outcomes?