Delinquency rates for auto loans hit highest level since 2008

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The rate of missed payments for auto loans has reached the highest level since 2008, showing the effect of the stagnation of workers' incomes and the increasing prevalence of predatory practices by banks and auto lenders.

The *Wall Street Journal* reported that more than 2.6 percent of auto loan borrowers who took out loans in the first quarter of 2014, had missed a payment by the end of the year. Default rates were even higher for borrowers with credit scores lower than 620, which hit 8.5 percent.

In 2014, subprime auto loans (those issued to borrowers with bad credit) reached the highest levels since 2007, and were up by 15 percent over 2013. "It's clear that credit quality is eroding now, and pretty quickly," Mark Zandi, chief economist at Moody's Analytics, told the *Wall Street Journal* .

Writing on the growth of subprime auto loans, *New York Times* noted that, "a growing number of lenders are using new technologies that can remotely disable the ignition of a car within minutes of the borrower missing a payment. Such technologies allow lenders to seize collateral and minimize losses without the cost of chasing down delinquent borrowers."

Some auto lenders target people with risky credit, since they can gouge high interest rates out of them and use compulsory methods to force then into borrowing more.

One example is 48-year-old Patrina Thomas from upstate New York, who was convinced by a dealership to trade in her 2002 Jeep for a car with a sticker price of $17,000, according to the *Wall Street Journal*. A lender gave her a loan with an interest rate of 20.4 percent, making monthly payments total $385. The car eventually was repossessed.

"The industry is starting to do some stupid things," Honda's American vice-president of sales told the *Wall Street Journal*. "The longer-term loans coupled with greater use of subprime financing can leave buyers paying interest rates as high as 22%, much higher than what is typical for prime buyers," he said.

Auto financing has been one of the fastest-growing lending sectors, and total auto loan balances reached $943.8 billion by the end of last year, an increase of about $134.8 billion, according to the Federal Reserve.

Amid growing concerns over predatory auto lending, regulators have said they may scrutinize some of these practices. Darrin Benhart, a risk management supervisor for the Office of Comptroller of Currency, an agency that regulates the largest US banks, told the Wall Street Journal, "We're putting banks on notice that we have concerns. It's definitely an area that warrants some attention." It is clear from the experience of the 2008 financial meltdown, however, that the government will do nothing to reign in this type of predatory lending.

Located in Detroit, Michigan, Ally Financial was bailed out by the federal government in 2009 after it suffered billions in losses on subprime mortgages. It is currently the largest auto lender in the United States. A spokeswoman from Ally, Gina Proia, sought to downplay the increase in default rates, telling the *Wall Street Journal* that the increase can be attributed "to growth in the consumer portfolio as well as our strategy to diversify the business and book a more balanced mix of assets. The increase in losses was expected and in line with our expectations. We continue to have a robust underwriting policy and price for risk appropriately."

While the subprime auto loan sector is still substantially smaller than the subprime mortgage market that helped trigger the 2008 financial collapse, it is an indicator of the types of practices that major lenders continue to engage in. Nearly seven years since the 2008 crash, the same types of speculative and fraudulent activities that helped cause the financial meltdown are back in full swing.

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