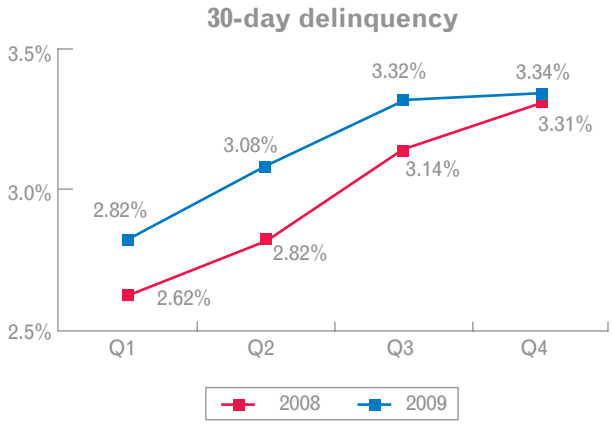
Late-breaking insight into new and used vehicle loan performance

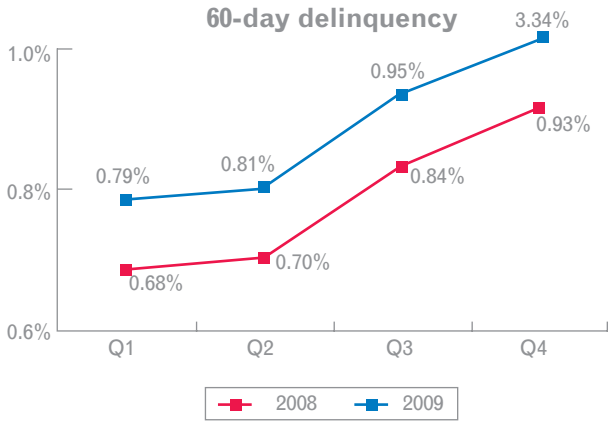
A look at shifting trends in the automotive lending market and their varying influence on new and used vehicle financing

Experian℠

For the second consecutive quarter, the automotive finance market showed signs of stabilization. The total dollar volume of loans at risk (outstanding balances for loans reported as currently 30 and 60 days delinquent) dropped 10.1 percent, and the acceleration of 30- and 60-day loan delinquency rates continued to slow.

While these trends justify some long-overdue optimism in the market, there are still challenges. Delinquencies, though stabilizing, have increased. From Q4 2008 to Q4 2009, 30-day delinquencies rose from 3.31 percent to 3.34 percent, and 60-day delinquencies increased from 0.93 percent to 0.96 percent. Lending is tightening overall, especially for new vehicles. The average credit score for a new vehicle loan was 775 in Q4 2009, up nine points from Q4 2008 and up 26 points from Q4 2007.





These market shifts hold numerous opportunities for automotive lenders to manage more effective portfolios and maintain stronger dealer relationships. These opportunities will be realized by those with a firm understanding of current loan performance — especially in terms of differences in the new and used vehicle spaces. In its most recent market analysis, Experian Automotive studied the new and used vehicle markets to shed light on what's selling, who's buying and what lenders can do to capitalize on current financing trends.

New and used vehicle loan performance study

Experian Automotive's loan study reviewed vehicles financed during Q1 2007 and Q1 2008. Vehicle registrations were matched to the consumer credit database to obtain credit information about the buyer and the loan. The records then were rescored in September 2009 to determine shifts in scores and overall loan performance.

From 2007 to 2008, the automotive credit market tightened noticeably, especially in the new vehicle space. New vehicle financing for subprime risk tiers (near prime, subprime and deep subprime) shrank from 26.8 percent to 24.1 percent. However, there was a slight increase in the prime tier, which grew from 73.2 percent to 75.9 percent. Used originations held steady overall, with a slight drop in subprime

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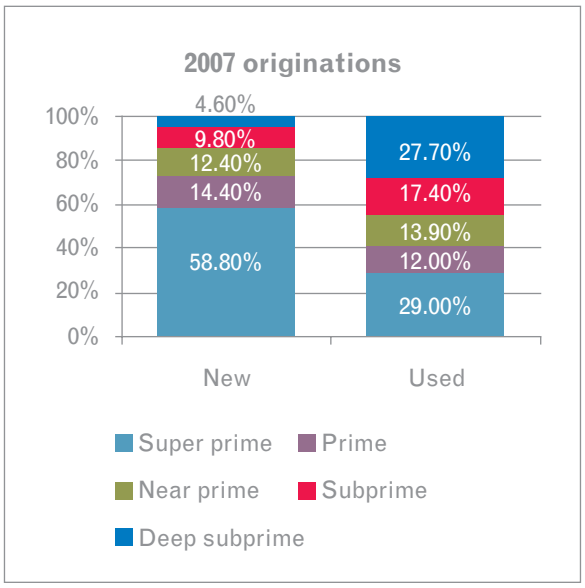
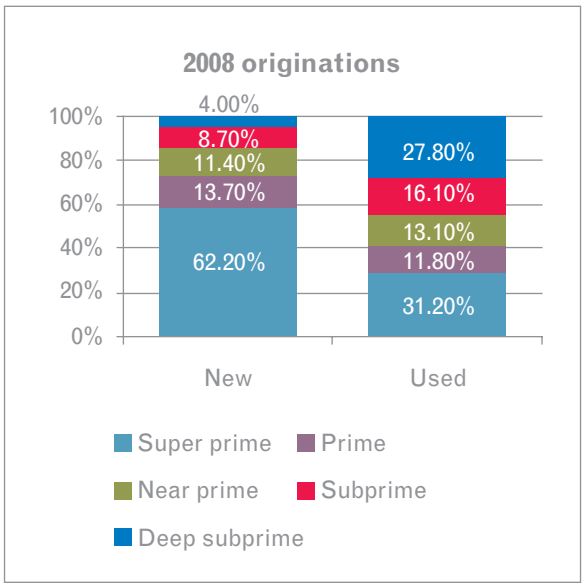
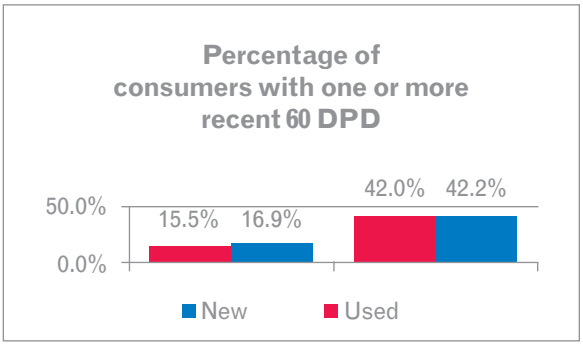
lending tiers (falling from 59 percent to 57 percent) and a small uptick in prime lending (growing from 41 percent to 43 percent). Financing across all risk tiers remained available; however, higher-risk financing, especially in new vehicles, constricted as lenders began adjusting lending policies in part due to the increases seen in delinquencies.

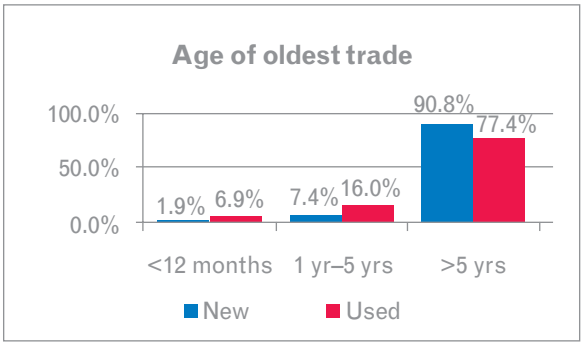




New versus used vehicle buyers — profiles in credit

Knowing the "who" behind the loan is a critical element to understanding overall loan performance. For its study, Experian Automotive took a more complete look at the credit profile of car buyers. Used vehicle buyers proved the riskiest; 42 percent of used vehicle buyers financed in Q1 2008 had at least one 60-day delinquency on their credit file from the prior 12 months. On the other hand, only 15.5 percent of new vehicle buyers had at least one 60-day delinquency, which was a decrease of 8.2 percent from Q1 2007.

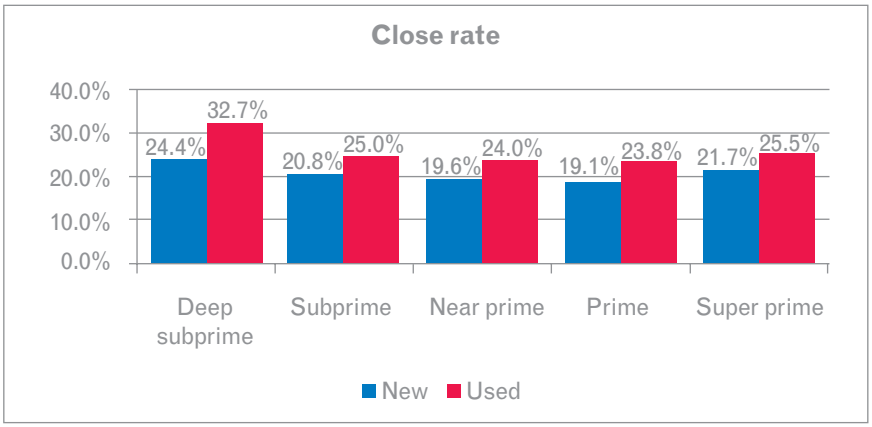




In terms of the depth of credit history or the age of the oldest trade for those financed, buyers with an oldest trade of more than five years represented the bulk of the market. However, those financed for used vehicles dominated the younger credit file category, with nearly 7 percent of those financed having a credit file less than 12 months old. Overall, consumers financed in 2008 tended to have older credit files, with 0.7 percent more new vehicles and 0.6 percent more used vehicles having credit histories of more than five years.

How did loans perform?

Experian Automotive examined several components to determine loan performance, the first of which was attrition. Of vehicles financed during Q1 2008, 22.2 percent of new vehicle loans and 26.3 percent of used vehicle loans closed by September 2009. The greatest percentage of closures was in the high-risk, deep-subprime segment. However, super-prime consumers had the next-highest closure rates, with 25.5 percent of new and 21.7 percent of used super-prime loans closed.



Charge-off rates also determined loan performance. Of those loans that closed during the performance period, 9.2 percent of new vehicles and 16 percent of used vehicles closed due to charge-off. This represents a significant amount of attrition, considering that used sales represented more than 65 percent of the total loan market in 2009.

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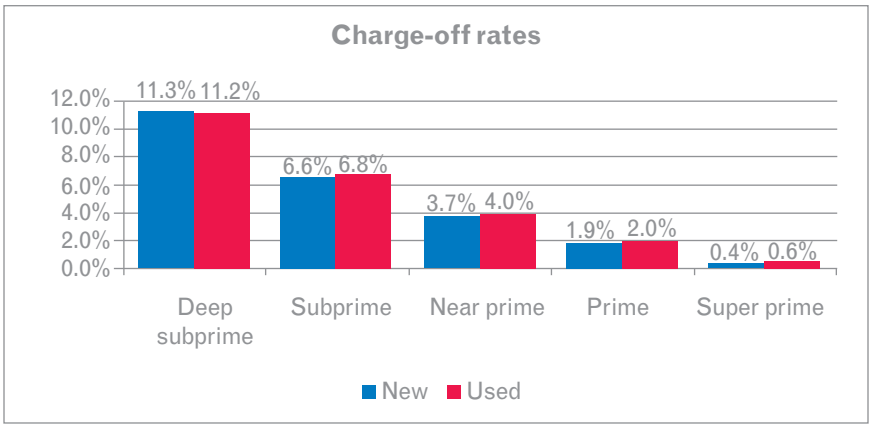
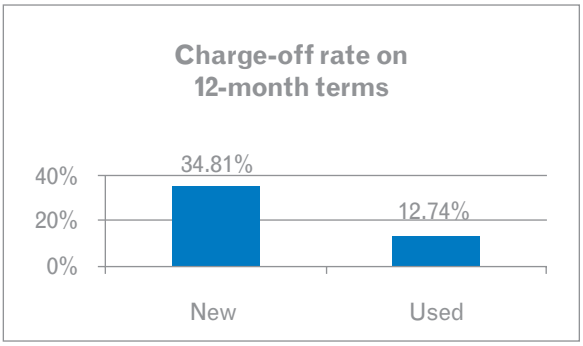
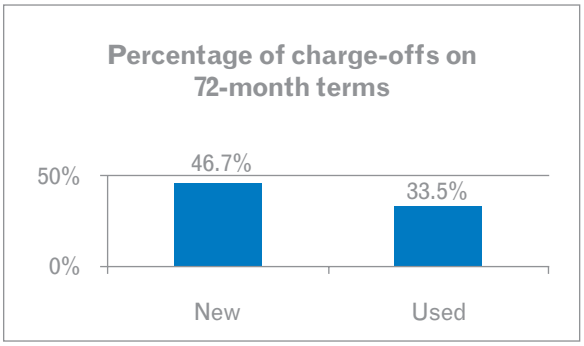
Overall, new vehicles performed better than used, with 1.9 percent of new vehicles and 4.2 percent of used vehicles financed in Q1 2008 charging off. However, despite an overall lower charge-off rate, new vehicles financed in the deep-subprime segment charged off at a slightly higher rate than in used financing.



Experian Automotive also examined charge-off by loan term. The majority of charge-offs occurred on 60 month term loans. Of charge-offs on 72-month term loans, 46.7 percent were new vehicles and 33.5 percent were used. The highest charge-off rates were found on 12-month term loans. While representing only a small portion of loans (0.4 percent of new and 0.8 percent of used), these short-term loans exhibited high charge-off rates, with 34.8 percent of all 12-month term new financing and 12.7 percent of all 12-month term used loans charged off.

Despite a high charge-off rate, the majority of 12-month new vehicle financing is geared toward low-credit-risk consumers. These high rates could indicate possible application fraud and the need for more stringent review processes on low-term financing.





Conclusion

The U.S. automotive market has just endured one of the most challenging times in its history, evidenced by loan originations tightening in the prime risk tiers, used buyers posing more credit risk across the board and high used financing charge-off rates. As used financing represents such a significant portion of the automotive market, higher financing attrition poses a particular challenge. However, the most recent trends around slowing delinquency growth rates and a slight loosening of credit from Q3 2009 to Q4 2009 promote optimism. Opportunities exist for lenders who understand the most recent loan performance and manage their portfolios accordingly in today's stabilizing market.

Methodology

Experian Automotive's quarterly credit trend analysis features market reporting data and analysis from Experian Automotive's AutoCount® Risk Report, which analyzes automotive lending markets based on a uniform measurement of credit quality that segments markets by geography, credit score and vehicle registrations, among other factors. For more information on Experian Automotive's AutoCount Risk Report, visit www.autocount.com. The analysis also incorporates data from the Experian–Oliver Wyman Market Intelligence Reports, which provide topical, quarterly analysis; peer benchmarking options; and commentary on key issues facing the financial services industry. To subscribe to the Experian–Oliver Wyman Market Intelligence Reports, go to www.marketintelligencereports.com.

The data used for this analysis was compiled from Experian credit data and vehicle title and registration data from Experian Automotive. A 10 percent representative sample was randomly selected and analyzed for automotive loan performance. Vehicle financing is compiled from state title data and is based on those states where the lender is identified (46 states).

Experian Automotive analyses and studies

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