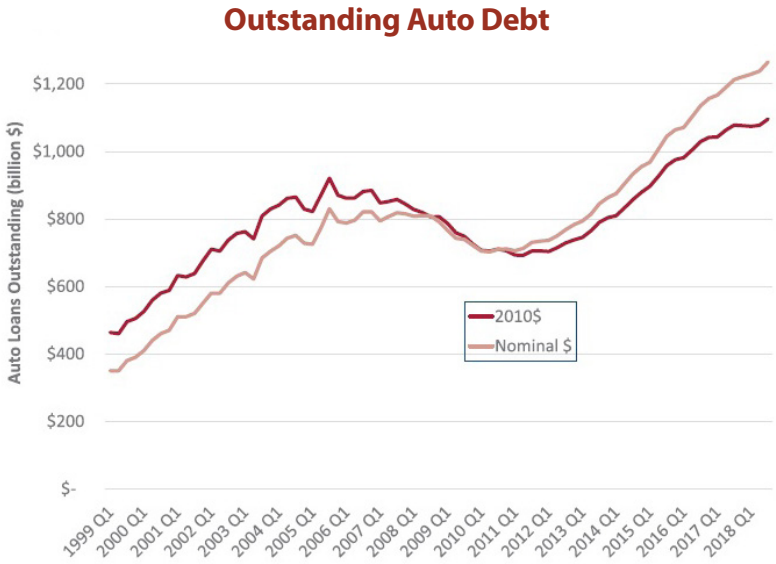
Driving Into Debt

The Hidden Costs of Risky Auto Loans to Consumers and Our Communities

U.S. Auto Debt Is At Historic Highs

More Americans carry auto debt, and they owe more on their loans, than ever before.

- Americans owe more than $1.2 trillion on auto loans, up 75 percent since the end of 2009.
- More Americans carry auto debt than ever before, with the number of outstanding auto loans up by 39 percent since 2010.
- The amount of auto loans outstanding is equivalent to 5.5 percent of GDP – a higher level than at any time in history other than the period between the 2001 and 2007 recessions.



Predatory and Abusive Lending Practices Put Consumers At Risk

Trends in auto lending since the Great Recession leave million of Americans financially vulnerable. Longer loan terms reduce monthly payments but increase total vehicle cost and force consumers to spend longer "underwater" — owing more on their vehicles than they are worth. The average length of a new car loan is now at 68 months, compared to the traditional 48-month standard loan.

Some lenders – and especially subprime lenders – have engaged in predatory tactics, including lending to borrowers without determining the ability to repay, discriminatory markups against African American and Hispanic borrowers, and pushing expensive "add-ons" that add to the cost of the loan. For example, in 2018, Wells Fargo was penalized for charging more than half a million car loan customers for additional insurance they did not need.

Car Dependence Fuels Rising Auto Debt

Owning a car is the price of admission to society in much of America. But owning a car is expensive, and drives millions of households to take on debt. Transportation is the second-leading expenditure for American households, behind only housing.

Our car dependent transportation system is no accident. Generations of public policy, from lavish government spending on highways to the embrace of single-use zoning and sprawl-style development, have made access to a car all but necessary for many Americans.

As auto debt increased, new car sales surged between 2009 and 2016 which led to more cars on the road and more driving. From 2014 to 2016, the number of miles Americans drove shot up 5 percent. During the same period, traffic fatalities and injuries rose, as did greenhouse gas emissions from transportation.

Americans Deserve Fair Treatment and More Transportation Options

To protect consumers in the marketplace, policy-makers should limit abusive auto sales and lending practices, including by:

- Closing loopholes that allow auto dealers to charge excessive interest rates;
- Enforcing existing protections against fraud; and
- Prohibiting discriminatory loan markups.

To expand transportation options and enable more Americans to live without owning a car, policy-makers should:

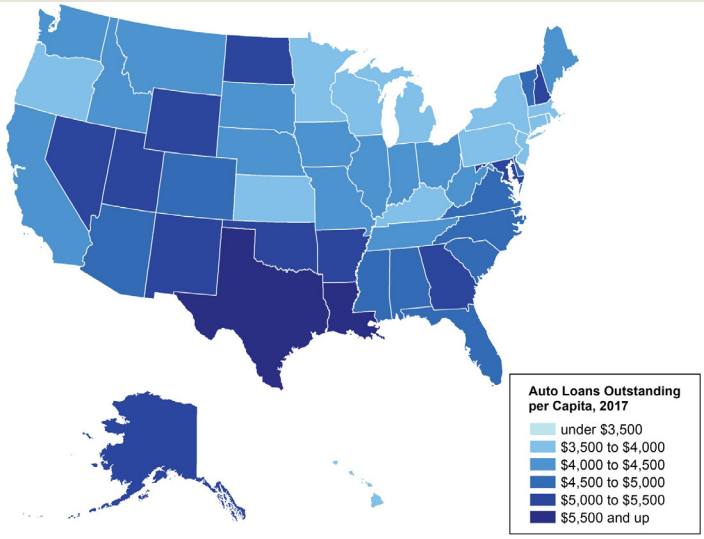
- Increase public transportation service;
- Improve conditions for people who walk or bike; and
- Adopt land use and economic development policies that encourage the location of homes and jobs in areas accessible to public transportation.

Auto Debt Has Grown Most Among Older and Low-Income Americans

Auto borrowing varies by income, age and location across the United States.

1. Over the last decade, auto debt per capita has been growing fastest among the oldest Americans (those age 70 and older), increasing by 73 percent between 2007 and 2017.
2. Lending to residents of low-income neighborhoods has bounced back since the recession, with loan originations increasing nearly twice as fast for residents of low-income neighborhoods than residents of high-income neighborhoods since 2009.
3. Residents of Texas owe far and away the most on auto loans per capita of any state in the country, with average auto debt of just over $6,500 in 2017.

Outstanding Auto Debt per Capita by State, 2017



For citations and the full report, please visit www.uspirgedfund.org.

FRONTIER GROUP

U.S. PIRG Education Fund

Photo credit: maybaybutter at iStock