Second Annual

2024 Vehicle Accessibility Report

OpenLending

Navigating Accessibility: Insights Into the Challenges Facing Near- and Non-Prime Consumers in the Automotive Market

Inflation is starting to recede. Unemployment remains low. U.S. GDP is growing at a better-than-expected rate. Typically, these would be indicators of a strong economy. But for many consumers, the surrounding economic environment does little to dull the sting of high interest rates and tightening lending criteria. Steep borrowing costs, along with inflation-driven high prices, have created an affordability gap, making buying a vehicle increasingly difficult for many.

In the short term, these conditions are preventing consumers, especially those in the near- and non-prime credit segment, from buying a vehicle altogether or forcing them to buy cars that are either unreliable or that they can't afford. As the average age of vehicles in operation continues to hit new records at 12.5 years, many consumers priced out of the market are also increasingly forced into making costly repairs on their existing vehicles. On a macro level, these barriers are making it harder for near- and non-prime consumers to move up the credit ladder.

The absence of an entire buying cycle from these consumers in automotive could reach far beyond automotive financing, as these same consumers, who would typically move up in credit performance, remain mired in a state of lower income potential, unreliable transportation and are falsely viewed as uncreditworthy. Ultimately, when it's harder for these consumers to achieve upward credit mobility, it puts the future of the automotive industry at risk.

This year's report builds on Open Lending's 2023 Vehicle Accessibility Report, which explored the barriers to vehicle ownership and how owning a vehicle impacts consumers' opportunities and livelihoods. For 2024, we dig deeper into the near- and non-prime segment, which comprises consumers significantly impacted by vehicle accessibility. Notably, the new research revealed that 69% of near- and non-prime consumers intend to pay off their automotive loans ahead of schedule, signaling an opportunity for lenders to meet this impending demand.

Open Lending has focused on the near- and non-prime consumer for over two decades, culminating in deep expertise and experience in this segment's challenges and opportunities. Many near- and non-prime consumers are creditworthy but overlooked by lenders, creating a missed opportunity for deserving borrowers and financial institutions. We continuously analyze this segment to ensure we can effectively empower automotive lenders to serve more consumers.

Methodology: In October 2023, Open Lending surveyed 1,042 U.S.-based consumers who fall within either the near-prime (620-659) or non-prime (580-619) credit tier.

Your Guide: Matt Roe has been with Open Lending since 2007, working across marketing, implementation, operations, finance, and IT. As a respected and experienced leader at Open Lending and recognized across the industry, Matt will provide insightful commentary throughout the report.

The Creditworthy Near- and Non-Prime Consumer

Near- and non-prime consumers are proactive about managing debt, have purchase intentions, and maintain a positive outlook on their financial futures.

Key Takeaways

- Near- and non-prime consumers are being excluded from vehicle ownership due to being unable to afford higher monthly payments, which have remained significantly higher since 2020, and the notably lower approvals from lenders as lending criteria have tightened.
- Seven out of 10 near- and non-prime borrowers plan on paying off their automotive loan early, yet many in this segment doubt their ability to secure an acceptable loan.

Car Payments Take Priority

Automotive lenders often overlook near- and non-prime consumers, deeming them too risky. However, Open Lending was among the first to recognize this segment's untapped value and hidden creditworthiness. Further, a majority of this segment intends to pay off their automotive loan early, challenging the common misconception of risk.

These findings support what we've seen historically during the Great Recession when many people chose to make their car payments over their rent or mortgage. The tendency to prioritize car payments is mainly due to the link between mobility and earning potential.

Monthly Bill Most Likely To Be Deprioritized

- **9%** Automotive Loan Payment
- **9%** Rent or Mortgage
- **15%** Utilities
- **29%** Phone Bills
- **34%** Credit Cards

Lifelong Consumers

Near- and non-prime consumers are also loyal to lenders with whom they had a positive experience. Seventy percent of near- and non-prime car owners who secured financing are likely to return to the same lender for other services, like a mortgage or business loan.

- **69%** of near- and non-prime vehicle owners plan to pay off their automotive loans early.
- **77%** of near- and non-prime vehicle owners haven't been late on any automotive loan payment within the last three years.

An Optimistic Outlook

Near- and non-prime consumers are also optimistic about their financial future and ability to own or continue owning a car. Nearly three-quarters (74%) of near- and non-prime consumers expect their financial situation to improve over the next year, and 63% plan to purchase or trade in a vehicle within two years.

MATT'S TAKE

Vehicle access and reliability are critical to improving livelihoods and overall well-being.

Vehicle accessibility influences employment and financial security. In our 2023 Index, 62% of non-car owners felt owning a car would improve their current job performance, and 64% felt having access to a vehicle would increase their earning potential.

The tie between vehicle accessibility and improved quality of life is evident and explains why demand for automotive loans remains high for near- and non-prime consumers. But without fair credit opportunities, they'll buy the best car they can without financing or fall victim to predatory lending practices originating from non-traditional lenders. By empowering near- and non-prime consumers to finance reliable vehicles, lenders can help them avoid record-high repairs and ownership costs.

Lending Enablement Solutions can help lenders ensure creditworthy near- and non-prime consumers can buy reliable vehicles and help them become the prime borrowers of tomorrow. The lending industry must look beyond credit scores, using data and AI to analyze broader data sets to identify near- and non-prime consumers most likely to make on-time payments.

High Demand, Limited Access

Interest rate hikes and high vehicle prices are raising monthly payments and pushing near- and non-prime consumers out of the market.

Key Takeaways

- Near- and non-prime consumers are being excluded from vehicle ownership because they can't afford high monthly payments.
- Many near- and non-prime consumers doubt their ability to secure an acceptable loan.
- More than half of near- and non-prime consumers would still like to purchase or trade in a vehicle in the next two years.

Insufficient Funds

Near- and non-prime consumers have an appetite to buy, but many lack the credit and funds. Fifty-four percent of near- and non-prime consumers who don't own a car listed "I can't afford one" as the primary reason, with monthly payments for both used and new vehicles increasing over the past three years.

Little Relief in the Used Market

Seventy-nine percent of near- and non-prime consumers who purchased a new car in 2023 pay over $600 a month, up from the 44% of those who purchased one between 2020 and 2022. The used market doesn't offer much reprieve, with 25% of near- and non-prime consumers paying over $600 a month for a used car they purchased in 2023, up from the 8% who purchased one between 2020 and 2022.

- **21%** of near- and non-prime consumers would like to purchase a car in the next 12 months.
- **11%** of near- and non-prime consumers would like to purchase a car as soon as possible.

Leasing: The Only Alternative

Some near- and non-prime consumers see leasing as the most economical and realistic way to obtain a car. Of respondents who lease a vehicle, 61% do so because they can't afford the higher monthly payment of buying a car, are unable to qualify for a loan or doubt they'd be offered an acceptable loan.

Near- and non-prime consumers recognize the benefits of vehicle ownership and the need for financing, but high interest rates remain a significant obstacle.

- "The advantages would be building your credit score so that you can purchase bigger items in the long run, but the disadvantages could be the fees and interest rates that come along with it and the possibility of not being able to make payments."
- "The advantages would be to spread the payments over a period of time. Disadvantages would be interest and repayment terms."

MATT'S TAKE

Interest rates are near- and non-prime consumers' biggest barrier to vehicle ownership.

We've seen the number of Open Lending's near- and non-prime new vehicle automotive registrations decrease from 18% before the pandemic to 14% in Q3 of 2023. During this same time frame, prime registrations continued to rise steadily despite the rate hikes.

To prevent more near- and non-prime consumers from being pushed out of the market, vehicle availability must improve, and prices and rates must come down. While lenders don't have control over these variables, they can use Lending Enablement Solutions to ensure they analyze all the available data and appropriately price loans. **Accurately priced loans are critical to stopping the cycle of delinquencies, defaults, worsened credit, and limited access to financing.**

Turning Away From Banks and Credit Unions

With increasing unaffordability, near- and non-prime consumers are buying more used vehicles outright or seeking alternate routes to car ownership.

Key Takeaways

- Some near- and non-prime car owners hope to avoid debt and high monthly payments by forgoing an automotive loan and paying all cash.
- Monthly payments and interest rates for used cars are still higher than consumers expected.
- Most near- and non-prime borrowers are receiving shorter loan terms than expected.

Fear of Debt and The Unknown

Of the one-third (32%) of respondents who purchased their vehicle outright, 38% did so to avoid debt, and 21% sought to forgo costly monthly payments and fees. A confusing and unclear automotive lending process is forcing near- and non-prime consumers to look for alternative financing options.

What's the most confusing or unclear part of the automotive lending process?

- **48%** "getting the right interest rate."
- **38%** "getting the right monthly payment."

Used Over New

High interest rates and monthly payments are also pushing more near- and non-prime consumers away from new car purchases. Of the near- and non-prime consumers who purchased a vehicle outright, 75% bought a used vehicle. But even when purchasing a used car, near- and non-prime consumers are surprised by associated costs. Nearly one-third (28%) of respondents said their monthly payment was higher than expected, and 27% said their interest rate was higher than expected.

Tightened Terms

Notably, only 20% said their loan term was longer than expected, which could indicate more automotive lenders are unwilling to extend loan terms that would make car payments more affordable.

MATT'S TAKE

Bank and credit unions can offer terms consumers will say "yes" to.

Automotive loan rejection rates reached a record high in 2023. If this trend continues, combined with the average age of cars reaching over 12 years, we will start seeing increased pent-up demand with more people needing to buy a vehicle. And because car ownership unlocks access to critical earning opportunities, lifestyle and overall well-being, it's a foregone conclusion that people will do whatever they can to obtain one if they need it, despite the costs. **Credit unions and banks have an opportunity to serve their customers and communities, especially underserved communities, by offering accurately priced loans and digestible terms.**

Many lenders have pulled back completely from any automotive loan application that scored below prime. If lenders only use traditional credit scores and proof of income, they may deliver an overpriced loan and set up that borrower for failure. Lending Enablement Solutions can give banks and credit unions a competitive advantage by enabling them to expedite decisioning and offer better rates and terms.

An Issue of Trust

Credit unions and banks have an opportunity to build trust with near- and non-prime consumers.

Key Takeaways

- Nearly half of near- and non-prime consumers do not fully trust financial institutions to offer honest and reasonable automotive loan terms.
- Just half of near- and non-prime consumers have a "great deal of trust" in their primary bank or credit union overall.
- Some near- and non-prime consumers have experienced bias and felt overwhelmed by the automotive lending process.

Skeptical of Financial Institutions

When asked how they would rank their level of trust in financial institutions to offer honest and reasonable automotive loan terms, most near- and non-prime consumers indicated "a moderate amount of trust."

Primary Bank Trust

- **24%** A great deal of trust.
- **28%** A lot of trust.
- **35%** A moderate amount of trust.
- **9%** Little trust.
- **4%** No trust at all.

Automotive Dealerships

- **15%** A great deal of trust.
- **18%** A lot of trust.
- **36%** A moderate amount of trust.
- **23%** Little trust.
- **8%** No trust at all.

Alternative Lending Providers

- **13%** A great deal of trust.
- **16%** A lot of trust.
- **39%** A moderate amount of trust.
- **25%** Little trust.
- **7%** No trust at all.

The Least Untrustworthy

Near- and non-prime consumers reported just slightly greater trust in their primary bank or credit union than in dealerships and alternative lending providers, with only 52% having a great deal or a lot of trust in their primary bank or credit union. Meanwhile, 33% and 29% said the same about dealerships and alternative lending providers.

A Formidable Process

Near- and non-prime consumers also find the automotive lending process challenging and overwhelming, with some reporting feeling disregarded by some lenders because of their credit scores.

- "I feel like financial institutions make it somewhat more challenging because I've noticed they are a little biased towards people and can be judgy about what they can afford."
- "I believe financial institutions make it more challenging to become car owners because of all the paperwork and requirements they ask from the prospective buyer."
- "Harder. They judge you too harshly based on your credit report."
- "They mostly take credit score into account no matter the income you may have."

MATT'S TAKE

Consumers still don't trust the automotive lending process. This is not something lenders should just accept.

Financial institutions and lenders can garner more trust, especially from near- and non-prime borrowers, by going out of their way to make the process more transparent and more accessible. By analyzing broader, alternative data to measure creditworthiness, lenders can offer loans to a more diverse pool of borrowers. **And when lenders have more data and information about their customers, they can provide an experience that fosters continued loyalty.** Lending Enablement Solutions can analyze these large, disparate data sets in seconds, expediting decisioning time and enhancing the lending experience.

Gen Z As Vehicle Owners

Younger near- and non-prime consumers are careful about vehicle purchasing decisions and reluctant to take on debt.

Key Takeaways

- Gen Z near- and non-prime consumers face higher rates and monthly payments than their older counterparts.
- Younger near- and non-prime consumers want new cars, which contradicts their hesitancy to take on debt and high monthly payments.
- Apprehensive about long loan terms and high rates, Gen Z near- and non-prime consumers are opting to pay for a car in full or lease.

Younger Equals Greater Expense

Gen Z near- and non-prime car owners face higher rates and monthly payments than the average near- and non-prime consumers. Eighty-two percent of Gen Z near- and non-prime car owners pay 6% interest or more on their automotive loan, compared to 73% of all near- and non-prime car owners who pay 6% interest or more. Meanwhile, 80% of Gen Zers spend over $400 on monthly car payments compared to 39% of near- and non-prime borrowers aged 43-68. Gen Zers' higher monthly car payments could be attributed to their propensity to purchase a new vehicle versus a used one, with over half of Gen Z near- and non-prime vehicle owners buying a new car.

Likelihood To Purchase a New Vehicle in the Next Two Years

- **55%** 42+
- **63%** Gen Z
- **72%** Millennials

Proceed With Caution

Gen Zers appear more financially cautious, opting for more manageable loan repayment terms and hesitant to take on unfavorable terms. Sixty-one percent of those aged 18-42 have a term limit of 48 months or less, compared to just 42% of those aged 43-68.

Looking to Cash or a Lease

Of the Gen Z respondents who purchased their vehicles outright, 22% did so because they were unsatisfied with the loan rate or repayment terms. Gen Z's reluctance to take on additional debt is particularly evident when looking at the popularity of leasing a vehicle. Seventeen percent of Gen Z near- and non-prime car owners currently lease compared to just 4% of those over 42.

MATT'S TAKE

Automotive loans are key to capturing Gen Z.

Gen Z is the cohort lenders want to reach to start laying the foundation for borrower loyalty. But while financial institutions are seeking out younger depositors, they're overlooking the importance of a car loan. **Lenders must be willing to extend automotive loans to this group or risk missing out on a vast opportunity and future prime borrowers.** By harnessing the power of AI and predictive analytics, Lending Enablement Solutions can help lenders grow this age group while prioritizing risk mitigation.

Advancing More Near- and Non-Prime Car Owners

Open Lending's research illustrates the impact of the current economic climate on near- and non-prime consumers and their ability to own a car. And as our previous research revealed, this segment understands the value of vehicle ownership and its impact on their livelihoods and daily lives. However, consecutive interest rate hikes have further exasperated the affordability issues near- and non-prime consumers have continued to face over the past few years.

The data shows that high interest rates, high monthly payments, tightened lending criteria and a confusing automotive lending process are shaping consumer behaviors and substantiating the apprehensions of an entire generation. Despite plans to pay off their car loans early, near- and non-prime consumers are too often overlooked by automotive lenders, which has resulted in fear of being immediately written off because of a less-than-prime credit score. But in disqualifying near- and non-prime consumers, automotive lenders are passing up creditworthy borrowers who want to own a vehicle, prioritize monthly car payments, and have positive financial outlooks.

By extending automotive loans to more near- and non-prime consumers, lenders are allowing them to build a strong credit history. With a focus on this segment, lenders also have the opportunity to establish relationships with younger consumers who are early in their credit journey, paving the way to meet their lifelong financial needs. Many near- and non-prime consumers have a favorable credit trajectory, meaning that when lenders serve near- and non-prime today, they're securing prime consumers for tomorrow.

Advance your automotive lending and extend your borrower base today with Open Lending.

About Open Lending

Open Lending (NASDAQ: LPRO) provides loan analytics, risk-based pricing, risk modeling, and default insurance to auto lenders throughout the United States. For over 20 years, we have been empowering financial institutions to create profitable auto loan portfolios with less risk and more reward. For more information, please visit www.openlending.com.

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