



## **Vehicle Repossession Prevention: Steps Taken by Industry<sup>1</sup> July 2008**

Repossessing a vehicle is an expensive and unpleasant process for vehicle finance companies and borrowers alike. On average, vehicle finance companies lose in excess of \$8,000 on each vehicle they repossess.<sup>2</sup> For this reason, many of them are taking actions to help identify borrowers in need and prevent repossessions. What follows is a summary of practices that vehicle finance companies are using to help troubled borrowers hold onto their cars. These practices include increasing educational tools, dedicating more staff to working on the solution, reaching out early to borrowers who may be in trouble, and working with struggling borrowers on an individual basis.

### **Increasing Educational Tools**

Many vehicle finance companies offer a wealth of educational materials for consumers on what they need to know to purchase or lease a vehicle, as well as the basics of credit and debt management. The majority of their information focuses on educating consumers before they buy or lease a vehicle so they know how much they can realistically afford to pay each month. Financial calculators on vehicle finance companies' Web sites, for example, allow consumers to figure out a sensible monthly payment for their own situation based on their income and expenses. Tutorials and glossaries are other educational tools available to consumers. Some company's Web sites offer information on how borrowers and creditors can work together through difficult times.

An industry-wide coalition known as Americans Well-informed on Automobile Retailing Economics (AWARE) provides a number of educational tools to help consumers before, during, and after the vehicle purchasing/leasing process. The Web site contains resources such as recommended steps in the buying and leasing processes, definitions, and quizzes, with the information presented in both in-depth and quick-reference formats. In recognition of the hardships facing many consumers, AWARE has put together tips for consumers on what to do if they are falling behind on car payments.<sup>3</sup> Among the tips are to recognize the warning signs, seek help, and become an educated consumer. This resource continues to be the first source returned on a Google search for "falling behind on auto payments."

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<sup>1</sup> This report is based on numerous industry sources. This vehicle repossession prevention report is largely based on the direct information acquired from several member companies and other resources as noted. Member companies surveyed in the preparation of this report include (alphabetically): AmeriCredit, Chrysler Financial, Daimler Financial Services, Ford Motor Credit, GMAC, and Turner Acceptance Corp.

<sup>2</sup> Greg Garland, *For the Repo Man, Business Zooms; Gas Cost, Economy Mean More People Can't Meet Payments* (May 31, 2008), The Baltimore Sun, at [http://www.baltimoresun.com/news/local/bal-te.md.vehicles31may31\\_0.1975454.story](http://www.baltimoresun.com/news/local/bal-te.md.vehicles31may31_0.1975454.story).

<sup>3</sup> *Top Five Tips If You Are Falling Behind on Car Payments*, Americans Well-informed on Automobile Retailing Economics, at <http://www.autofinancing101.org/topfivetips.pdf>.

Another comprehensive resource put together by the industry for consumers is the free brochure, “Understanding Vehicle Financing,” produced by the American Financial Services Association Education Foundation (AFSAEF) and the National Automobile Dealers Association (NADA) in cooperation with the Federal Trade Commission (FTC).<sup>4</sup> The brochure provides information to help consumers learn about dealership financing and evaluate their own financial situations before financing a new or used vehicle. Available in both English and Spanish, the brochure defines common financing terms and walks consumers through calculating a monthly spending plan. The free brochure outlines what consumers should do before visiting the dealership, when visiting the dealership, after completing the vehicle purchase or lease, and in case of financial difficulty. Since 2003, more than 300,000 hard copies of the brochure have been distributed by the AFSA Education Foundation as well as by the Federal Citizens Information Center of the U.S. General Services Administration. The brochure is available online at [www.afsaef.org](http://www.afsaef.org) and through many of AFSA members' Web sites.

### **Dedicating More Staff to Working on the Solution**

With the country in an economic downturn, the number of customers reaching out to their vehicle financing companies is expected to continue climbing in the weeks and months ahead. Financial institutions are dealing with the increased traffic to their customer service centers in a variety of ways. Increasingly sensitive to individual borrowers' circumstances, they are dedicating higher-level employees to communicate with customers or expanding the training customer service employees undergo. Supervisors are aiding in the counseling process at a growing rate, and customer service representatives are receiving more training to listen for triggers that indicate a customer may be struggling and to offer solutions instead of demands. Vehicle financing companies are adding staff as necessary and allocating personnel resources to help assist customers who may be facing repossessions.

Vehicle financing companies are communicating regularly with dealers, who interact face-to-face with the public and can identify struggling consumers early, as well as provide them with counseling options.

### **Identifying Borrowers Who May Be in Trouble and Reaching Out to Them Early**

Reaching struggling borrowers early is the key to helping them. Vehicle finance companies utilize resources such as credit scores to help them identify which of their customers may be in trouble already or in the near future. These early warning systems are intended to help the companies contact borrowers before they miss a payment. Among the factors considered are changes to an individual's economic situation. In today's environment, vehicle financing companies are paying more attention to their customers' potential difficulties. Customers' accounts are monitored and immediate action is taken when anything appears to be amiss. Financial institutions continuously categorize the risk profiles of borrowers based on borrower characteristics, loan types, and possible delinquencies to help them decide who to contact early.

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<sup>4</sup> *Understanding Vehicle Financing*, AFSA Education Foundation and National Automobile Dealers Association, 2007.

To help customers keep their vehicles, some vehicle finance companies are reaching out to and engaging customers by phone and by mail as soon as they are one day in default. By communicating with their customers early, vehicle finance companies try to help them reach a workable arrangement sooner and avoid any miscommunications.

The vehicle finance industry's efforts to help customers appear to be paying off, as industry trends for the first quarter of 2008 indicate a drop in vehicle delinquencies.

TransUnion reported a noteworthy drop in 60-day vehicle delinquencies between fourth quarter 2007 and first quarter 2008.<sup>5</sup> Although this time period historically shows a drop in delinquencies, the recent decline was the sharpest in the past four years, falling nearly 18 percentage points compared to an average decrease over the past six years of 7.6 percent.<sup>6</sup> According to automotive vice president Peter Turek of TransUnion's financial services group, "The nearly 18 percent decline between fourth quarter 2007 and first quarter 2008 is more than two times the recent average, indicating that the auto finance industry may not be as bad off as it relates to handling delinquencies."<sup>7</sup>

In addition, according to the American Bankers Association's Consumer Credit Delinquency Bulletin, indirect vehicle loan 30-day delinquencies fell four basis points from fourth quarter 2007 to first quarter 2008 – from 3.13 percent to 3.09 percent.<sup>8</sup>

### **Working with Struggling Borrowers on an Individual Basis**

Vehicle finance companies work hard to keep customers in their vehicles. When customers have difficulty meeting their obligations, the financial institution works with individuals on a case-by-case basis to find a way to avoid repossession. Vehicle finance companies want to find the solution that works best for each individual borrower rather than trying to fit each unique case into a prescribed model that will not meet the needs of every customer.

Every individual's situation, credit history, account history, and needs vary. Recognizing the differences of every customer, vehicle finance companies work with their customers on a one-on-one basis. Modifying loan terms for customers is a fluid process that differs based on a number of factors, such as what stage the loan is in, the customer's payment history, terms of the contract, etc. Refinancing a loan is almost always an option for borrowers. While modifying loan terms are not typically the first option, terms may be extended for eligible customers, deferments may be arranged, late charges may be waived, missed payments may be added to the end of the

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<sup>5</sup> *TransUnion.com: National Auto Loan Delinquency Rates Decline Nearly 18 Percent in First Quarter of 2008* (July 7, 2008), at <http://newsroom.transunion.com/index.php?s=43&item=479> (last accessed July 9, 2008).

<sup>6</sup> Jennifer Reed, *TransUnion: Auto Delinquencies Show Big Drop from 4Q to 1Q* (July 8, 2008), SubPrime Auto Finance News, at <http://www.subprimenews.com/spn/news/story.html?id=696>.

<sup>7</sup> *Ibid.*

<sup>8</sup> *ABA: Direct Auto Loan Delinquencies Up* (July 3, 2008), at <http://www.aba.com/Press+Room/070208DelinquenciesFirstQuarter08.htm> (last accessed July 9, 2008).

loan, due dates may be changed, or other options explored. Increasingly, banks are authorizing more payment extensions to their give their customers a break.<sup>9</sup>

However, all finance companies stress that the earlier a customer contacts his or her creditor when struggling with payments, the better off the individual will be. Early contact by the customer works in his or her favor by demonstrating an attempt to meet financial obligations and a desire to work with the finance company. Typically, vehicle finance companies will be more flexible with customers who keep them apprised of their situation. If struggling borrowers make regular contact with their financial institution and actively take steps towards bringing their account current, they should have little trouble avoiding repossession.

Sometimes, customers who are having trouble paying their bills are embarrassed about contacting their financial institution, but unpaid bills and unreturned phone calls can make matters worse. Without customer contact, vehicle finance companies do not know whether a borrower is struggling or engaged in fraud.

Vehicle finance companies will only seek repossession when all other collection efforts have been exhausted; if and when the decision is made to repossess, it is based on more than the number of days a customer is delinquent on his or her payment. If a borrower misses three payments and has not communicated at all with the creditor, the finance company has no choice but to begin the repossession process. As a general rule, though, vehicle finance companies are repossessing in a later state of delinquency after giving customers more time to reach a workable payment arrangement. Financial institutions remain sympathetic with each customer's situation. For instance, if a customer cannot meet his or her financial obligations even with modified terms, the vehicle finance company will not drag out the repossession process and prolong the borrower's problem.

Struggling borrowers may be tempted to return the vehicle and the keys to the dealership, but that does not solve their problem. The consumer still owes any outstanding balance after the vehicle is sold, and any delinquency is still reported to the credit bureaus.

Vehicle financing companies do their best to help struggling borrowers hold onto their cars, and are especially accommodating to victims of natural disasters, which are unpredictable and beyond anyone's control. Customers who are impacted by a natural disaster can work out special arrangements with their financial institution on a case-by-case basis. In some cases, financial institutions offer payment deferrals to all customers in disaster areas. Typically, vehicle finance companies adhere to Federal Emergency Management Agency (FEMA) standards in determining how to assist borrowers who have been affected by a natural disaster.

Unfortunately, repossessions do occur, but as a last resort. Vehicle finance companies are attempting to help borrowers hold onto their cars, but they cannot do it alone. Borrowers need to cooperate with their finance companies so an agreeable solution other than repossession can be found.

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<sup>9</sup> Laura Glasser, *Taking it Back* (June 20, 2008), Long Island Business News, at <http://www.libn.com/article.htm?articleID=42685>.

In some cases, repossession is not final, and borrowers may receive a second chance. Most financial institutions will continue attempting to contact customers after repossession, but before the vehicle has been remarketed. During this period, the company may allow customers to make payments to get their vehicle back before it is sent to auction.

## **Conclusion**

The steps vehicle finance companies are taking to prevent repossessions are intended to create a win-win situation for the industry and borrowers. Vehicle finance companies are taking action early by initiating contact with at-risk consumers as soon as one day after a loan is past due, dedicating more staff to helping borrowers, and continuing to develop educational tools. By working with customers on an individual basis, vehicle finance companies aim to give all struggling borrowers an opportunity to avoid repossession.