Driven to Default: The Economy-Wide Risks of Rising Auto Loan Delinquencies

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Executive Summary

Auto finance is at a breaking point, as Americans owe over $1.66 trillion in auto debt. Delinquencies, defaults, and repossessions have shot up in recent years and look alarmingly similar to trends that were apparent before the Great Recession. Cars are more expensive than ever, due in part to economic factors, but also due to the fraught experience of buying and financing a car. Dealers and lenders have long engaged in deceptive and predatory practices that jack up prices for car buyers in order to line their pockets. This auto finance crisis is happening just as our nation's federal watchdogs–the Consumer Financial Protection Bureau (CFPB) and the Federal Trade Commission (FTC) – have taken significant steps back from oversight and enforcement of predatory practices in the auto market.

Americans are facing a cost of living crisis, and the burden of auto debt is becoming more urgent every day. It is time for policymakers to reexamine the marketplace and root out exploitative conduct that makes buying a car even more expensive and defaulting on a car loan even more dangerous.

Auto Loans are an Economic Pillar Under Increasing Strain

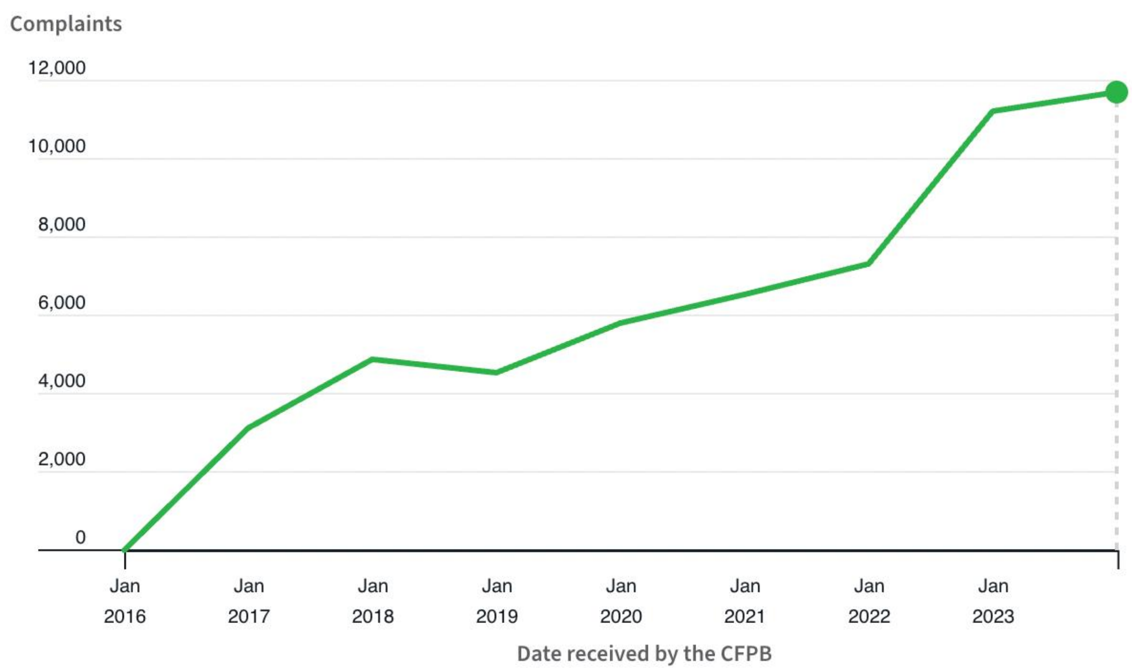
For the vast majority of Americans who rely on cars for commuting, education, and essential services, auto loans are not a luxury—they are a lifeline. Going into debt to buy a car is often unavoidable: Americans need cars to survive, yet excessively high prices require many car buyers to finance their purchase with expensive loans. This reality is reflected in the staggering $1.66 trillion in auto debt, making it the largest category of consumer debt after mortgages.

But the auto lending market is in crisis, with borrowers falling into delinquencies and defaults at a pace that exceeds pre-pandemic levels and rivals the years immediately preceding the 2008 economic crisis. Access to a vehicle is a critical component of economic success for American consumers, and when that access is jeopardized en masse, serious economy-wide concerns arise. There are numerous reasons for the current auto loan dilemma, including record-high prices coupled with soaring interest rates and the administration's chaotic tariff threats. But there are also longstanding unethical tactics that are endemic to the car buying industry, raise prices for car buyers, and which are significantly compounded by increasingly dangerous collection and repossession practices.

At this critical juncture, lawmakers and federal regulators should be closely monitoring fraudulent dealers and predatory auto lenders who are in a prime position to exploit this crisis. Instead, the federal agencies tasked with this oversight and enforcement authority are systematically dismantling efforts to regulate the auto finance market–signaling that abusive practices will now be tolerated.

Worse, Congress has voted to gut the budget of the CFPB, which has rooted out egregious auto financing conduct, just as the Bureau receives record high numbers of complaints about auto loans.

Figure 1: Consumer Complaints to CFPB about Vehicle Loans



Source: CFPB Consumer Complaint Database

This regulatory retreat follows a long history of difficulty in effectively tackling the auto marketplace, due to Congress' decision in 2010 to split jurisdiction over the auto marketplace between the FTC and the CFPB.

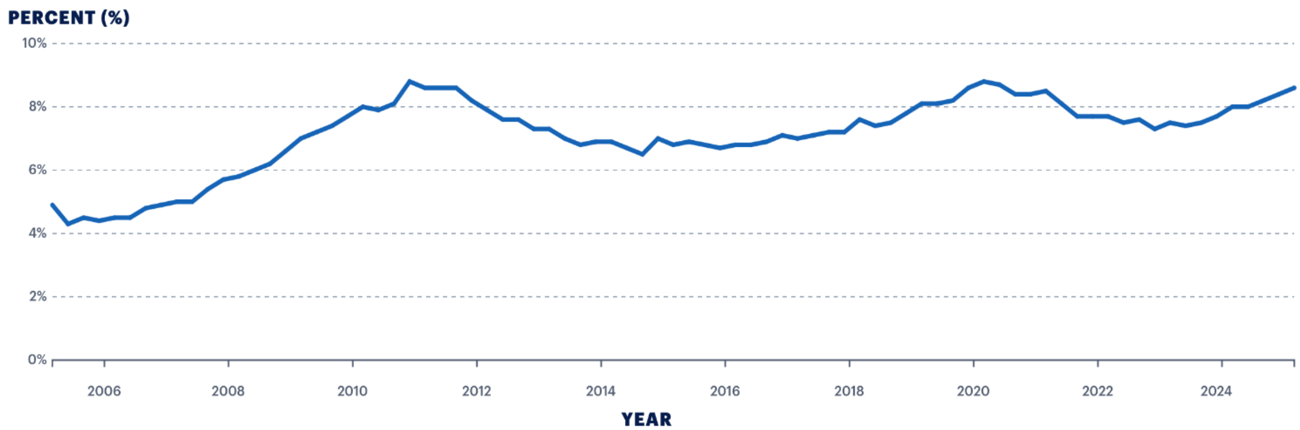
How did we get here, and what is the impact on Americans who simply want to buy an affordable car without being gouged or cheated? These are critical questions for policymakers who care about car buyers, especially as they are being squeezed by the cost of living crisis.

Delinquencies, Defaults and Repossessions are Increasing at Alarming Rates

Borrowers are experiencing significant difficulty staying on track with their auto loan payments. The percentage of auto borrowers with severely delinquent debt (defined as 90+ days past due) is at its highest since the peak of the COVID lockdown, and before that, the Great Recession.

Figure 2: Percentage of Borrowers with Severely Delinquent Auto Debt

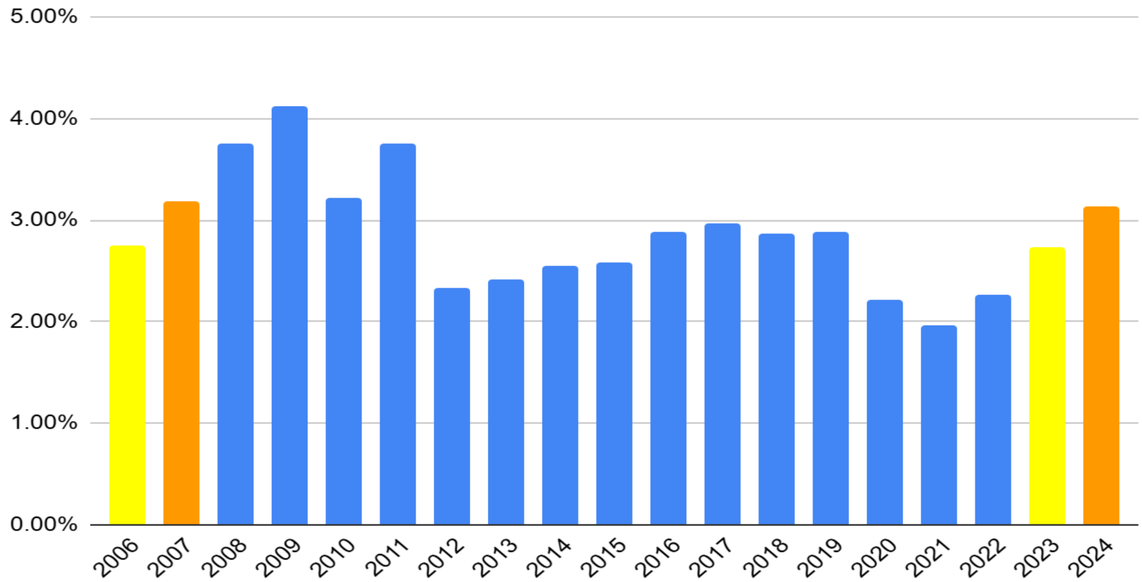
Source: Federal Reserve Bank of Philadelphia. Consumer Credit Explorer. Accessed Sep 07, 2025



An analysis of the New York Fed's consumer credit panel in 2024 showed that car buyers with above-average credit scores (620-679) were twice as likely to fall behind as they were before the pandemic. It's a clear sign that affordability is cracking for average consumers, not just those on the margins. And the problem is particularly pronounced for younger borrowers aged 18-29, who are transitioning into serious delinquency (90 days late or more) on their auto loans faster than older borrowers.

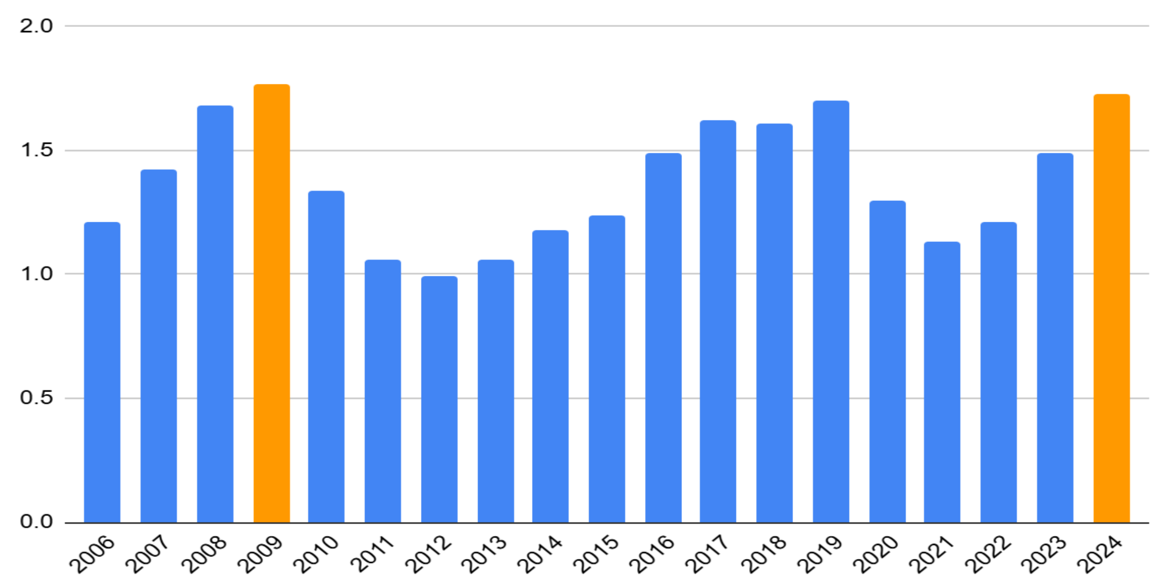
Cox Automotive provides estimates of auto loan default rates, demonstrating that they are climbing at rates that mirror the years immediately preceding the Great Recession:

Figure 3: Estimated Auto Loan Default Rates:



The Cox data also indicates that repossessions are also occurring at the highest level since 2009 and jumped an estimated 43% from 2022 to 2024.

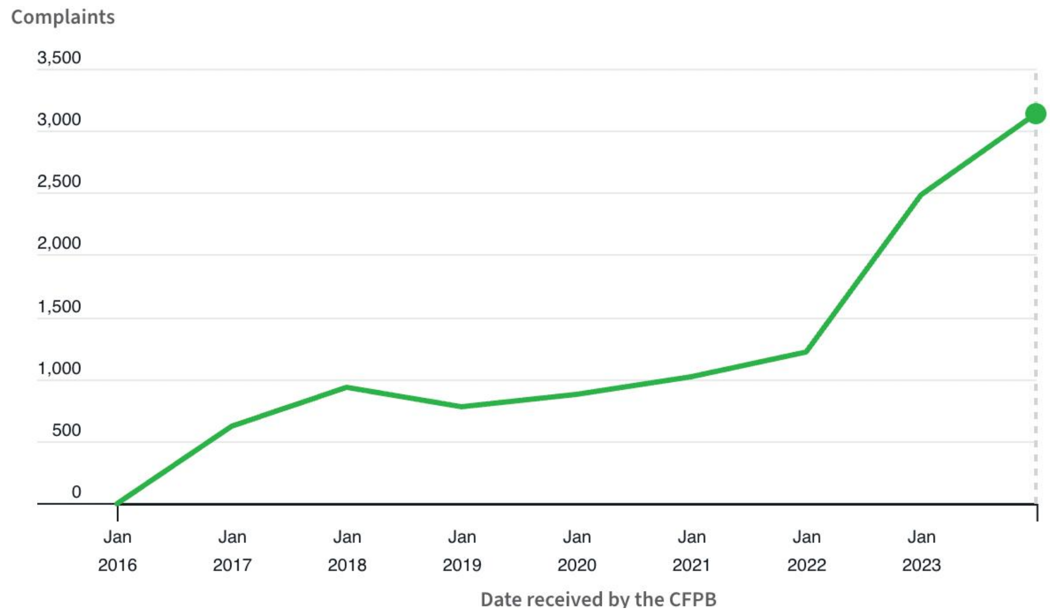
Figure 4: Estimated Auto Loan Repossessions (in millions)



Source: Cox 2025 Cox Automotive Market Insights and Outlook, Estimated Repossessions and Defaults, March 2025.

Consumer complaints to the CFPB about repossessions have also dramatically increased in the past ten years, demonstrating that borrowers are experiencing serious trouble.

Figure 5: Consumer Complaints to CFPB about Repossessions



Source: CFPB Consumer Complaint Database

Americans are Struggling With an Auto Affordability Crisis

The truth is, cars simply cost too much. The average new vehicle now sells for nearly $50,000, with typical monthly payments climbing to $745. Loan amounts average over $41,000 for new cars and are up year-over-year. Almost 20% of new car buyers now are paying a staggering $1,000 per month or more for their car. The length of the average car loan also continues to grow, significantly raising the cost of the purchase. Nearly 1 in 5 new car buyers in the first quarter of 2025 now has a loan term that is seven years long, resulting in the borrower paying more in interest over time, even if the monthly payments appear more affordable. And, indeed, loans as long as 8 years are coming back into vogue–after being dormant since the Great Recession.

Notably, COVID-19 supply shocks permanently elevated car prices by creating structural changes that persist years after the initial crisis. Rather than returning to pre-pandemic pricing when supply chains recovered, automakers discovered they could maintain higher profit margins with leaner inventories, permanently transforming the market. It is no surprise that, during COVID, car prices were among the biggest drivers of overall inflation. The auto market is a cautionary tale for how corporations can use temporary supply shocks as a one-way ratchet for prices.

Unavailability of affordable options is another issue: fewer and fewer models remain under $30,000, despite growing consumer demand. Indeed, used car prices rose 6.3% year-over-year in June 2025 as buyers retreat from pricier new vehicles. These problems are particularly acute for financially vulnerable borrowers with lower credit scores who pay loan rates upwards of 20%. As borrowers with higher credit scores flock to used vehicles, affordable cars will become even further out of reach for lower income, credit challenged borrowers.

Longstanding Auto Dealer and Lender Practices Aggravate the Affordability Crisis

These economic factors are only part of the story. Buying a car is riddled with prevalent, longstanding industry practices by dealers and finance companies that have long raised prices for car buyers. The process of buying a car has been engineered into an all-day or multi-day ordeal that wears consumers down at every step. A recent *Atlantic* article about the problem of "sludge"--the endless, exasperating time and procedural excess that now make up any customer service experience–noted that it is especially acute in the auto market.

Excessive time "negotiating" with car dealers just to learn the actual price is a cost in and of itself, as spelled out in great detail in the Federal Trade Commission's (FTC) Combating Auto Retail Scams (CARS) Rule. The FTC found that consumers spend on average, 15 hours on a car purchase, the bulk of which is spent trying to figure out the price of the car. The FTC's CARS Rule was designed to cut down on wasted time and dealer-generated "sludge" by requiring dealers to honestly disclose the car's total price up front and be more transparent about add-ons and monthly payments. This rule was projected to save consumers $3.4 billion and 72 million hours per year simply by requiring up-front, transparent car buying transactions.

Add-on products are another vehicle for price-gouging and consumer abuse by dealers and lenders. A recent spate of FTC enforcement actions (page 5, FN19) demonstrates the egregious practice of "packing" car sales with worthless and over-priced add-ons that raise the price of the car by hundreds or thousands of dollars. Many consumers do not know that they have been added to the sale, and there are widespread examples of charging more for these products to Black, Hispanic and American Indian car buyers. Lenders compound the add-on problem. The Consumer Financial Protection Bureau fined Toyota Motor Credit $60 million for making it nearly impossible for borrowers to cancel expensive and unwanted add-on products. The Bureau's supervision program has also repeatedly identified and corrected lenders' mishandling of add-on refunds, financing void add-ons, and mishandling add-on GAP (guaranteed asset protection) products.

Interest rate kickbacks are yet another visceral example of cost-raising practices that permeate the auto finance industry. Dealers and lenders conspire to secretly inflate interest rates and share the profits gleaned from the consumer's overpayment. A 2023 analysis of loans for consumers with prime (720+) credit scores found that nearly 80% of the studied loans had an interest rate that was marked up by the dealer. This is likely significantly more for subprime and deep subprime borrowers who pay wildly excessive auto loan interest rates. These kickbacks are astonishingly widely accepted, despite the fact that they nakedly raise the cost of financing and disproportionately harm consumers of color.

The CFPB's enforcement actions against the biggest auto finance industry players demonstrate the myriad other ways in which predatory auto financing harms borrowers, makes car buying more expensive, and the impact of the collections conduct occurring as a result. Credit Acceptance Corporation, one of the country's largest subprime lenders, was sued for secretly inflating the price of the vehicle according to the profile of the borrower. CAC was making unaffordable loans it knew borrowers couldn't repay and then swiftly repossessing vehicles when they inevitably defaulted. Fifth Third Bank was forced to pay redress and $20 million in penalties for illegally triggering repossessions and charging illegal fees by forcing loan borrowers to pay for unnecessary and duplicative insurance coverage policies. Honda Finance faced a $12.8 million CFPB penalty for misreporting credit information during the pandemic, harming hundreds of thousands of borrowers. USASF, a "buy-here, pay-here" lender, was ordered to pay over $42 million for wrongful repossessions, double-billing, and remotely disabling vehicles when it (erroneously) determined there was a late payment. And the repeat offender megabank Wells Fargo, as a part of a larger $3.7 billion dollar settlement, was required to refund consumers whose vehicles were illegally repossessed due to Wells' own loan servicing errors.

Auto Loan Challenges Are Catastrophic for Borrowers

As these CFPB cases demonstrate, delinquency and default on a car loan are especially dangerous as compared to other forms of consumer debt. Because of how central cars are to our survival, being late on a monthly payment can rapidly cascade into disaster. Losing a car to a repossession is catastrophic and sends borrowers down a spiral of even more (and often increasingly expensive) debt. It can mean losing a job, reducing or eliminating income, and making it almost impossible to reinstate the auto loan or purchase another car, all while still being obligated to repay the debt for a nonexistent car.

These risks are higher for borrowers in marginalized communities. Research shows that women, Black, and Hispanic buyers pay more on average in interest rate markups than their white counterparts. Black consumers are twice as likely to be charged a pricing markup for their car and less likely to get approved for a loan, and a national study of add-on products showed widespread price discrimination against Latino consumers. The FTC's add-on enforcement actions highlighted the plague of dealers who discriminatorily charge more for add-ons to Black, Hispanic and Native American car buyers.

The auto marketplace is also riskier for servicemembers, particularly those who are younger. Research shows that servicemembers pay more for auto loans across the board. By age 24, approximately 20% of servicemembers have at least $20,000 in auto debt, compared with 7% of their civilian peers. The CFPB comprehensively studied auto loan data between 2018 and 2022 and published a report about military borrowers' auto loans. The CFPB's report found that servicemembers financed larger amounts, were more likely to finance negative equity, paid inflated prices for add-ons, and had higher monthly payments. Federal protections exist for repossessions of servicemember vehicles, and the Department of Justice has brought multiple cases against major industry players for violations. The CFPB and Department of Defense also issued a joint letter identifying illegal servicemember repossession practices and warning lenders of their strict obligations under the SCRA.

Excessive car prices have long-term effects on many car buyers, not just those at the margins. Once a buyer enters an expensive auto loan, it can be difficult to exit the debt treadmill that frequently follows.

Buyers, especially of new cars, are financing their purchases over longer terms as noted above simply to buy their car at a monthly price they can afford. But these high prices and long loan terms contribute to the growing epidemic of negative equity, where a car buyer ends up "upside down" on their loan. When that car is traded in with an outstanding loan but is "worth" less than the amount owed, the balance gets financed into the new car loan, forcing the borrower to pay interest twice. Financing negative equity pushes vulnerable car buyers into a cycle of increasingly expensive debt over many years. The CFPB's granular study of auto loan performance between 2018-2023 elucidates this vicious cycle, finding that financed negative equity leads to significantly higher monthly payments in subsequent purchases and increased rates of repossession. Importantly, the Bureau's data studies detailed loan performance before, during and immediately after COVID. The rapid car price spikes Americans experienced during this tumultuous period generated high-cost loans on rapidly depreciating cars as prices came back down and those cars were traded in. Since the CFPB's study, this problem has grown. In Q2 2025, Edmunds estimates that more than one in four trade-in vehicles have negative equity – the highest in four years.

Predatory lending conduct only exacerbates the hamster wheel of debt for vulnerable car buyers. Borrowers whose credit history reflects their struggle to stay afloat on car loans frequently turn to high-risk predatory lenders, believing that this is their only option for transportation. "Buy-here-pay-here" dealers in particular target these consumers, promising to help them and extend credit no matter their income. But these dealers epitomize some of the worst auto dealer/lender abuses, often charging exorbitant interest rates on mechanically deficient and unsafe used cars. These dealers counterintuitively thrive on high defaults by "churning"-repossessing and re-selling the same clunker over and over.

The CFPB and New York Attorney General's case against Credit Acceptance Corporation, the nation's largest subprime auto lender, sharply illustrates some of the most abusive auto lending conduct that keeps vulnerable consumers on the debt treadmill. The complaint explains in detail how CAC carefully targeted struggling borrowers with assurances that it could help them get back on track. But it employed a ruthlessly efficient algorithm to secretly inflate vehicle prices, designed to predict when a consumer would default (which they did, at alarmingly high rates) yet ensure that CAC would profit even as consumers' lives were ruined. Because the cars were overpriced to begin with, the proceeds from repossession auction sales did not put a dent in the amount owed, which was calculated based on the loan contract. As a result, CAC borrowers faced an average post-repossession auction debt of $8,000, which CAC then routinely filed suit to collect, leading to judgments and garnishments. The consumer who has their wages garnished to pay for a car they no longer have while trying to afford monthly payments for a new car (where the price and interest rate likely reflect the repossession and judgment) is in an untenable position, to say the least.

The Outlook for the Auto Market is Grim

Severe auto lending stress is a canary in the coal mine for large-scale economic problems, and the immediate outlook for auto finance and its impact on the broader economy is grim. Chaotic new tariffs on steel, aluminum, and imported vehicles are expected to add thousands more to the price of a car. According to the Yale Budget Lab, motor prices are expected to rise 20.6% in the short-run and 12.1% in the long-run, adding $10,000 and $5800 respectively to the price of an average 2024 new car. Meanwhile, critical EV tax credits worth up to $7,500 are slated to disappear by the end of the year, making cleaner vehicles even further out of reach for most buyers. And, on top of it all, maintenance costs are expected to rise, with insurance premium increases expected due to higher repair costs.

Most alarming of all is the retrenchment of the two federal consumer protection agencies that are tasked with monitoring the auto marketplace. The FTC has not brought a single case against a car dealer since Trump installed new leadership, and the Commission refused to appeal the Fifth Circuit Court of Appeals decision striking down the overwhelmingly popular, cost-saving CARS Rule. Even worse, the FTC has abandoned its work to address widespread dealer discriminatory add-on pricing via the disparate impact theory of liability under the Equal Credit Opportunity Act. Trump's FTC granted a handout to Texas dealership conglomerate Asbury Automotive Group by dropping allegations that it encouraged salesmen to pack more add-ons for non-native English speakers, and that it charged Black and Hispanic car buyers hundreds of dollars more for the same add-on products.

Meanwhile, the Trump-led CFPB is systematically dismantling its enforcement apparatus, going so far as to dismiss active enforcement cases, while quietly terminating and undoing several consent orders—agreements where companies had already accepted penalties and agreed to reforms. Toyota, for example, was released from its settlement entirely, including its remaining obligation to refund millions to affected consumers. The CFPB also pulled out of the Credit Acceptance case, leaving New York to proceed on its own, and leaving affected consumers in every other state without any recourse. Finally, the Bureau has taken tremendous steps back from its supervision of bank and nonbank auto lenders. It recently published an Advance Notice of Proposed Rulemaking to significantly scale back its supervision of nonbank auto lenders, ensuring that some of the worst abuses we've seen in recent years will be permitted to fester. The Bureau has also dropped 99% of the "matters requiring attention" as a result of bank exams, which include auto lending conduct. These moves don't just remove consequences—they broadly signal to the industry that predatory auto dealer and lender practices will now be tolerated.

There is a saying that "you can sleep in your car, but you can't drive your house." Consumers will prioritize their car payments over many other household expenses and debt obligations, which means that when auto loan delinquencies are rising, serious financial problems are brewing in American households. Now is the time for policymakers to take a hard look at the auto lending market to call out exploitative practices that raise prices and require our federal regulators to stop sleepwalking their way through this crisis while Americans suffer.

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