

Lower-income Americans missing payments

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NEW YORK>> More Americans are struggling to make their monthly car-loan payments, a sign that lower-income consumers are under growing financial pressure. *Note*

The share of subprime auto loans that were 60 days or more past due reached a high of nearly 6.5% in January and has lingered near that level, according to Fitch Ratings. Repossessions have swelled, more drivers are trading in vehicles that are worth less than they owe and lenders such as CarMax and Ally Financial have warned investors about auto loan performance. *Note*

Despite stubborn inflation and punishing tariffs, the U.S. economy on its surface has appeared to hold up relatively well. The stock market continues to climb, company executives for the most part remain upbeat and consumers overall are still spending. *Note*

But the weakness in the auto market is one of the clearest indications that low- and middle-income families — the economy's foundation — could be starting to buckle. Because many Americans need their cars to get around, auto loan delinquencies can be a telling gauge of financial hardship. *Note*

"Is this evidence that we have some consumers under stress?" asked Jonathan Smoke, chief economist at Cox Automotive, a research firm. "I would say yes, most definitely."

Jennifer Alba, 48, decided to buy her first car while she was stuck on Seattle's light rail for an hour one day in November 2021. She found a maroon 2018 Subaru Outback online, lined up a six-year, \$565-a-month loan from Ally Financial, hopped off the train and headed straight for the dealership.

Alba, who was making about \$100,000 a year and had received a small inheritance after her grandmother's death, made a \$1,500 down payment. She named her car "Ruby Subie" and made plans to take it camping.

"I didn't think that I was doing anything irresponsible with my finances," she said.

In February, she lost her contract job in operations at a nonprofit. She has applied to hundreds of jobs, she said, without success. Her unemployment benefits ran out in August.

With no income and no savings, she stopped paying her rent, credit card bill, student loans and, finally, her auto loan. She still owes \$16,000 on her car but can't sell it because it is now worth much less.

"I would rather be a financially solvent person," she said. "My reality is that I am not."

Borrowers with higher credit scores are also showing evidence of strain. Roughly 2% of all auto loans were significantly overdue last month, slightly more than a year ago, a Cox Automotive analysis of credit data showed. And researchers at the Federal Reserve Bank of New York found that the rate at which loans transitioned into delinquency has been rising for borrowers across ZIP codes and credit score bands.

"Higher car prices combined with higher interest rates have driven monthly payments upward and have put pressure on consumers across the income and credit score spectrum," the researchers wrote. They noted that borrowers with lower incomes and credit scores were under additional pressure because they might have purchased used cars whose prices soared in the pandemic and have since declined. *Note*

Alarm bells in the auto industry started ringing in recent weeks after First Brands, an auto parts maker, and Tricolor Holdings, an auto lender that specializes in loans to immigrants who lack legal status and poor borrowers, filed for bankruptcy. Their implodings appear to be a result of possible fraud and mismanagement, but some analysis suggested that they might also signal distress among lower-income borrowers and herald turbulence to come.

“Tricolor just gave us a warning sign that something is going to crack here,” said Tracy Chen, a portfolio manager at Brandywine Global, an investment firm.

During the pandemic, government stimulus money and unemployment checks, along with a pause in student loan payments, buoyed household savings and improved credit scores. Wages rose rapidly when the economy began to recover, particularly in low-paying jobs, as employers competed intensely for workers.

With interest rates low, lenders relaxed their underwriting standards, allowing would-be buyers to obtain auto loans more easily. To keep monthly payments low, many borrowers took out longer-term loans.

But since 2021, prices for goods including cars have climbed, and higher interest rates have made borrowing more expensive. Pandemic-era savings have been depleted. The boom in wage growth for the lowest-paid workers has subsided. A once-ebullient job market has started to slump.

Compounding those challenges for some borrowers, student loan payments, which were paused during the pandemic, have resumed, sucking up household cash. Student loan delinquencies also returned to credit reports, depressing credit scores.