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Soaring Car Payments Spur 100-Month Loans

BY RYAN FELTON

The price of new cars and trucks in the U.S. has increased 33% since 2020, and consumers are piling on interest as they stretch out loan terms to eight, nine and nearly 10 years.

David Kelleher, who runs a Dodge and Jeep dealership in Glen Mills, Pa., 27 miles west of Philadelphia, said many American families can't comfortably take on a new-car payment these days.

"We don't have $300 monthly payments any longer in new vehicles," he said. "It's a thing of the past."

The average price of a new car broke the $50,000 barrier this fall, according to Kelley Blue Book. That is up from less than $38,000 in early 2020 before the pandemic hit. As sticker prices marched higher, so did monthly payments. For a few years, car shoppers were undeterred. Many needed new vehicles after putting off buying during e Covid when supply chains were upended and dealer lots were empty. Others, feeling flush, opted for luxury vehicles at much higher price points.

Fast forward to November of this year and the average monthly payment for a new car was estimated to be $760, according to J.D. Power, an industry- research firm. The hefty cumulative inflation is starting to weigh on consumers, and now some Americans are falling behind on their car payments.

The struggle to keep monthly payments in check is so tough that the typical 48to 60-month car-loan term has

given way to 72-month terms and longer, industry officials say.

Note

In the third quarter, a third of all buyers took out loans that stretched at least six years, or 72 months, according to Experian data. A year ago, 29% of buyers did so. The volume of loans with 85 to 96 months to repay, or up to eight years, rose as well, to 1.61% of car buyers through October.

Some loans now reach 100 months, or more than eight years, especially for the purchase of larger pickups, Experian data show.

One problem is that automakers aren't making models with a sticker price under $30,000, which, in theory, should present a real opportunity for the car companies, said Heath Byrd, chief financial officer of Sonic Automotive, a publicly traded dealership chain. He recently told investors and analysts that until buyers have better options, affordability will become an even bigger problem.

"It's a real concern, to be quite honest," Byrd said.

Note

The reliance on longer carloan terms illustrates how Americans are taking on, and holding on to, greater debt loads for longer periods. In the third quarter, Americans carried $1.66 trillion in auto loans, up $300 billion from five years earlier, according to the Federal Reserve Bank of New York.

At the same time, consumers have an increasingly sour view of the economy, as prices stay high for common staples and elevated interest rates ratchet up pressure on household budgets.

The White House is starting to stress the need for new cars to get cheaper. President Trump recently directed federal regulators to pave a path for automakers that want to sell tiny—and more affordable— cars in the U.S. that don't currently meet government safety standards.

There are signs consumers would jump at the chance to buy them.

Ford said this month that customers have been gravitating toward cheaper base packages for its most popular models. Sales of Ford's entry-level Maverick pickup truck jumped 76% in November, according to the automaker's data.

At Stellantis's Jeep, where sales plummeted during the pandemic in part because of high pricing, lowering prices by thousands of dollars on many vehicles is allowing it to target a wider range of customers.

A significant portion of Jeep's portfolio now falls below a $50,000 sticker price, according to Bob Broderdorf, chief executive of the Jeep brand. That helped boost sales by 11% in the most recent quarter.

"The entire problem we have in the industry right now [is with] rising prices, rising inflation of everything," he said.

Some industry executives have justified longer loan terms because vehicles tend to stay on the road longer, thanks to improvements in technology and engineering. What is different now is the rapid rise in sticker prices, creating much bigger interest payments over time, said Michael Douglas, Chase Auto's head of retail and consumer.

Customers are borrowing more to cover car costs, with the average new loan exceeding $42,000 this year, Douglas said.

"When consumers are deciding what loan term makes the most sense for them, it is important to consider the total cost of car ownership, not just the price of the car at purchase," he said.

For instance, a $50,000 car loan at 5% over five years works out to roughly $950 a month and $6,600 in total interest paid. At 100 months, the monthly payment would drop to about $600, and the borrower would pay more than $11,000 in interest.

Steve Levy, a 62-year-old wealth-management adviser in Texas, recently hit the market to replace an aging Toyota pickup truck and started by looking at potential interest rates from his local credit union. He said he routinely hears questions about whether a longer loan for a car makes sense.

When Levy came out of college, car loans would be 48 months—at most, he said.

"The fact you can go out as long as you can go now is actually stunning to me," he said.