Auto makers’ credit losses stay low despite economic effects of coronavirus crisis

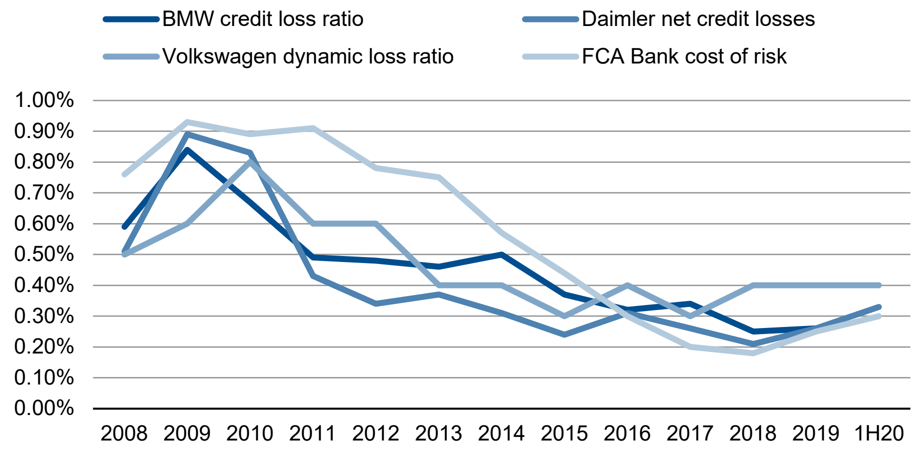
Credit loss rates at auto makers’ financing arms have remained at multi-year lows despite the economic ramifications of the coronavirus crisis. Government support through payment moratoriums and direct transfers have helped auto loan debtors to weather the crisis while financing arms of auto makers have benefitted from low credit losses.

Credit loss rates at auto makers’ financing arms differed very little in 2020 compared with the low loss rates reported before the Covid-19 crisis. According to available data, there only a minimal uptick (+9bp) of credit losses in 2020 reported by the in-house finance arm of Daimler AG (A/Stable) and unchanged credit losses reported by Volkswagen AG. BMW AG does not disclose credit losses intra-year. An identical picture can be observed at FCA Bank Spa (A/Stable), a 50/50 joint venture of Fiat Chrysler Automobiles N.V. and French lender Crédit Agricole SA, where credit losses ticked up 5bp.

Credit risk can intensify quickly when the economic environment worsens. For instance, Daimler’s credit loss ratio was nearly three times higher during the global financial crisis in 2009 at 0.84% than it was during 2019 (credit loss ratio was 0.26% in 2019). The same is true for FCA Bank Spa.

Auto credit losses remained surprisingly stable this time around, despite the worsening economic picture globally following the coronavirus crisis. While consumers have refrained from big-ticket purchases such as new cars in 2020, with global sales of global light vehicles down about 15% from 2019, almost all consumers that have signed up for auto financing ibefore 2020 have honoured their contractual payment obligations.

Fig 1: Credit losses in auto financing 2008-2020 (H1)



Credit losses are all write-offs on the lost receivable including accumulated interest and other costs less receipts from using the repossessed collateral (vehicle). Therefore, credit performance of auto financings at a point of economic stress is strongly correlated with (i) employment, (ii) ability of car financiers’ to remarket repossessed vehicles, and (iii) the prevailing pricing environment for used vehicles at the time of the remarketing of the repossessed vehicle.

Credit losses are likewise a reflection of a car financier’s underwriting policy, i.e. the more risks that are avoided initially, the lower the likelihood that any such credit risks materialise.

Analysts

Werner Stäblein
+49 69 6677389 12
w.staeblein@scoperatings.com

Editor

Matthew Curtin
+33 1 8626 1554
m.curtin@scopegroup.com

Related Research

Automotive Outlook 2020
Jan. 2021

Electric car sales: Europe takes pole position; Government subsidies still determine demand
Sept. 2020

Light vehicle sales forecast updated: subsidies insufficient to avoid massive drop
Sept. 2020

Automotive outlook worsens as Covid-19 pandemic chokes demand in US, developing countries
April 2020

Western Europe auto sales to fall 19% in 2020; synchronised slump worsens negative credit outlook
Mar. 2020

Scope Ratings GmbH

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: RESP SCOP

German OEMs target more reliable borrowers

German OEM's car financing arms do not provide auto financing to a high proportion of subprime borrowers - the cohort of borrowers most vulnerable under changing economic conditions - one further explanation why credit loss ratios were barely affected in 2020.

The surprisingly low credit loss ratios in 2020 lead us to conclude that the economic knock-on effects of the pandemic have been mitigated well enough through fiscal stimulus such as short-time work schemes and liquidity/loan assistance programs for credit risks on auto loans not to materialise. Unemployment rates have ticked up in Europe, but the rise in unemployment in 2020 was only half as bad as the jump in unemployment during the global financial crisis in 2009.

Covid-19 leads to changes in commuting habits

The pandemic has changed commuting patterns and has led to more commuting by car versus public transportation, in turn leading to increased demand for (used) vehicles. As a result, market prices (residual values) of used cars have partly moved above the levels observed before the coronavirus pandemic. Higher residual values for used vehicles also reflected customer preferences for cheaper vehicles (used versus new).

Crisis supports second-hand car market, residual values

Overall, the credit risks of car financiers' benefited primarily from government support schemes while the pandemic's changes in commuting patterns created a pricing environment in the used-car market for repossessed vehicles to be remarketed at favourable prices, in turn positively supporting low credit loss ratios.

Auto makers' credit losses stay low despite economic effects of coronavirus crisis

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris

23 Boulevard des Capucines
F-75002 Paris

Phone +33 1 8288 5557

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 62 31 42

Madrid

Edificio Torre Europa
Paseo de la Castellana 95
E-28046 Madrid

Phone +34 914 186 973

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

111 Buckingham Palace Road
London SW1W 0SR

Phone +44020-7340-6347

info@scoperatings.com
www.scoperatings.com

Disclaimer