AUTO LENDING FACT SHEET

Industry Facts

- 85% of new vehicles sold in the U.S. are financed or leased, with the remainder of buyers paying cash.

Source: *Experian Auto Count*, Q1–3 2014, 2013

- Vehicle financing is offered by a number of institutions, such as banks, credit unions, and captive finance companies.
    - Captive finance companies exist to support the manufacturer's sale of a product, such as automobiles. Captives like Toyota Financial Services, Ford Credit, or American Honda Finance offer financing options to the buyers of their respective brands through their franchised dealerships.
- Consumers who finance their vehicle purchases can do so directly with a lender, such as a bank or a credit union, or directly from the dealership and indirectly through the dealership finance source. Consumers can negotiate financing details (rates and duration of contracts) just as they would negotiate the purchase price of a vehicle.
    - Direct Auto Finance — Occurs when consumers approach a lending institution, typically a bank or credit union, to obtain financing for their vehicle, typically prior to completing the purchase at a dealership. Consumers are responsible for shopping to determine which financing source best suits their needs.
    - Indirect Auto Finance — Occurs when consumers select a vehicle at a dealership and then work with dealer personnel to obtain financing from the dealership. After the financing is originated, the dealership sells the contract to an indirect finance source. In this situation, dealers often approach multiple lenders to obtain the financing option that best suits the borrower's needs. Lenders compete for this business, as dealers usually work with a variety of institutions at any point, including captive finance companies, banks and credit unions. The dealership originates the credit, is the original creditor and then sells the contract to an indirect lender. Dealers typically receive some form of compensation for the work associated with originating the financing for the consumer and finding an indirect lender and selling the financing contract to that indirect lender.
- Banks and credit unions may have different business models than captive finance companies:
    - Banks and credit unions — Can offer indirect lending services, but also offer direct vehicle financing as part of a broad range of consumer products (deposits, credit cards, mortgages, etc.).
- Captive finance companies — Offer vehicle financing to support the sale of the manufacturer's product. Captive finance companies wish to satisfy customers in order to keep the customer loyal to the brand. Captive finance companies generally engage in indirect lending only.

In-Dealership Financing

- Some of the advantages of financing at a dealership include:
    - Convenience — providing financing at the same location as the vehicle purchase, often during extended hours of operation.
    - Ability to choose from multiple financing options. Dealers maintain relationships with a variety of banks and finance companies to enable dealers to offer consumers an array of alternatives.
    - The ability to take advantage of special financing offers and programs. Manufacturers work with their captive finance companies to offer incentives that may include reduced financing rates.

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