

Latest Study Confirms Vehicle Owners Destined to Stay 'Upside-Down'

Kelley Blue Book's New Vehicle Buyer Attitude Study on Financing Reveals Consumers Continued Preference for Long Loan Terms

The latest study from Kelley Blue Book Marketing Research, New Vehicle Buyer Attitude Study on Financing, finds that six out of 10 people who are about to buy a new vehicle prefer a longer term loan with low monthly payments when financing their next vehicle. Industry estimates are that nearly 30 percent of new-vehicle shoppers currently owe more on their vehicle than it is worth. Additionally, the average term for a consumer vehicle loan grew from 48 months in 2000 to 63 months in 2004. These consumers who are "upside-down" in their current vehicle loan could put themselves further into financial jeopardy by extending their next new-vehicle loan past the average four-to-five year term, yet as a group they do not seem concerned about the ramifications.

"Consumers who purchased vehicles with little or no money down and for a six or seven year term, will find they owe more than the car is worth when seeking out their next new vehicle," said Jack R. Nerad, editorial director of Kelley Blue Book's kbb.com. "This negative equity leaves future buyers two unpalatable choices: either stay in their current vehicle longer or pile on still more debt."

Both choices have negative implications for carmakers. If this one-third of the market keeps their vehicles longer, new sales and growth potential will be stymied in what is already a sluggish new-vehicle market. And if consumers add more debt, carmakers can expect more defaults on vehicle loans and bankruptcies, costing carmakers' captive finance arms millions and limiting market growth.

"Just as an over-reliance on low-cost, subsidized leases came back to bite manufacturers and financial institutions in the 1990s, so too could the move to increasingly longer loan terms in this decade," Nerad said.

The 2005 Finance study also found a declining number of consumers researching their financing options online prior to purchase than 18 months previously. Consumers cited convenience and the expectation of low interest rates from manufacturers as their reason for obtaining financing through the dealership. This finding is in line with Jupiter Research, which recently reported that in 2004 a significant number of consumers who research their auto purchases online believed dealers to be a better source of financing information than they perceived the Internet to be.

"Dealers have been hyping their zero percent or low finance rates for some time. I figured that was the way to go," said Lew Rader, who just purchased a 2006 Toyota Solara convertible. "When the dealership handed me a 5.3 percent financing rate, I immediately thought I should have done some homework on the finance rate before going to the dealership."

Nerad recommends current vehicle shoppers do their homework before heading down to the local dealership to buy a vehicle. This homework includes:

- * Learning your credit (FICO) score, as this will help determine your financing rate. Use Internet sites like FreeCreditProfile.com or MyFico.com to obtain your free or low-cost credit rating.
- * Calling your bank or credit union to determine if you qualify for an auto loan and determine the exact rate.
- * Checking the Internet for low financing rates from other third-party financing sources. Companies like Capital One Auto Finance (www.capitaloneautofinance.com) offer a Blank Check® allowing car buyers to walk into the dealership with pre-approved financing in hand. If the dealer offers a better rate, consumers are under no obligation to use the check.

Other findings in the study examine:

- * Financing behaviors and preferences by gender, age group and income level
- * When, where and how car-buyers plan to obtain financing on their next vehicle and their reason for doing so
- * Loan term agreements and preferences
- * Amount car-buyers plan to put down on their next new vehicle

Study results included in this press release may be used for public and/or private use with clear attribution to Kelley Blue Book® Marketing Research. To purchase this or other Kelley Blue Book New Vehicle Buyer Attitude Studies, please contact Rick Wainschel, vice president of marketing research at Kelley Blue Book at 949-268-3074.

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SOURCE: Kelley Blue Book

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