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Subprime and Extended Auto Loans: A Potential Consumer Debt Crisis?

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LIST OF ACRONYMS

ABS	Asset-backed securities
ACC	Automobile Consumer Coalition (also known as Car Help Canada)
AMVIC	Alberta Motor Vehicle Industry Council
APA	Automobile Protection Association
CTL	Canadian Title Loans
CPA	Consumer Protection Act
FAQ	frequently asked questions
OMVIC	Ontario Motor Vehicle Industry Council
OPC	Office de la Protection du Consommateur of Québec
VSA	Motor Vehicle Sales Authority of British Columbia

SUMMARY

The automobile industry has enjoyed several consecutive years of large vehicle sale volumes in Canada. Many factors have contributed to this resurgence in sales since the financial crisis of 2008, but the largest one of all is arguably the increasing popularity of auto loans.[1] While auto loans are nothing new, this trend comes at the time of a stagnant economy and record levels of consumer debt.[2] Moreover, an increasing number of consumers are choosing to finance their vehicle purchases through extended-term or subprime loans. This could have serious implications for the health of the auto industry itself, financial institutions, and the economy in general.

In June 2014, the ACC began researching the extent, risks, and benefits of extended-term and subprime auto loans. The ACC also researched the present extent of regulation with respect to auto loans in the industry and its possible benefits to the consumer. The ultimate task was to draft a set of workable recommendations that consumers, industry, and government bodies could pursue to reduce potential and actual problems for the consumer, and for others.

A number of important facts about extended-term and subprime loans were revealed after a review of the previously published literature, and a series of interviews with industry stakeholders: In particular, 25 to 35 percent of all automotive financing is subprime,[3] and loans that are financed for 72 months or longer make up 69 percent of all auto loans in Canada.[4] It is evident that, at present, both extended-term and subprime loans are major tools used by the automobile industry to maintain steady sales, and even increase them.

One of the major disadvantages to both types of loans is "**negative equity**," which is a situation in which the outstanding balance of the auto loan exceeds the value of the vehicle bought with the loan.[5] Other significant disadvantages for consumers include **excessive spending** on extended-term loans, **misleading tactics** on the part of dealers and lenders, **implicit high interest rates,** and **add-on fees** for subprime loans, and the **increasing vulnerability** of consumers to micro and macroeconomic changes.

As part of the research the ACC commissioned Vision Critical to conduct a Canada-wide survey to determine the vehicle purchase behaviour of consumers. The survey data revealed that: 1)

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[1] Madhavi Acharya-Tom Yew, Accelerating auto loans leave Canadian banks at risk: Moody's." The Star, October 2014.
[2] Christopher Ragan, "Canada's job recovery may not be the world's envy after all." The Globe and Mail, October 2013. And Garry Marr, "Canadian consumer debt hits record high as car loans rise: survey." Financial Post, February, 2013.
[3] Interview with Jeffrey Newhouse, CTL, October 2, 2014.
[4] Jeremy Cato, "Longer loan terms means 'the monthly payment is king." The Globe and Mail, October 2014. And Greg Keenan, "Bank of Canada raises alarm over growing consumer auto debt." The Globe and Mail, December, 2014.
[5] OMVIC circular letter, "Subprime not Subterfuge." July, 2014.

Consumers know that they are presently taking on more debt than they would recommend to others, or more than they themselves would have liked to. 2) Not all consumers keep their cars for as long as they originally planned to, which then sometimes leads to **piling on one debt onto a new one**, and **negative equity**. 3) About one third of all consumers have **no money at all set aside for repairs**.[6]

Based on the findings of the report, the ACC is making recommendations in a number of areas: Regulators should implement the use of a disclosure statement, amortization schedule, income verification, down payment requirement, and restrict the use of immobilization devices, vehicle repossessions, and misleading advertising. Financial institutions should form a self-regulating council to help prevent or eliminate the use of predatory tactics by some private lenders. Regulators and dealerships should increase public awareness of the pitfalls of taking out long-term and/or subprime loans through an extensive education campaign. For more information on the ACC's recommendations, see page 29 of the report.

[6] 2014 ACC-Vision Critical Survey

INTRODUCTION

The year 2014 was a record year for the auto industry in Canada. Vehicle sales across all provinces hit an all-time record of 1.89 million.[7] This was a significant increase from the 2009 sales volumes when the financial crisis of 2008 caused sales to collapse.[8]

Economists, industry representatives, and government, however, are concerned that the sales success is out of step with the continuing anemic economic growth, high unemployment, and increasing consumer debt.[9]

An alarming sign that consumers are under financial stress can be noted in the way many of these record car sales are being financed, by 'second chance lending,' that is through subprime loans or through extended-term loans. For these consumers, already burdened by debt, bad credit ratings and poor loan collateral, financing a car purchase by a subprime or extended-term loan with their low monthly payments was their only option. Unfortunately, the low monthly payments have tended to conceal the high interest rates and other fees that come with some subprime or extended-term loans, costs which can be financially taxing to the consumer. Furthermore, extended term loans can quickly put the consumer in a position of negative equity; that is, the borrower owes more than what the car is actually worth.

An important observer of this phenomenon, John Bachinski of the Alberta Motor Vehicle Council (AMVIC), reports that "there is too much focus on how low payments can be and not on equity both short term and long term. Eventually, the negative equity situation is going to blow up as consumers cannot keep digging themselves into debt before they cannot get new financing. At that point, they have a worn out vehicle in need of repairs and no cash."[10]

Regardless of who or what institution is offering `Second Chance Loans' they can add substantially to the vulnerability of consumers to economic shock, ranging from job loss to medical expenses not covered by provincial medical insurance.

Even in those off and on `booming resource industry' provinces like Alberta and Saskatchewan there are increasing concerns about the future as was noted by Bachinski even prior to the present crisis in the oil industry caused by the current collapse in oil prices:

"Alberta has experienced a long and prosperous boom. As a result, Albertans have been lulled into a sense of certainty and that the good time will go on forever. When we do experience an

[7] See the chart from Statistics Canada: http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/trade12-eng.htm Also see Greg Keenan, "December sales surge helps auto industry post new record." The Globe and Mail, January 2015.
[8] See *ibid.*
[9]See the two detailed graphs demonstrating this phenomenon from Transunion, "Average Total Consumer Debt Excluding Mortgage for Canada," and "Canada Market Trends." Accessed on March 29, 2015. Also see Greg Keenan, "Debt-burdened Canadians succumb to lure of long-term car loans." The Globe and Mail, July 2012.
[10] Interview with John Bachinski, AMVIC, July 30, 2014.

economic slowdown there will be job loss and tightening of money and we expect to see consumers in default and businesses going under."[11]

This could have serious implications for the health of the overall economy and in particular for the auto industry and the lending institutions. The economy of Canada is highly integrated through the financial sector; the economic contractions in the oil sector in Alberta are likely to spread to other sectors and other provinces.

In the wider milieu, it is a well-accepted notion by financial institutions, government and economists that important general steps must be taken to reduce the personal /household debt of Canadians that has grown to worrying levels. But this is beyond the scope of this particular report; it is noted here by way of positioning auto loans within the overall state of household indebtedness.

The scope of the problems arising from the subprime long term loan options of purchasing a vehicle needs to be defined and evaluated. What actions or polices do government and industry need to take to manage the growing use of `second chance loans' and how can consumers be weaned away from them, or what other options might be available/proposed or legislated to deal with this emerging problem?

It is within this context that the following research goals were formulated:

RESEARCH GOALS

- Determine the present extent of subprime loans and extended-term auto loans in Canada;
- Determine the risks of such loans to the consumer both in the short-term and the long-term;
- Determine the advantages, if any, of such loans to the consumer;
- Understand why the industry engages in making such loans;
- Determine the present extent of regulation with respect to auto loans in the auto industry and how it benefits the consumer;
- Draft a set of recommendations that consumers, industry and government bodies could pursue to reduce potential and actual problems for the consumer.

[11] Interview with John Bachinski, AMVIC, July 30, 2014.

METHODOLOGY

The research encompassed the following:

1) A widely distributed consumer survey coordinated by the Automobile Consumer Coalition and Vision Critical;
2) Review of previously published literature, including press reports and prior studies;
3) Interviews with stakeholders (including dealerships, lenders, industry figures, and relevant government administrators).

An ACC-affiliate methodologist helped to coordinate, review, and consolidate the research process. The report was reviewed by select stakeholders prior to the completion of a final draft.

CONSUMER SURVEY

The ACC commissioned Vision Critical to conduct a consumer survey in July of 2014. The survey was completed by 1016 Canadians (Angus Reid Forum Panellists) who currently own or lease a vehicle. The information that was collected was broken down by age, gender, education, household income, language, and location.

The questionnaire drafted by the ACC included questions concerning the financial situation of the consumer's vehicle and their perceptions as to what is an appropriate length of time to pay off and own a vehicle.

For more information on the ACC-Vision Critical consumer survey, see Appendices D and E.

REVIEW OF PRESS REPORTS AND PRIOR STUDIES

The research began with an examination of several press reports, published studies, and scholarly articles on or related to subprime and extended-term auto loans. The search was broad enough to include both Canadian and American literature. The articles were collected and filtered to remove anything that was not directly relevant to the topic (see the appendix for a bibliography).

It was noted that most of the media (chiefly press) coverage focused on the prevalence and impacts on the consumer who resorted to a subprime or extended loan to purchase a vehicle. Unfortunately there was little space given to an examination of the issues of regulating the `second chance loan market' protecting the consumer or suggestions as to how this might be accomplished.

Surprisingly, while the ACC came across an extensive variety of mainstream press reports on subprime and extended-term auto loans, there were few published scholarly articles on the topic.

Studies and academic articles on extended-term auto loans in particular, were especially difficult to come across. This can be explained, in part, by the fact that extended auto loans for new car purchases are a relatively new phenomenon to the auto industry.

The quickly changing nature of auto loans, as well as their subsequent impact on consumers, the auto industry, and the national economy, means that it does not take long for studies that do exist to become out of date.

Throughout the literature review process, it quickly became apparent to us that there was a need for a formal study that not only explores the prevalence and the effects of auto loans, but one that also explores regulatory and consumer protection measures.

STAKEHOLDER INTERVIEWS

The ACC conducted interviews with a list of stakeholders by email, telephone, and in-person over several months. The stakeholders included representatives from the lending industry, auto dealerships, auto manufacturers, and regulatory bodies.

Lenders and financial experts that were contacted and interviewed included Canadian Title Loans and the Canadian Finance & Leasing Association.

Car dealerships that were contacted and interviewed included Ready Honda, Erin Mills Mitsubishi, and Auto Showplace.

For auto manufacturers, the ACC contacted and interviewed Nissan Canada and Mitsubishi Canada.

Regulatory bodies contacted and interviewed included investigators from the Motor Vehicles Sales Authority of B.C. (VSA); the Alberta Motor Vehicle Industry Council (AMVIC); the Ontario Motor Vehicle Industry Council (OMVIC); and the Office de la Protection du Consommateur (OPC) of Quebec.

It would have been helpful to draw a statistically valid representative sample of all participants and stakeholders in the industry, but this was beyond the time and budgetary constraints of the study. The consumer survey was completed, however, according to the highest standards of the industry with valid statistical techniques and safeguards. We raise this point to warn the reader that we are not claiming that all our primary research results reflect fully statistically unbiased results of the underlying industry population.

BACKGROUND

SUBPRIME AND EXTENDED AUTO LOANS

Canada's auto industry has come a long way since the recession of 2008. New vehicle sales hit an all-time record of 1.89 million in 2014.[12] This represents an increase of 19.2 percent over the 2009 sales of 1.48 million.[13]

According to industry experts there were number of factors that led to the resurgence in sales.

With 50 percent of the vehicles on Canadian roads being eight years or older, replacement demand is a significant factor.[14] Many consumers who put off purchasing a new car and chose to keep their aging car running due to the 2008 recession have finally re-entered the market.[15] At the same time, in light of government concerns about fuel consumption, auto manufacturers are building attractive vehicles that are more reliable, safe, but more important, are increasingly fuel efficient.[16]

Another important factor comes from increasingly attractive manufacturer-subsidized incentives offered by car dealerships to lure buyers.[17] Cash-purchase discounts as high as $12,000, or over 25 percent of the retail price, can be found on pickup trucks.[18] And compact cars with retail prices below $15,000 can be found with $2500 in cash-purchase discounts or greater.[19]

The largest contributing factor to the resurgence, however, might well be the exploding popularity of auto loans.[20] Since 2008, auto loans from Canadian banks have increased annually at a compound growth rate of 21 percent.[21] According to the Bank of Canada, the share of leasing in auto financing has declined below 30 percent from a peak of 66 percent in 2007, and auto loans have almost doubled in eight years to more than $120 billion.[22]

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[12] Greg Keenan, "December sales surge helps auto industry post new record." The Globe and Mail, January 2015.
[13] See chart from Statistics Canada http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/trade12-eng.htm
[14] TD Economics report, Dina Ignjatovic, "Canandian Auto Sales to Remain Strong, But Further Upside Limited." March 2013.
[15] Chris Sorensen, "Car sales skyrocket amid fears of high consumer debts and a slowing economy." Maclean's, June 2013. are
[16] Interview with Kevin Bavlaar, Auto Showplace, July 8, 2014.
[17] Chris Sorensen, "Car sales skyrocket amid fears of high consumer debts and a slowing economy." Maclean's, June 2013.
[18] Jeremy Cato, "Three ways car dealers can sell cars faster and make buyers happy." The Globe and Mail, March 2014.
[19] Jeremy Cato, "Want to keep your car payment under $200 per month? You've got options." The Globe and Mail, May 2014.
[20] See, in particular, p. 12, of Equifax, "Canadian Consumer Credit Trends Q4 2014." And Madhavi Acharya-Tom Yew, Accelerating auto loans leave Canadian banks at risk: Moody's." The Star, October 2014.
[21] Jason Kirby, "When will Canada's subprime car loan bubble burst?" Canadian Business, May 2015.

While the use of loans to finance car sales is nothing new, this lending trend comes at a time of an almost stagnant economy, with low or no growth, and record levels of consumer debt.[23]

Not only are consumers choosing to purchase cars through loans rather than through savings, but an increasing number of consumers are choosing either "extended-term" or "subprime loans."

Extended-term, or long-term, auto loans consist of loans which typically have amortization periods between 6-8 years, as opposed to a shorter, more traditional, loan period of 3-5 years. This longer payment period results in lower monthly payments than a short-term loan would provide.

Subprime auto loans are characterized by high interest rates and other fees that make the cost of borrowing especially high. With interest rates that typically range between 15 to 28 percent plus additional fees, the cost of borrowing can easily match or exceed the purchase price of the car.[24] Subprime loans (including so-called near-prime, non-prime, deep subprime, or second chance lending) are designed for consumers with poor credit scores (typically below 680) or no credit history who don't qualify for regular financing. For these consumers, a subprime loan is often the only option to obtain a car.[25]

It is also common in the industry to define subprime in a much more specific way. For example, Jeffrey Newhouse defines subprime as "a segment within the non-traditional credit market used to describe consumers who have a credit score of 550-600. Other segments within the non-traditional credit market include 'near-prime' consumers, 'non-prime' consumers and 'deep sub-prime' consumers. In contrast there are differing segments of the traditional credit market as well, including 'super-prime' and 'prime.'"[26] Newhouse further suggests replacing the term "subprime" with the term "non-traditional credit." However, in this paper, the more common term "subprime" will be retained.

Although long-term and subprime auto loans can be mutually exclusive, it is not uncommon for an auto loan to be both long-term and subprime. In general, long-term loans are more prevalent among new car buyers and subprime loans are more prevalent among used car buyers.[27]

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[22] Bank of Canada, "Assessment of Vulnerabilities and Risks." *Financial System Review* (December 2014. Web. March 29, 2015) pp. 11-13. Also see: Greg Keenan, "Bank of Canada raises alarm over growing consumer auto debt." The Globe and Mail, December, 2014.

[23] See the two detailed graphs demonstrating this phenomenon from Transunion, "Average Total Consumer Debt Excluding Mortgage for Canada," and "Canada Market Trends." Accessed on March 29, 2015. Also see Christopher Ragan, "Canada's job recovery may not be the world's envy after all." The Globe and Mail, October 2013. And Garry Marr, "Canadian consumer debt hits record high as car loans rise: survey." Financial Post, February, 2013.

[24] Interview with Michal Rothe, OMVIC, July 2, 2014.

[25] Bank of Canada. Assessment of Vulnerabilities and Risks. Financial System Review. December 2014. P.13, ft 6. Kathy Tomlinson, "Couple Feel Robbed by 25% Interest TD Car Loan." CBC News, January 2014.

[26] Jeffrey Newhouse, Email letter to the author, March 22, 2015.

[27] Interview with Michael Rothe, OMVIC, July 2, 2014.

FACTORS DRIVING THE GROWTH OF SUBPRIME AND LONG-TERM LOANS

These loans are driven by two different forces within the economy: 1) Consumer Demand, especially among lower income and heavily indebted consumers, and 2) The Financial Industry. In addition to these major stakeholders in this sector of the economy, a third element should be mentioned, and that is the financing branch of the automobile industry itself, which also promotes these loans in order to compete with the banking sector, even though, as will be shown in this paper, it may not be in the long term interest of the automobile manufacturers and dealerships.

Consequently, a third player has emerged, the financing branch of the auto industry. In fierce competition with the banks for this new type of loan business they are eagerly offering them up to their customers.[28]

In recent years, Canadian consumers have consistently shown an attachment to low payment options when it comes to financing a vehicle. Although this appears rational that consumers seek to assume more low interest loans and low monthly payments, it becomes a problem when they have to contend with negative equity. On a different but related level, auto manufacturers gave various incentives, such as low interest rate offers, in their leasing programs, which resulted in attractive, low monthly or biweekly payment options for consumers.[29]

When the financial crisis hit, however, auto manufacturers began eliminating their incentives on leasing. This was because the sources of credit that had backed these enticing leasing campaigns had disappeared. The finance divisions of certain auto manufacturers were sold to major banks, who are not legally permitted to offer leasing. As a result, the extent of leasing has dramatically decreased, now representing only around 30 percent of auto financing.[30]

However, the demand for low cost payment options, such as those once provided by leases, still existed. In fact, such low cost options were even in greater demand because of the financial hit taken by vulnerable consumers in 2008, and indebtedness has since that time continually increased (particularly since 2011, auto lending in Canada has grown at an average annual rate of 9 percent compared with about 4 percent for total household credit).[31] Therefore, different lending practices were used by the financial sector to meet this growing demand. These were long-term and sub-prime loans. The former allowed the automaker to offer low monthly payments similar to the leases they had discontinued, and the latter remain the only option for heavily indebted and high risk consumers.

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[28] Madhavi Acharya-Tom Yew, Accelerating auto loans leave Canadian banks at risk: Moody's." The Star, October 2014.
[29] Interview with Kevin Bavlaar, Auto Showplace, July 8, 2014.
[30] Interview with Michal Rothe, OMVIC, July 2, 2014. Also see Bank of Canada *ibid.*
[31] Bank of Canada *ibid*. Also see Greg Keenan, "Debt-burdened Canadians succumb to lure of long-term car loans." The Globe and Mail, July 2012.

The banking industry was, in fact, eager to create these new financial instruments as the general conditions in the economy after 2008 did not provide many opportunities for high-yield investments. For example, construction slowed and mortgage returns were low due to generally low interest rates. In this way, the banks turned to the financing of automobiles as a financial alternative. An important Bank of Canada report explains what then happened:

> During the crisis, the Canadian financing arms of automakers, which at that time were the dominant providers of auto financing, experienced funding problems as a result of the freeze in the market for asset-backed commercial paper (ABCP) and the financial challenges faced by their parent companies with their relatively strong balance sheets, banks were able to expand their auto financing activities in the years that followed (in some cases purchasing the financing subsidiaries of automakers) and gain significant market share. More recently, the strong growth in auto lending has attracted other new entrants, including credit unions, insurance companies, foreign financial institutions and unregulated entities. [32]

Also, at that time, some banks took over a number of smaller private lenders who specialized in car loans. (For example, TD Bank took over Chrysler Financial, a former in-house finance arm of Chrysler, and VFC, a major car loan company, and in this way immediately became a very important player in this financial sector and the largest lender of sub-prime loans.)[33] As noted, banks were legally forbidden to handle car leasing. To replace the leases and fill the continuing demand for something like them, the banks created and promoted new forms of both long-term and sub-prime loans, which were within their legal prerogative.[34]

In the case of long-term loans, the auto manufacturers immediately saw some benefits for their own sector of the industry. Firstly, such loans, as mentioned above, allow very low monthly payments, and consumers were therefore eager to take advantage of them.

Secondly, not only did the auto manufacturers benefit from the unexpectedly high volume of sales, but the profit potential of `second chance/subprime/long term loans' enticed them to get into the loan/subprime financing and compete with the banks for a share of this lucrative auto financing business. One thing they did was to factor in the cost of defaults. But whatever the long term negatives costs of these types of financing for the dealers, the necessity to maintain a steady volume of sales in a slow economy seems to override concerns about future problems.

In fact, they managed to keep up auto sales at a time of general stagnation in the economy. This was, and to the present remains, of great short-term benefit to the manufacturers.[35] Thirdly, the

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[32] See Bank of Canada, *Financial System Review*. December 2014. Accessed on: March 29, 2015. Also see: Matthew McClearn, “Driving us into debt.” Canadian Business, March 2013.

[33] Tara Perkins, “TD kicking tires at Chrysler Financial.” The Globe and Mail, December 2010. And Grant Robertson, “TD driving hard for auto loans.” The Globe and Mail, February 2012.

[34] Grant Robertson and Greg Keenan, “Car dealerships next battleground for Canada’s banks.” The Globe and Mail, April 2013.

[35] Interview with Ian Christman, VSA, July 9, 2014.

manufacturers got into the act themselves and began to compete with the banks by offering such loans on their own and factoring the cost into the general price of the product; that is, the cost of new cars is higher than it would have been otherwise. Finally, the dealers also promote these loans as they too are concerned with surviving a generally slow economy by keeping up a steady flow of sales. In spite of these major changes in the industry, private lenders still retain a large piece of the action and compete with the banks and the automobile companies which offer loans.[36]

As to sub-prime loans, the general economic situation brought on by the financial crisis of 2008 was a major factor in increasing the incidence of such loans, which would have been more seldom made under more ordinary circumstances. It was often those consumers with already low incomes who were hit most hard in the period following 2008. They lost their jobs more often, and they declared bankruptcy more often than other, better heeled consumers. They became the highest risk individuals for financial institutions, but they also presented a new opportunity for greater profits for them.[37]

The opportunity for greater profits is explained by the fact that some banks bundled masses of these debts into what are generally called “high yield, asset-backed securities” (ABS).[38] In spite of the individual high risk involved in individual loans, the banks made and still make substantial profits when all such debts are bundled into what is transformed into a low risk accumulation, also known as diversification.[39] Moreover, defaults are far less common than what is usually thought, as consumers are generally very reluctant to default on a car loan as opposed to a mortgage for a house. (The 90+ day delinquency rate excluding mortgage in Canada is a low 1.09 percent.) [40] In fact, it seems, consumers are often more willing to make a payment on their car than on their house. This might be because, for some low income consumers, a car is usually a necessity for work and livelihood, whereas a house is not, at least in some cases. Many consumers have even turned to bundling their mortgage and auto loans together. This effectively gives the auto loan the same interest rate and amortization period as the mortgage.[41]

Other points that could be made regarding the proliferation of subprime loans are the general push within the financial industry to increase the number of ABS loans and the continued decline of stringent lending standards required of consumers. In other words, in their continued pursuit for greater profits, financiers are taking on ever greater risk, hoping that, in the short run, their investments will be paid off quite handsomely. Furthermore, these risks are presently reduced by

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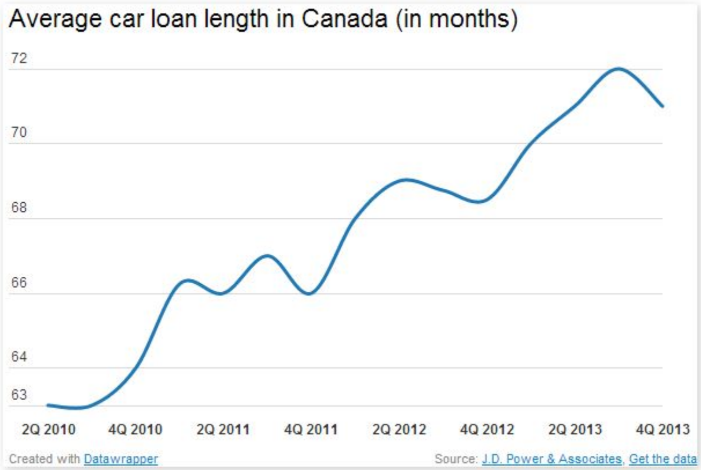
[36] Chris Sorensen, “Car sales skyrocket amid fears of high consumer debts and a slowing economy.” Maclean’s, June 2013.
[37] Interview with Sasa Jurovicki, MNP LLP, January 22, 2015. See also: Jessica Silver-Greenberg et al, “In a Subprime Bubble for Used Cars, Borrowers Pay Sky-High Rates.” The New York Times, July 2014.
[38] See DBRS, “Rating Canadian Auto Retail Loan and Lease Securitizations.” October 2014. Accessed on: March 29, 2015.
[39] Interview with Sasa Jurovicki, MNP LLP, January 22, 2015. See also: Vivianne Rodriguez, “Sales of subprime car loan securities soar.” The Globe and Mail, March 2013.
[40] See Equifax, “Canadian Consumer Credit Trends Q4 2014.”
[41] Interview with Sasa Jurovicki, MNP LLP, January 22, 2015.

the fact that new technology, such as tracking devices and engine immobilizer devices can be installed in cars at the time of purchase. This makes it much easier to repossess cars when loan payments are not made and much easier to sell, given their condition. Finally, used car prices, since 2008, have remained high, and therefore, resale value of repossessed cars has also remained high. All of these factors make subprime loans exceedingly attractive to the lenders.[42]

THE EXTENT OF THE PHENOMENON

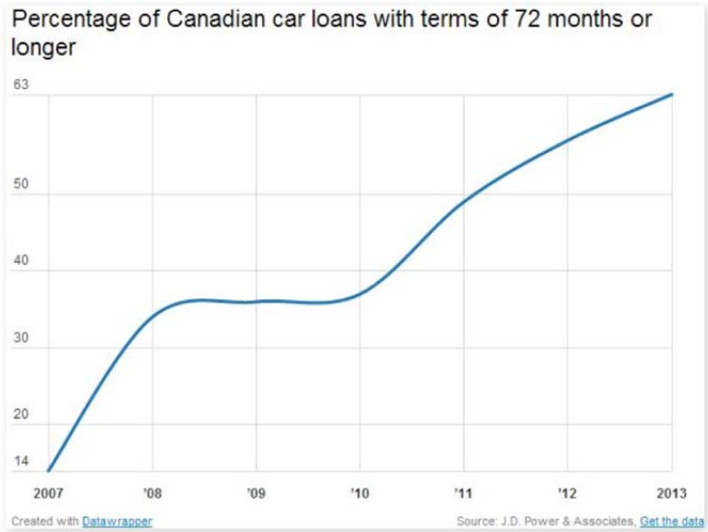
The number of long-term auto loans in Canada since 2008 has greatly increased. According to a study by J.D. Power & Associates, the average length of auto loans has increased from 63 months in 2010 to 74 months in 2014. The following graph illustrates this point:



Source: J.D. Power & Associates, "Extended Term Loans Drive..."

This noticeable shift in the term period of the loan is demonstrated by the fact that in 2007 only 14 percent of loans were long term. Less than a decade later, loans that are 72 months or longer now make up 69 percent of all auto loans in Canada.[43] This phenomenon is illustrated by the following graph:

[42] Interview with Michal Rothe, OMVIC, July 2, 2014. See also: Jessica Silver-Greenberg et al, "In a Subprime Bubble for Used Cars, Borrowers Pay Sky-High Rates." The New York Times, July 2014.
[43] Jeremy Cato, "Longer loan terms means 'the monthly payment is king." The Globe and Mail, October 2014. And Greg Keenan, "Bank of Canada raises alarm over growing consumer auto debt." The Globe and Mail, December, 2014.



Source: J.D. Power & Associates, "Extended Term Loans Drive..."

This trend was underlined by the CEO of Ford Canada, Dianne Craig, who estimates that roughly 40 percent of all auto loans in the country are 84 months or longer.[44] According to some sources, 96 month loans have grown to around 14 percent of the market.[45]

With regard to subprime loans, current research suggests that 25 to 35 percent of all automotive financing is subprime.[46] Jeffrey Newhouse of CTL says: "At certain times, as high as 40 percent of auto loans in Canada are non-prime."[47] Statistical data available from 2008 to early 2014 reveals that both in terms of total balance owed and also number of accounts, the subprime loans market has grown significantly. Moreover, the average balance on each loan and the average amount financed on each loan has grown.[48]

It is evident that the growing use of subprime and long-term loans to finance a car purchase has become a major tool used by the auto industry to maintain increasing sales. However the long term impact on the industry has yet to be determined.

INCENTIVES AND POSITIVE EFFECTS

The primary reason why long-term and subprime auto loans have grown so dramatically in recent years is that they have a certain basic attraction to various stakeholders in the automobile industry. Firstly, consumers seem to like long-term loans because the monthly or biweekly

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[44] Scott Deveau, "Auto industry gears up for another record sales year, but raises flags on long-term financing." Financial Post, January 2014.
[45] Greg Keenan, "Long-term car loans a worrying trend for auto, financing industry." The Globe and Mail, November 2014.
[46] OMVIC circular letter, "Subprime not Subterfuge." July, 2014.
[47] Interview with Jeffrey Newhouse, CTL, October 2, 2014.
[48] Roger Mitchel, "Prime vs. Subprime Auto Trends." Equifax, April 2013.

payments for them are usually much lower than shorter term loans. In fact, payments are sometimes so low that consumers are, on occasion, are believed to have been enticed to purchase more expensive vehicles than they would have otherwise. Thus, according to Ian Christman of VSA, "luxury vehicles become more affordable and within reach of more consumers. We are aware of some Recreational Vehicle Dealers now offering up to 20 year loans for the more expensive Class A type motorhomes (retail price of $200,000 plus)." [49]

Other points raised by Christman, which need to be made here include the following: "Consumers who could not afford any type of a vehicle may now be able to afford a used vehicle. Consumers who bought (cars, paying in cash in the unregulated market) may (shift to buying) from a dealer within the regulated market and enjoy more consumer protection rights. Consumers who could only afford cheaper used vehicles of questionable quality may now be able to afford an entry level new vehicle."[50] These points argue that there may be some advantages to the greater affordability of some cars subject to lower monthly payments and extended periods of repayment. Of course these advantages have to be squared against the many disadvantages inherent in higher implicit interest rates, fees and charges as well as negative equity.

Subprime loans are aimed at a different, more financially vulnerable, consumer market. Such consumers are usually people with very poor credit ratings who may even have declared bankruptcy at some point or another. Banks and other financial institutions would not give them loans on better terms, and so, they are forced to take out subprime loans.[51] The one clear benefit to such consumers is that, without the subprime loans, they would be deprived of a vehicle which, for some, could mean the difference between having a job or not.[52] As Matthew Poirier puts it: "it (a subprime loan) gets people with bad credit into cars who NEED them. To clamp down on long term loans would inevitably result in some people not getting access to cars if they need them. Not everyone lives in a city, and access to an automobile is critical for their employment or families."[53] Some lenders rationalize the high cost of their loans by claiming it gives high risk borrowers the opportunity to improve their credit rating.[54]

For manufacturers and their dealers, the benefit of both long-term and subprime loans is that these financial instruments help maintain sales, and on occasion increase them in the short term by tempting `timid' or `uncertain buyers' into purchasing a vehicle.[55] This is an important consideration during a time of general economic stagnation. And for some dealers there is the

[49] Interview with Ian Christman, VSA, July 9, 2014.
[50] *ibid.*
[51] Jessica Silver-Greenberg et al, "In a Subprime Bubble for Used Cars, Borrowers Pay Sky-High Rates." The New York Times, July 2014.
[52] Grant Robertson, "TD driving hard for auto loans." The Globe and Mail, February 2012.
[53] Interview with Matthew Poirier, Canadian Finance & Leasing Association, September 25, 2014.
[54] Interview with Jeffrey Newhouse, CTL, October 2, 2014.
[55] Damon Lowney, "More car buyers favoring longer term loans up to 10 years." www.autoblog.com, July 2013.

possibility of a lucrative `commission payment' from specific lenders for referring customers to them.[56]

For financial institutions, especially banks, it bears repeating that they had initiated the push for long-term loans because they, along with subprime loans, were and continue to be very profitable. The incentive for entering the auto loan market came from the down turn in the demand for construction loans and mortgages resulting from the financial downturn in 2008. However how this will play out over the long term as the economy improves remains to be seen.[57]

DISADVANTAGES AND NEGATIVE EFFECTS

One of the most important disadvantages of long-term and subprime auto loans is the phenomenon we referred to earlier as "negative equity." This term is used by economists and industry experts to refer to "a situation where the outstanding balance of a secured loan exceeds the value of the property bought with the loan."[58]

John Bachinski of AMVIC explains: "We are finding there is a strong industry trend to lend more than the equity in the vehicle. We are seeing some loans that are very alarming with the debt being more than twice the value of the vehicle."[59] It is a phenomenon that has been flagged by the Bank of Canada in its Financial System Review in December 2014.[60]

Though various media sources estimate the number of consumers trading in their vehicles with negative equity to be between 30 to 40 percent,[61] anecdotal data, which is not confirmed, from OMVIC suggests that number could be as high as 80 percent.[62]

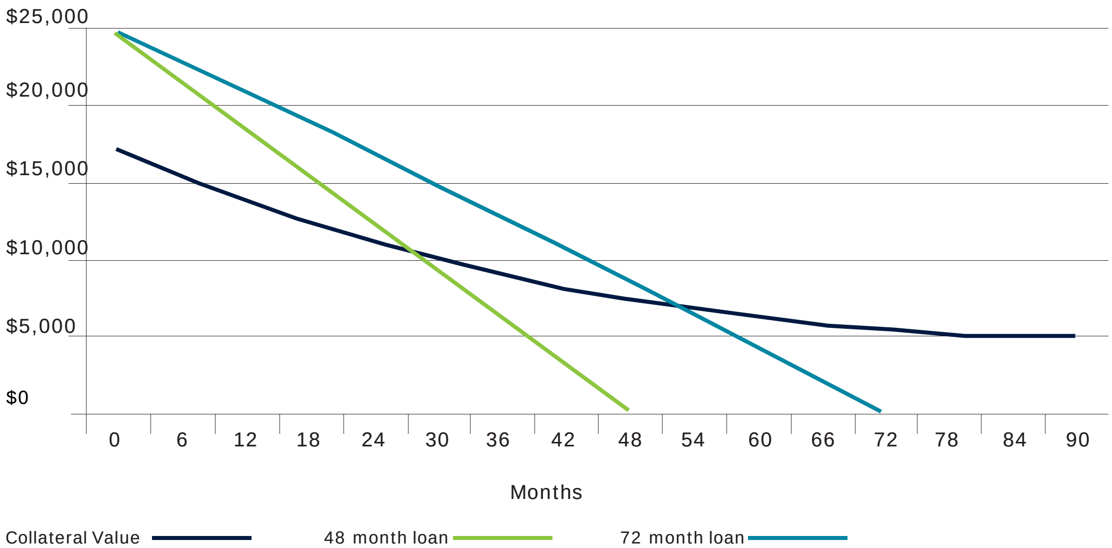
Negative equity works in two different ways depending on whether the consumer is taking out a long-term loan or a subprime loan. In the former, because the initial value of the car is quite substantial, and long-term loans are principally made for the purchase of new cars, there is initially a significant amount of negative equity involved in the purchase. This negative equity only diminishes substantially after 4 to 6 years. However, subprime loans, in contrast to long-term loans, are usually negotiated for the purpose of buying a used car. In such cases, if the loan is substantial, a situation of negative equity occurs at the onset.[63] In addition to this, the overall cost of subprime loans is generally high because of the high interest rates and other fees often

[56] Interview with Mitch Cadesky, Erin Mills Mitsubishi, August 16, 2014.
[57] Grant Robertson and Greg Keenan, "Car dealerships next battleground for Canada's banks." The Globe and Mail, April 2013.
[58] OMVIC circular letter, "Subprime not Subterfuge." July, 2014.
[59] Interview with John Bachinski, AMVIC, July 30, 2014.
[60] Bank of Canada. Assessment of Vulnerabilities and Risks. Finacial System Review. December 2014.
[61] Matthew McClearn, "Driving us into debt." Canadian Business, March 2013. And Jeremy Cato, "Negative equity woes? Sparkling car sales sweeteners ease the pain." The Globe and Mail, December 2013.
[62] OMVIC circular letter, "Subprime not Subterfuge." July, 2014.
[63] OMVIC circular letter, "Subprime not Subterfuge." July, 2014.

attached to these loans, such as life insurance, which the consumer is compelled to pay from the onset of the car purchase.[64]

Michael Rothe of OMVIC explains: “Consumers on average will change their car after four years and if their loans are 72 or 84 months they will likely be upside down on the value of their vehicle at that time and have to either pay-off the balance owing on the vehicle or as we are increasingly seeing refinance that amount in the purchase of their new vehicle. We have seen examples of negative equity of over $25,000 refinanced as part of a vehicle purchase.”[65]

Negative Equity



Source: DBRS, “Rating Canadian Retail Loan and Lease Securitizations.” October 2014.

To be sure, there is not complete unanimity about the question of negative equity. According to Dennis DesRosiers of DesRosiers Automotive Consultants, the median new car buyer in Canada keeps their vehicle for over eight years. This is longer than the repayment term for even the longest automaker low-interest new car loan, and, in his opinion, effectively addresses most of the concerns over negative equity. Under certain circumstances, such as a zero percent interest rate, a longer-term loan can be a rational choice for consumers.[66] There are many industry experts, however, who do not agree with the opinion of DesRosiers.

In the case of subprime loans, especially, the disadvantage to the consumer is even more serious than in other cases. Because of the very high interest rates involved in the contract, a situation of negative equity begins from the onset. This is not only because of the low value of used cars, but also because the total interest to be paid sometimes amounts to more than the value of the car.

[64] Interview with Michael Rothe, OMVIC, July 2, 2014.
[65] *ibid.*
[66] Interview with Dennis DesRosiers, DesRosiers Automotive Consultants, September 30, 2014.

Typically, the subprime borrower keeps their car for only 12 to 15 months.[67] At the end of this period, such a borrower either refinances and purchases another car, to which previous debt is added, or simply defaults on the loan. Although defaults are presently relatively few, such a situation is unsustainable in the long-term, as continuous refinancing and mounting debt cannot go on forever. Consequently, a classical financial bubble ensues. The most financially burdened consumers will be hurt the most.[68]

Other disadvantages for consumers include excessive spending on long-term loans, misleading or predatory tactics on the part of some dealers and lenders, add-on fees for subprime loans, and the increasing vulnerability of consumers to micro and macroeconomic shock.

Because of the low monthly or biweekly payments that characterize long-term loans, consumers are typically tempted to spend more on a car than they can comfortably afford.[69] Kevin Bavlaar of Auto Showplace says: “The buyer asks themselves: ‘why should I buy the compact base model over 48 months when, for the same monthly payments, I could have the optioned up midsized model over 84 months?’”[70]

Despite the trend toward auto loans having longer and longer payment periods, the average transaction price of new cars has consistently increased over the last few years. For example, in 2014, transaction prices jumped, on average, to $31,389 from $26,774 five years before.[71]

According to a TD Economics report, an increasing number of consumers are purchasing luxury vehicles with high sticker prices. The report states: “The trend is likely due in part to the attractive financing options available for consumers. Indeed, if lenders are willing to extend the loan term, consumers are able to afford a more expensive vehicle (luxury, larger, or both), with the same monthly payment that they would have under a shorter loan term for a less expensive vehicle. So long as the right incentives are in place, this trend should continue.”[72] Ian Christman of VSA puts it this way: “Luxury vehicles, which generally have higher margins, become affordable to more people. Again, increasing the pool of customers who can afford luxury vehicles.”[73]

Other studies show that long-term financing poses risks of overconsumption. In a consumer survey conducted by Option consommateurs, more than half of the respondents said that access

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[67] Interview with Jeffrey Newhouse, CTL, August 18, 2014.
[68] Interview with Michael Rothe, OMVIC, July 2, 2014.
[69] *Ibid.*
[70] Interview with Kevin Bavlaar, Auto Showplace, July 8, 2014.
[71] Greg Keenan, “Bank of Canada raises alarm over growing consumer auto debt.” The Globe and Mail, December, 2014. Jeremy Cato, “Savvy shoppers knock about $4,000 off car prices in Canada.” The Globe and Mail, May 2014. And Jeremy Cato, “Deals of the week: Kia Optima, Ford Mustang, GMC Terrain, and Dodge Ram.” The Globe and Mail, May 2013.
[72] TD Economics report, Dina Ignjatovic, “Canadian Auto Sales to Remain Strong, But Further Upside Limited.” March 2013.
[73] Interview with Ian Christman, VSA, July 9, 2014.

to long-term financing allowed them to buy a more expensive item (more than half of which are automobiles) than they had planned. Over a quarter of the respondents said that they would be likely to buy a much more expensive item if the payments were the same, but extended over a longer period.[74]

The fact that increasing transaction prices on new cars is positively correlated with the increasing lengths of loans is a sign that many consumers are likely spending much more than they can afford on their car purchases. OMVIC reports: "These historically long financing terms (sometimes extending to double the length the average person keeps their vehicle), have allowed consumers to become 'monthly payment junkies' by masking the true cost of borrowing for the purchase of the vehicle with tantalizingly low monthly (or increasingly bi-weekly) payments."[75]

Another problem that consumers face with regard to subprime loans consists of "questionable," "unethical," or even, in some cases, simply dishonest tactics used by some dealers and lenders. The temptation for some dealers to engage in such tactics is very great because of the frequent desperation of subprime consumers to get basic transportation. (Typically, they have poor credit ratings, or no credit rating whatsoever.) As mentioned before, very often these consumers are dependent upon such transportation for their very livelihood. To be denied it would spell disaster. The dealers usually know this and, in the absence of comprehensive regulation, some are tempted to take advantage of the consumer, who, in many cases, is ignorant of both personal finance economics and the law. Furthermore, the subprime consumer has no other option but to accept such a contract because regular loans with lower interest rates are simply out of the question.[76]

The array of tactics used by such dealers are effective. They include assurances that, after a year or so, the loan can be renegotiated with a lower interest rate; assurances that the fulfillment of the contract would be good for building a positive credit rating (in other words, short term pain for long-term gain);[77] withholding of down payments when consumers wish to withdraw from the deal; misleading consumers about their debt by rolling it over into the price of a new car; and finally, passing on misinformation or false information about credit worthiness of the consumer to the financial institutions concerned. This last misinformation often concerns employment status, and other personal details.[78]

Unfortunately, similar tactics are sometimes used by some financial institutions. Firstly, some financial institutions too sometimes engage in unrealistic assurances about future renegotiation of a loan. Of course, in such cases, no assurances of renegotiation are written into the contract.

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[74] Option consommateurs, "The highs and lows of long-term financing." June 2015. Accessed on May 20, 2015.
[75] OMVIC circular letter, "Subprime not Subterfuge." July, 2014.
[76] Interview with Jeffrey Newhouse, CTL, August 18, 2014. See also: Jessica Silver-Greenberg et al, "In a Subprime Bubble for Used Cars, Borrowers Pay Sky-High Rates." The New York Times, July 2014.
[77] Kathy Tomlinson, "Couple Feel Robbed by 25% Interest TD Car Loan." CBC News, January 2014.
[78] Jessica Silver-Greenberg et al, "In a Subprime Bubble for Used Cars, Borrowers Pay Sky-High Rates." The New York Times, July 2014.

Thus, the subprime consumer is stuck with a high interest rate over the long-term.[79] Secondly, some financial institutions occasionally promote the sale of "add-ons" to the basic purchase. Add-ons are unnecessary fees or products which are added to the price of the vehicle. Typical add-ons for subprime loan purchases include unusual insurance policies (often life insurance), administration fees, and finally, installation of tracking and immobilization devices, which are of benefit to the lender in case of default on payments, but are of no use to the purchaser.[80]

Jeffrey Newhouse describes lenders which make use of unethical tactics as "predatory lenders." He explains:

"Where lenders turn from ethical to unethical is when they become predatory lenders. Predatory lenders prey on consumers who have such poor credit profiles (often the deep sub-prime segment) they cannot generally gain approval from an income based lender.

Often these predatory lenders will be equity based lenders and their business model is premised on the consumer defaulting on the loan. In fact, these lenders may even force the consumer into default. Why? These lenders make their profit through the repossession and resale of the collateral vehicle.

These lenders require the consumer to put in enough money at the time of purchase, when they repossess and sell the vehicle, the lenders end up profiting from the equity that the consumer had put into the car originally. There are predatory lenders that exist [among] ... the 23 indirect lenders in Canada and they give the whole industry a bad name.

The industry should band together and self-regulate to eliminate the predatory equity based lenders."[81]

One final point must be made with regard to the disadvantages of long-term and subprime auto loans to consumers. Such loans generally stretch the resources of consumers to their utmost limits. On a microeconomic level, this means that any slight change in their personal circumstances could spell disaster. For example, an accident, injury, illness, unexpected repair costs, or loss of employment would mean that they may go under and be faced with bankruptcy.[82] On a macroeconomic level, any slight change in the national economy, such as an economic slowdown, a recession, or even a change in interest rates, could likewise cause a default on payments and a possible financial cool down.[83] Given that non-mortgage consumer debt, 3.9 percent being auto loans, has now reached high proportions (15% of household debt),

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[79] Kathy Tomlinson, "Car Buyers say Dealerships Duped Them Over TD's Costly Loans." *CBC News*, January 2014.
[80] Interview with Jeffrey Newhouse, CTL, August 18, 2014. See also: Jessica Silver-Greenberg et al, "In a Subprime Bubble for Used Cars, Borrowers Pay Sky-High Rates." The New York Times, July 2014. Also see: Michael Corkery, "Miss a Payment? Good Luck Moving That Car." The New York Times, September 2014.
[81] Interview with Jeffrey Newhouse, CTL, August 18, 2014.
[82] Interview with Michael Rothe, OMVIC, July 2, 2014.
[83] *Ibid.* See also Dana Flavelle, "Longer auto loans raise concerns." The Star, August 2014.

these dangers are very real and could affect an enormous number of consumers.[84] So serious is the situation, that the former Minister of Finance, Jim Flaherty, even felt compelled to address the issue publicly.[85]

With regard to disadvantages for dealerships and manufacturers, the central question revolves around the long-term sustainability of such loans. In other words, while such loans promote sales and general prosperity in the short-term, there remains a serious question whether they can continue in the long-term. As consumers approach the limit of the amount of debt they can take on, they quite naturally cease to make new purchases or, at least, make new purchases less frequently and/or of a lower value. This means that, in the long-term, despite all incentives, dealers and manufacturers will be faced with declining sales. Consequently, it is not unreasonable to assume that in the near future, consumers will purchase cars of lesser value and generally make purchases less frequently. This consumer attitude might be summed up as: “We have to make do with what we’ve got.” Indeed, the very nature of the long-term loan, which extends over a longer period than in previous times, means that consumers will be discouraged from making new purchases as frequently as in the past. Or to put it another way, as Ian Christman of VSA says: “One disadvantage to the industry is that consumers may become so stretched that they cannot afford a new car in 5-6 years and the auto industry has a slow down [partly of its own making] much like the 2008 US housing market.” [86]

Mitsubishi Canada’s president and CEO, Kenichiro Yamamoto, has expressed concern over the trend towards ever-longer auto loans. “(Mitsubishi’s) concern is that in the event interest rates rise, there is the potential for a ‘freeze-out’ of a portion of new vehicle buyers who will be tied into long loans at low interest rates on vehicles with negative equity. These buyers will not be able to afford higher payments than they are currently making, and will have to hold on to their existing vehicles until their loans are retired.”[87]

Just as there are a number of important shortcomings to these loans for consumers as well as the auto industry (dealerships, and manufacturers,) so too there are simmering problems (disadvantages) for the financial industry. It has already been suggested that increasing debt for most consumers cannot be sustained over the long-haul. The result will be that an increasing number of defaults will eventually occur, and these will present a direct threat to the health of financial institutions. Although the number of defaults thus far has been quite manageable, there are already signs that the situation may change soon.[88] Some lenders in the United States are already lowering their underwriting criteria for subprime auto loans. The situation has already become so serious, that, on August 4, 2014, General Motors Financial revealed that it was being

[84] See, in particular, p. 12, of Equifax, “Canadian Consumer Credit Trends Q4 2014. See the Bank of Canada report and Transunion graphs cited in notes 59 and 23 above. Also see Roma Luciw, “Car-buying will fuel record consumer debt in 2014, report forecasts.” The Globe and Mail, December 2014.
[85] Garry Marr and Barbara Shecter, “How Canada’s auto loan bubble has become a ticking time bomb.” Financial Post, November 2014.
[86] Interview with Ian Christman, VSA, July 9, 2014.
[87] Interview with Kenichiro Yamamoto and Takayuki Yatabe, Mitsubishi Canada, September 20, 2014.
[88] Shannon Rohan, “Subprime-Lending in Canada.” Share.

investigated by the Federal Department of Justice with regard to underwriting criteria and the pooling of auto loan securities.[89] Given the fact that subprime loans are somewhat more extensive in the United States than in Canada, but that long-term loans are more prevalent in Canada than in the United States, if a financial bubble were to burst in the United States, there is a possibility that Canada might not be as fortunate as it was in 2008 in avoiding its negative consequences.

CURRENT REGULATIONS AND EFFORTS AT CONSUMER PROTECTION

At present, long-term and subprime auto loans, when financed through dealerships, are not regulated at the federal level. The primary reason for this is that this aspect of the industry falls under fourteen different legal jurisdictions, both federal and provincial. Banks are federally regulated with regard to certain transactions, such as loans and mortgages, with consumers.[90]

Auto dealerships, on the other hand, are regulated by the provinces. For example, provincial agencies, such as OMVIC in Ontario and VSA in British Columbia, license dealerships, and these licenses are dependent upon fulfillment of certain obligations. For example, in British Columbia, VSA strives to insure that “the consumer must know the entire cost to them under a finance agreement and their rights and obligations and the customer must easily understand the cost of borrowing money over the term of the agreement.”[91] In Ontario, OMVIC administrates the *Ontario Motor Vehicles Act*, with regard to oversight, certain educational initiatives, and complaint handling.[92] In Quebec, OPC administrates the *Consumer Protection Act* (CPA). For example, it enforces the prohibition of engine immobilizers for repossession of a vehicle.[93]

However, there remains one big lacuna in the regulatory scheme which is aimed at protecting consumers: in so far as concerns auto loans, private loan companies unaffiliated with either banks or dealerships remain unregulated.[94] While regulation of businesses of this type would be extremely difficult, the present situation has made possible a number of abuses and problematic situations. For example, predatory lenders can and often do charge exorbitant interest rates, add on hidden fees, and make loans on the basis of lax credit worthiness.[95] In fact, there are numerous websites online which offer guaranteed approval for auto and other loans regardless of the credit history and the financial condition of the borrower.

Given the enormous recent growth of long-term and subprime loans, the growing probability of future defaults, and, in the absence of sufficient government regulation and/or intervention in the

[89] Thomson Reuters, “GM Financial subpoenaed of subprime auto loans.” CBC News, August 2014.
[90] Interview with Michael Rothe, OMVIC, July 2, 2014.
[91] Interview with Ian Christman, VSA, July 9, 2014.
[92] Interview with Michael Rothe, OMVIC, July 2, 2014.
[93] See Apendix D: “
[94] Interview with Jeffrey Newhouse, CTL, August 18, 2014.
[95] Interview with Michael Rothe, OMVIC, July 2, 2014.

system, industry itself as of late begun to take measures that, it hopes, would reduce the popularity and wide use of these loans.

For example, Nissan Canada has recently introduced a financing option called the Opportunity Program, which is specifically designed for consumers with a “challenged” credit history. The program, which is only available on Nissan’s most affordable model, the Micra, offers consumers financing or lease terms up to sixty months, with an interest rate set at 9.98 percent. The result is that consumers who would otherwise have to go with a high-cost, subprime loan on a used vehicle of questionable quality, can now purchase a new vehicle, with a new vehicle warranty, at a far more reasonable price.[96]

Another strategy that some manufacturers, including Nissan, Mitsubishi, General Motors and Ford, are trying is switching from “incentivized financing” to “incentivized leasing.”[97] Manufacturers are hoping that replacing long-term financing deals with short-term leasing deals, similar to those that existed before the financial crisis of 2008, will offer a number of benefits: 1) Consumers will still be offered a low monthy/bi-weekly payment option, but one without the negative equity problem that comes with long-term financing. 2) Dealerships and manufacturers will benefit due to the shorter trade-in cycle that leasing provides when compared to financing. This ostensibly gives dealerships the opportunity to sell more cars, especially to those consumers who are returning their leased vehicles.[98]

Private financial institutions have also begun to take measures into their own hands in an effort to reduce certain risks of loans to consumers and the industry as a whole. President and CEO of CTL, Jeffrey Newhouse, is soliciting interest in creating an associate body that will support members of Canada’s consumer automotive finance industry. Newhouse says: “These participants include each major bank, OEM captives such as Honda Finance, GM Financial, etc., as well as a few credit unions and insurance companies running traditional lending portfolios.” The members that will form the council will include a consumer representative, government representative, and industry representatives. The council will represent the interests of the organization members, operating under the principles of ethical and responsible lending practices. Newhouse believes that the creation of a self-regulating council for finance industry could help stop the predatory lending practices that exist in the market[99]

[96] Interview with David Williams, Nissan Canada, August 11, 2014.
[97] Scott Deveau, “Auto industry gears up for another record sales year, but raises flags on long-term financing.” Financial Post, January 2014.
[98] Greg Keenan, “GM Canada Chief Concerned About Credit Driven Car Bubble.” The Globe and Mail, October 2013.
[99] Interview with Jeffrey Newhouse, CTL, August 18, 2014.

CONSUMER SURVEY RESULTS AND ANALYSIS

The ACC commissioned Vision Critical to conduct a consumer survey in July of 2014. The purpose of the survey was to determine the vehicle purchase behaviours of Canadian consumers. Specifically, the ACC wanted to determine how consumers are presently financing their vehicle purchases, what factors influenced their decisions, and whether their own purchasing behaviours, such as the length of their loan, complement what they believe to be appropriate financial decisions.

The survey was completed by 1016 Canadians (Angus Reid Forum Panellists) who currently own or lease a vehicle. The margin of error—which measures sampling variability—was +/- 3.1%, 19 times out of 20. The sample information that was collected was broken down by age, gender, education, household income, language, and location. (For exact figures regarding the sample demographic, please see Appendix.)

Of the 1016 respondents, 59 percent said they purchased their car new, while 41 percent purchased a used vehicle. 82 percent purchased their car from a dealership. 53 percent either financed their vehicle purchase through a dealership, or took out a personal loan or line of credit. 7 percent said they leased, and 33 percent said they paid in cash.

Of those respondents who financed their vehicle, 63 percent said it was because of the low interest rate and 35 percent said it was because of the low payments. 32 percent said they couldn’t pay for the vehicle any other way. The average interest rate for both financed and leased vehicles was 2.62 percent, however, 19 percent of the respondents had an interest rate of zero percent. 31 percent did not say what their interest rate was.

When asked about what factors they considered when purchasing their vehicle, 44 percent of respondents said that they factored the increasing cost of fuel into their purchasing decision. 35 percent considered maintenance costs increasing with time, and 25 percent considered increasing insurance costs. 65 percent of respondents said they have money set aside for repairs. Of those who have set aside money, $2700 is reported as the average amount. 30 percent said they have no money set aside for repairs.

In terms of length of vehicle ownership, 31 percent of respondents said they intend to keep their vehicle for nine years or more. When asked how long they had kept their last vehicle, however, only 25 percent said they had kept their vehicle for nine years or more. 19 percent said they had kept their last vehicle for only 3 years or less. On average, the respondents said they had spent about $22,000 purchasing their last vehicle.

Of those respondents who financed or leased a vehicle, 31 percent said the duration of their loan/lease was 49-60 months. 23 percent said their loan/lease was for 61 months or longer. Very significantly, when asked what they would recommend as the maximum time period to payback a loan on a vehicle, 82 percent recommended a maximum of five years or less. Only 11 percent recommended six years or more.

Our survey data suggested that consumers most often both took out loans for about five years, and recommended loans of five years or less. However, this does not conform to external data described elsewhere in this report which supports the notion that most car loans are now much longer. For example, in the data provided by J. D. Power & Associates, 69 percent of all new car loans in Canada are presently financed for six years (72 months) or even longer.[100]

Three important points can be made about the data given above:

Firstly, it seems that consumers know that they are presently taking on more debt than they would recommend to others, or more than they themselves would have liked to. But the reality is that longer term loans are the only option that their finances presently allow. They are a very unattractive choice, but the only one.

Secondly, not all consumers keep their cars for as long as they originally planned to. This important fact ties closely into the negative equity issue, for such consumers often then buy a new car and simply pile one debt onto another one. Alternatively, they might have had to sell a vehicle for significantly less than what they already owed. However, there is some evidence to support the notion that consumers keep their new vehicles for eight to nine years, and this evidence is widely referenced in the Canadian press.[101]

Thirdly, about one third of all consumers have no money at all set aside for repairs. This sometimes becomes a serious problem where, after a time, more and more money needs to be put into a vehicle which is growing ever older and in need of more and more repairs. Such expenses are added to the original cost of the loan.

[100] The discrepancy between the ACC data and the J.D. Power data is probably due to the fact that J.D. Power only considered new car purchases in 2013/2014, whereas the ACC considered both new and used car purchases over a longer period. This discrepancy in the data is unsurprising, however, as it does confirm the fact that long-term loans are constantly on the increase.
[101] Interview with DesRosiers

UNRESOLVED QUESTIONS FOR FUTURE RESEARCH

There are three points touched upon in this report, or mentioned by various stakeholders, which are of considerable potential importance, but which require further investigation of an empirical nature:

1) The question of whether the portion of a mortgage or refinanced mortgage used to purchase a car should be amortized over a period similar to what the average auto loan would be (that is, four to five years).

2) The question of whether responsible regulators should restrict the immediate use of vehicle immobilization devices and should prohibit ostensibly excessive surcharges and penalties imposed by lenders who recoup late payments in cases of temporary defaults.[102]

3) Where current law and regulation exists, as especially in the case of Quebec, the question of whether such rules should be more thoroughly enforced. For example, Quebec's Consumer Protection Act currently requires that an instalment sale financing contract apply only to goods sold on the same day as the financing started. However, according to one of the stakeholders consulted, this requirement is not thoroughly enforced. Empirical data should be collected on this subject.[103]

[102] Regarding prohibition of immobilizers and current practice in Quebec, see Appendix
[103] Regarding current enforcement of such regulations in Quebec, see *ibid*.

RECOMMENDATIONS

On the basis of extensive research of the question and the materials given above, the following recommendations can be made and the following actions taken:

1) The formation of a self-regulating council for private lenders. Potentially subsidized in part by the government but still separate from the government.
2) Responsible regulators should implement regulations regarding the use of a disclosure statement from dealerships to the vehicle purchasers that clearly states the expected growth of negative equity over the course of the loan.
3) Responsible regulators should implement regulations regarding the use of an amortization schedule from dealerships to the vehicle purchasers that clearly states the projected vehicle value during the life of the loan.[104]
4) Loan financiers should be required to note in their advertisements the maximum amount of interest they will charge on loans so as not to lure people in with a promise of low interest. The interest rate should be in a print-size and typeface equivalent to the lowest interest rate in the ad.
5) Repossessed and resold cars must be reported to a government body. Any repossessions and re-sales that happen more than twice on the same vehicle identification number should be investigated to discourage financiers from forcing defaults on loans.
6) Responsible regulators should adopt similar rules to housing loans such as income verification and minimum down payment requirements.
7) After consultation with experts, a limit should be established on how much negative equity can be taken on from a previously owned vehicle.
8) Stakeholders, including provincial regulators and dealerships, should increase public awareness of the pitfalls of taking out long-term or subprime loans through an extensive education campaign.

[104] For an example of an amortization schedule, see Appendix: “

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Legislation

Business Practices and Consumer Protection Act S.B.C. 2004

Motor Vehicle Dealers Act, 2002

Quebec Consumer Protection Act

RESEARCH TEAM

Shahram (Shari) Prymak

Shahram Prymak organized the research and composition of the report, conducted interviews with stakeholders and coordinated the project's operation. Mr. Prymak holds Bachelor degrees (BSc and BEd) from the University of Toronto and York University respectively, with Sociology as one of his majors in the former. In the last four years, he has published nearly a hundred articles on many aspects of the automobile industry. His work has appeared on automobile websites as well as in consumer oriented newsletters. As a working member of the Automobile Consumer Coalition, Mr. Prymak's experience as an automobile expert has also helped countless consumers with many aspects of automobile ownership. As well as working in print and on the internet, Mr. Prymak has hosted programs on both television and radio.

Mohamed Bouchama

Mr. Bouchama helped in the development of the report methodology and helped conduct interviews. Mr. Bouchama is Ontario's best-known automobile consumer advocate and is the founder and Executive Director of Automobile Consumer Coalition. For over two decades, he has had daily involvement in assisting vehicle buyers to find the lowest prices and has listened to and helped thousands of consumers with virtually every aspect of vehicle ownership. Mr. Bouchama has hosted automobile related programs on television and radio for fifteen years and has granted hundreds of media interviews during his career and has been featured in *The Toronto Star, The Globe and Mail,* and *The Toronto Sun*. Mr. Bouchama has also lobbied on behalf of vehicle consumers and advised governments at the federal and provincial levels.

George Iny

George Iny helped in the development of the report methodology and helped conduct interviews. Mr. Iny is the Director of the Automobile Protection Association. He is the principal author of over twenty reports on auto retailing and auto repairs, warranties and leasing. He has made representations on legislation to committees of the Quebec National Assembly, and has been interviewed as an expert on the auto industry by all of the major Canadian media. George is a member of the Consumer Protection Advisory Committee of OMVIC, the Ontario auto dealer regulator, and has spoken at a conference on auto fraud organized for Canadian regulators. Mr. Iny holds a law degree from McGill University.

Sasa Jurovicki

Sasa Jurovicki reviewed economic themes in the report. Mr. Jurovicki is a senior accountant at MNP LLP as well as the vice-treasurer for the Canadian-Croatian Chamber of Commerce. He holds an Honours Bachelor degree in Business Administration from York University and is currently completing his designation as a Chartered Professional Accountant. Mr. Jurovicki has many years of experience in consulting at the corporate and consumer level, and has written on various financial matters for the *Financial Post*. With experience in reviewing and assessing loan terms for clients, Mr. Jurovicki will provide insight into the interdependent nature of our findings and their impact on lenders, borrowers, industry, and government stakeholders.

Peter Silverman

Dr. Silverman (PhD, Toronto; Master of Arts, UBC) is one of the report consultants. Dr. Silverman is a Canadian television business journalist based in Toronto, Ontario. His journalism career began in 1974 as a reporter for Global Television Network; in 1981, he moved to CityTV, where he became a reporter for that station's CityPulse news program (now known as CityNews). He was host of *Silverman Helps*, an ombudsman-type feature for consumers between 1989 and 2008. In September 2008, Silverman joined Toronto radio station Newstalk 1010 to host a Saturday morning radio show called *The Peter Silverman Show*. He has also worked as an advertising executive entrepreneur and as a professor at the University of Toronto. Dr. Silverman won the Man of the Year Award from the Consumers' Choice Award for Business Excellence in 2006; he has also received awards from the Toronto chapter of Association of Certified Fraud Examiners, and has also been appointed to the Order of Ontario.

Thomas M. Prymak

Dr. Prymak (PhD, Toronto; BA, MA, Manitoba) is the report’s literary editor. Dr. Prymak, a historian, has been writing, editing, and publishing in various fields of the humanities for over twenty-five years. His personal bibliography includes four books and over 125 articles published in various peer-reviewed journals, as well as in magazines and newspapers. Three of his books were published by the country’s most prestigious academic publisher, the University of Toronto Press.

Besides working in print, Dr. Prymak has experience in both television and radio. As early as the 1970s, he produced and hosted a program on non-profit community TV in Winnipeg, Manitoba. He has occasionally been interviewed on both TV and radio regarding issues of public interest.

Atif A. Kubursi

Atif Kubursi is the report methodologist. Dr. Kubursi is Emeritus Professor of Economics and also taught in the elite Arts and Science Programme at McMaster University. Dr. Kubursi taught economics at Purdue University in Indiana, USA, was Senior Academic Visitor at Cambridge University, UK in 1974/75 and a Fellow of the Middle East Policy Institute at Harvard University between 1989 and 1998.

He also served as the Acting Executive Secretary, and Undersecretary General, of the United Nations Economic and Social Commission for Western Asia in 2006, 2007 and 2008, and as Senior Development Officer at UNIDO in Vienna in 1982. He is the recipient of the Canadian Centennial Medal. Dr. Kubursi has published over 250 articles, 12 books, and many technical reports and is a frequent TV commentator on Canadian economic issues and Middle Eastern Affairs.

APPENDICES

APPENDIX A:

STAKEHOLDER CONTACT LIST

Ontario Motor Vehicle Industry Council (OMVIC)
http://www.omvic.on.ca/
Michael Rothe

Motor Vehicles Sales Authority of B.C. (VSA)
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Kevin Bavelaar, Owner

Ready Honda
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Erin Mills Mitsubishi
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Mr. Kenichiro Yamamoto, President and CEO, and Mr. Takayuki Yatabe, Senior Vice President

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Dennis DesRosiers

APPENDIX B:

SAMPLE AMMORTIZATION SCHEDULE[105]

Car Loan (2014 Mazda 6)

Interest
Rate: 3.99%
Amount of Payment: $461.12 Monthly
Amount of Loan: $29,482.00 (includes MSRP, freight/PDI, and taxes)
Amortization Period: 72 Months

Date	Payment	Interest	Principal	Balance	MSRP/Value	Depreciation	Equity
Opening - 31-Dec-2014	0.00	0.00	0.00	29,482.00	24,495.00	0.00	- 4,987.00
31-Jan-15	461.12	98.03	363.09	29,118.91			
28-Feb-15	461.12	96.82	364.30	28,754.61			
31-Mar-15	461.12	95.61	365.51	28,389.10			
30-Apr-15	461.12	94.39	366.73	28,022.37			
31-May-15	461.12	93.17	367.95	27,654.42			
30-Jun-15	461.12	91.95	369.17	27,285.25			
31-Jul-15	461.12	90.72	370.40	26,914.85			
31-Aug-15	461.12	89.49	371.63	26,543.22			
30-Sep-15	461.12	88.26	372.86	26,170.36			
31-Oct-15	461.12	87.02	374.10	25,796.26			
30-Nov-15	461.12	85.77	375.35	25,420.91			
31-Dec-15	461.12	84.52	376.60	25,044.31			
1 Year SUBTOTALS	**5,533.44**	**1,095.75**	**4,437.69**	**25,044.31**	**17,146.50**	**7,348.50**	**- 7,897.81**
31-Jan-16	461.12	83.27	377.85	24,666.46			
29-Feb-16	461.12	82.02	379.10	24,287.36			
31-Mar-16	461.12	80.76	380.36	23,907.00			
30-Apr-16	461.12	79.49	381.63	23,525.37			
31-May-16	461.12	78.22	382.90	23,142.47			
30-Jun-16	461.12	76.95	384.17	22,758.30			
31-Jul-16	461.12	75.67	385.45	22,372.85			

[105] The ACC would like to thank Sasa Jurovicki of MNP LLP for producing the amortization schedule sample.

31-Aug-16	461.12	74.39	386.73	21,986.12			
30-Sep-16	461.12	73.10	388.02	21,598.10			
31-Oct-16	461.12	71.81	389.31	21,208.79			
30-Nov-16	461.12	70.52	390.60	20,818.19			
31-Dec-16	461.12	69.22	391.90	20,426.29			
2 Year SUBTOTALS	**5,533.44**	**915.42**	**4,618.02**	**20,426.29**	**13,717.20**	**3,429.30**	**- 6,709.09**
31-Jan-17	461.12	67.92	393.20	20,033.09			
28-Feb-17	461.12	66.61	394.51	19,638.58			
31-Mar-17	461.12	65.30	395.82	19,242.76			
30-Apr-17	461.12	63.98	397.14	18,845.62			
31-May-17	461.12	62.66	398.46	18,447.16			
30-Jun-17	461.12	61.34	399.78	18,047.38			
31-Jul-17	461.12	60.01	401.11	17,646.27			
31-Aug-17	461.12	58.67	402.45	17,243.82			
30-Sep-17	461.12	57.34	403.78	16,840.04			
31-Oct-17	461.12	55.99	405.13	16,434.91			
30-Nov-17	461.12	54.65	406.47	16,028.44			
31-Dec-17	461.12	53.29	407.83	15,620.61			
3 Year SUBTOTALS	**5,533.44**	**727.76**	**4,805.68**	**15,620.61**	**10,973.76**	**2,743.44**	**- 4,646.85**
31-Jan-18	461.12	51.94	409.18	15,211.43			
28-Feb-18	461.12	50.58	410.54	14,800.89			
31-Mar-18	461.12	49.21	411.91	14,388.98			
30-Apr-18	461.12	47.84	413.28	13,975.70			
31-May-18	461.12	46.47	414.65	13,561.05			
30-Jun-18	461.12	45.09	416.03	13,145.02			
31-Jul-18	461.12	43.71	417.41	12,727.61			
31-Aug-18	461.12	42.32	418.80	12,308.81			
30-Sep-18	461.12	40.93	420.19	11,888.62			
31-Oct-18	461.12	39.53	421.59	11,467.03			
30-Nov-18	461.12	38.13	422.99	11,044.04			
31-Dec-18	461.12	36.72	424.40	10,619.64			
4 Year SUBTOTALS	**5,533.44**	**532.47**	**5,000.97**	**10,619.64**	**8,779.01**	**2,194.75**	**- 1,840.63**
31-Jan-19	461.12	35.31	425.81	10,193.83			
28-Feb-19	461.12	33.89	427.23	9,766.60			

31-Mar-19	461.12	32.47	428.65	9,337.95			
30-Apr-19	461.12	31.05	430.07	8,907.88			
31-May-19	461.12	29.62	431.50	8,476.38			
30-Jun-19	461.12	28.18	432.94	8,043.44			
31-Jul-19	461.12	26.74	434.38	7,609.06			
31-Aug-19	461.12	25.30	435.82	7,173.24			
30-Sep-19	461.12	23.85	437.27	6,735.97			
31-Oct-19	461.12	22.40	438.72	6,297.25			
30-Nov-19	461.12	20.94	440.18	5,857.07			
31-Dec-19	461.12	19.47	441.65	5,415.42			
5 Year SUBTOTALS	**5,533.44**	**329.22**	**5,204.22**	**5,415.42**	**7,023.21**	**1,755.80**	**1,607.79**
31-Jan-20	461.12	18.01	443.11	4,972.31			
29-Feb-20	461.12	16.53	444.59	4,527.72			
31-Mar-20	461.12	15.05	446.07	4,081.65			
30-Apr-20	461.12	13.57	447.55	3,634.10			
31-May-20	461.12	12.08	449.04	3,185.06			
30-Jun-20	461.12	10.59	450.53	2,734.53			
31-Jul-20	461.12	9.09	452.03	2,282.50			
31-Aug-20	461.12	7.59	453.53	1,828.97			
30-Sep-20	461.12	6.08	455.04	1,373.93			
31-Oct-20	461.12	4.57	456.55	917.38			
30-Nov-20	461.12	3.05	458.07	459.31			
31-Dec-20	460.84	1.53	459.31	0.00			
6 Year SUBTOTALS	**5,533.16**	**117.74**	**5,415.42**	**0.00**	**5,618.57**	**1,404.64**	**5,618.57**
TOTALS	**33,200.36**	**3,718.36**	**29,482.00**				

APPENDIX C:

CONSUMER SURVEY QUESTIONNAIRE

Q1
Do you currently own or lease a vehicle?

Yes, I own/lease a vehicle on my own
Yes, I own/lease a vehicle with someone else
No

[TERMINATE IF NO]

[SINGLE CHOICE BUTTONS]
Q2
If a friend or family member were buying a vehicle, what would you recommend as the maximum time period for them to payback a loan on a vehicle?

3 years or less
4 years
5 years
6 years
7 years
8 years
9 years or more
Don`t know

[SINGLE CHOICE BUTTONS]
Q3
If you have more than one vehicle, please think about your primary vehicle for the rest of the survey.

Did you buy the vehicle you own from a dealership or was it a private sale?

[ROTATE]
From a dealership
Private sale
Not sure [ANCHOR]

[SINGLE CHOICE BUTTONS]

Q4
Was it a new or used vehicle at the time you acquired it?

[ROTATE]
New
Used

[SINGLE CHOICE BUTTONS]
Q5
How long do you intend to keep your current vehicle? Please include all years from when your first acquired it to when you will no longer own it.

3 years or less
4 years
5 years
6 years
7 years
8 years
9 years or more
Don`t know

[SINGLE CHOICE]
Q6
How did you pay for the vehicle?

[RANDOMIZE]
Cash purchase
Lease
Financing through the dealership [NOT SHOWN IF PRIVATE SALE]
Personal loan or line of credit
Other [SPECIFY, ANCHOR]
Someone else paid for it [ANCHOR]
Not applicable – My vehicle was not paid for (e.g., hand-me-down, trade-in, etc.) [ANCHOR]

[IF FINANCING ASK Q7]

[MULTI CHOICE BUTTONS] – SELECT UP TO THREE
Q7
You previously stated that you are financing your vehicle. Why did you decide to finance your vehicle? Please select the up three main reasons why you decided to finance.

[RANDOMIZE]

Advertising
Dealer recommended
Low payments
Low interest rate
Family member/friend told me to
I couldn’t pay for the vehicle any other way (e.g., I did not have enough cash/could not qualify for a loan)
Other [SPECIFY, ANCHOR]

[IF NOT SOMEONE ELSE OR NA IN Q6 ASK Q8]

[MULTI CHOICE BUTTONS]
Q8
When deciding to buy your vehicle, did you factor in any of the following scenarios?

[RANDOMIZE]
The increasing cost of fuel
Maintenance costs increasing over time
Insurance costs increasing
Being out of work
Increased housing costs (mortgage rate, rent, etc.)
None of the above [ANCHOR, EXCLUSIVE]

[ASK ALL]

[SINGLE CHOICE BUTTONS]
Q9
Do you have money set aside or available for have a major breakdown or accident (i.e., any expenses that are not covered by insurance, like deductibles, etc.)?
(If you do not have a warranty, have you set money aside for emergency repairs?)

Yes
No
Not applicable/Don’t know

[IF YES ASK Q10]

[OPEN NUMERIC]
Q10
If your vehicle needed major repairs, approximately how much could you afford?

$_____ [MIN: $100 and MAX: $10,000]
Prefer not to say [EXCLUSIVE]

[IF NOT SOMEONE ELSE OR NA IN Q6 ASK Q11]

[OPEN NUMERIC]
Q11
Approximately, how much did you pay for your vehicle excluding taxes? Please be assured all information will be kept confidential.

$______ [MIN: $2000 and MAX: $80,000]
Prefer not to say [EXCLUSIVE]

[IF LEASING, FINANCING, OR THROUGH LOAN IN Q6 ASK Q12-Q15]

[SINGLE CHOICE BUTTONS]
Q12
What is the duration of the lease or loan on your vehicle?

36 months or less/3 years or less
37-48 month / More than 3 years to 4 years
49-60 months / More than 4 years to 5 years
61-72 months / More than 5 years to 6 years
73-84 months / More than 6 years to 7 years
85-96 months / More than 7 years to 8 years
97 or more / More than 8 years
There is no fixed duration on my lease/loan

[SINGLE CHOICE BUTTONS]
Q13
What is your payment period?

Monthly
Bi-weekly
Weekly
Other [SPECIFY]

[OPEN NUMERIC]
Q14
Approximately, how much is your [INSERT Q13] payment?

$________ [MIN: $20 and MAX: $5000]
Prefer not to say [EXCLUSIVE]

[OPEN NUMERIC]
Q15
What is your interest rate (APR)?

______% [NO MIN and MAX: 10.00]
Prefer not to say [EXCLUSIVE]

[ASK ALL]

[SINGLE CHOICE BUTTONS]
Q16
Finally, how long did you keep your last vehicle?

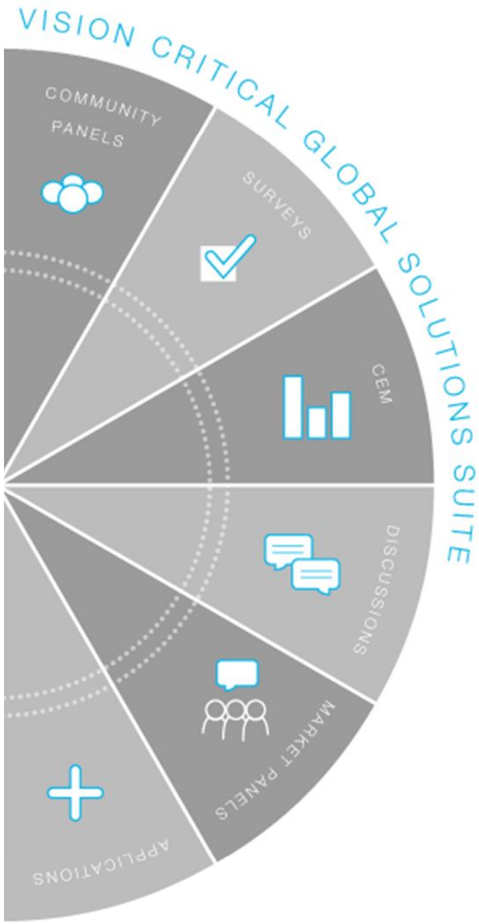
3 years or less
4 years
5 years
6 years
7 years
8 years
9 years or more
Don`t know
Not applicable – This is my first vehicle

APPENDIX D:

CONSUMER SURVEY RESULTS

VISIONCRITICAL

CAR HELP CANADA.com



Summary Report for Canadian Car Owners Survey

July, 2014

Prepared for: Car Help Canada
Prepared by: Vision Critical

Methodology and Objective

From July 7th to 9th, 2014, an online survey was conducted among 1,016 randomly selected Canadian adults age 18+, who own or lease a car and are Angus Reid Forum panelists. The margin of error—which measures sampling variability—is +/- 3.1%, 19 times out of 20. The results have been statistically weighted according to age, gender and region Census data to ensure a representative sample. Discrepancies in or between totals are due to rounding.

The key objective is to determine the purchase behaviours of Canadian car owners and if they factor in additional vehicle costs.

*Note: For the purpose of this report, those who were surveyed will be referred to as car owners.

Differences between the respondent groups that are significant at a 95% confidence interval are highlighted using a red circle to show values that are significantly higher than those with a green square.

Key Findings

Financing is how most owners paid for their vehicle.

- Thirty-seven per cent of car owners financed their vehicle through a dealership, while one-third (33%) paid in cash. Only 16 per cent used a line of credit.
  - Low interest rates are very attractive to car purchasers. Almost two-thirds (63%) of those who financed say it is because of the low interest rate. However, some have no other alternatives. One-third (32%) of those who financed say they couldn't pay for their vehicle any other way.
  - Furthermore, one-in-five (19%) have a 0 per cent A.P.R. which is more affordable and attractive to purchasers.

Most have a lease/loan lasting four to five years.

- Of those with a lease/loan, 31 per cent say it is for more than four but up to five years in duration. Moreover, 45 per cent of these car owners recommend a maximum of a 5 year car loan/lease to family and friends.
- However, one-in-five (21%) kept their last vehicle for three years or less.

None of the additional costs listed are considered by four-in-ten car purchasers.

- Forty-one per cent of car purchasers claim they did not consider any of the factors listed (losing their job, housing cost increases, fuel, maintenance, and insurance cost increases) when purchasing their vehicle.
  - The most popular factor to consider was fuel increases (44%). However, only one-in-ten factored in housing cost increases (11%) or being out of work (10%).

One-third have not set aside money for repairs.

- Sixty-five per cent of car owners say they have set money aside for emergency repairs. Of those who have set aside money, one-quarter (25%) only have $1000 or less available for these repairs.

Vehicle Attributes

VISIONCRITICAL®

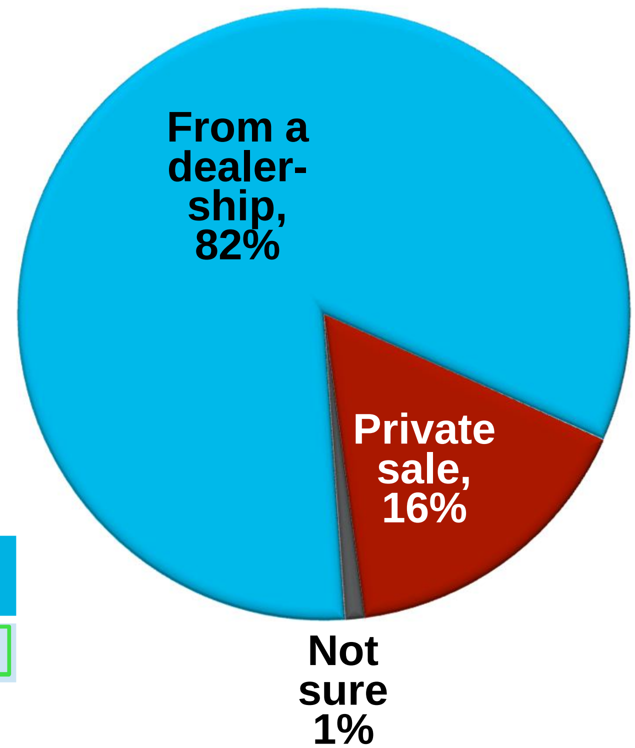
Type of Vehicle Purchased

Over half of Canadian car owners currently have a new vehicle. However, used cars are popular among those 18-34 years old as about half have a used car. This is significantly higher than older car owners. Regardless of the car new or used, eight-in-ten owners bought their vehicle from a dealership.

Type Purchased

18-34	35-54	55+
51%	41%	34%

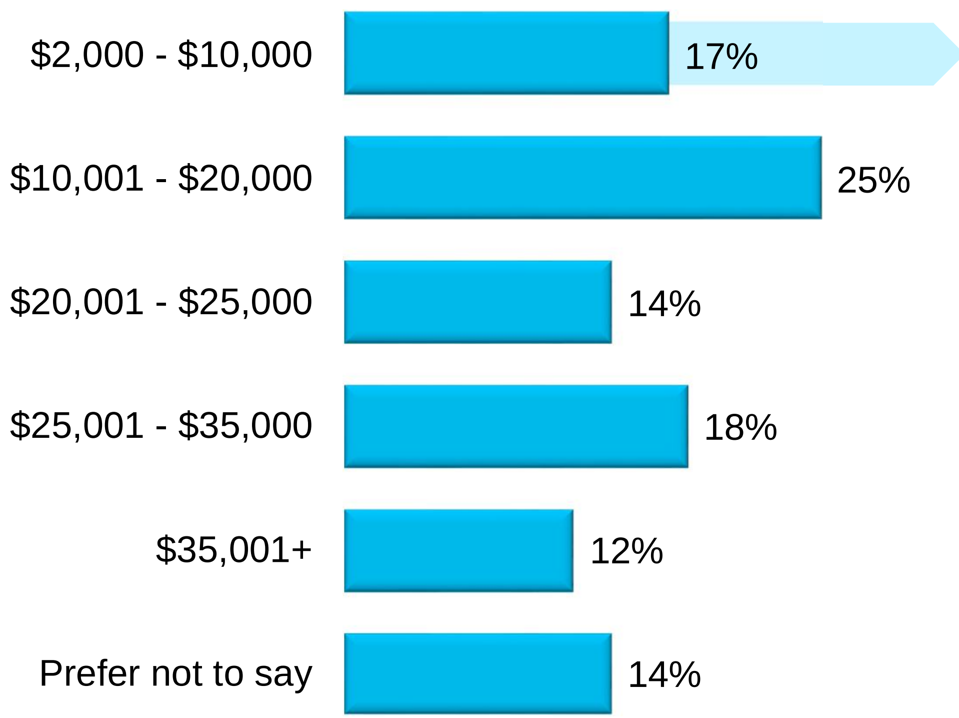
Location Purchased From



Base: All Respondents (n=1016)
Q3 Did you buy the vehicle you own from a dealership or was it a private sale?
Q4 Was it a new or used vehicle at the time you acquired it?

Vehicle Purchase Price

On average, vehicle purchasers spent about $22,000 on their last vehicle before tax. Younger purchasers spent less on their last vehicle purchase, as 27 per cent spent between $2000 - $10,000 compared to 15 per cent of those 35-54 and 12 per cent of those 55+ spending the same.



18-34	35-54	55+
27%	15%	12%

Mean: $22,586

Base: Respondents who purchased their vehicle (n=982)
Q11 Approximately, how much did you pay for your vehicle excluding taxes?

Vehicle Payment Method

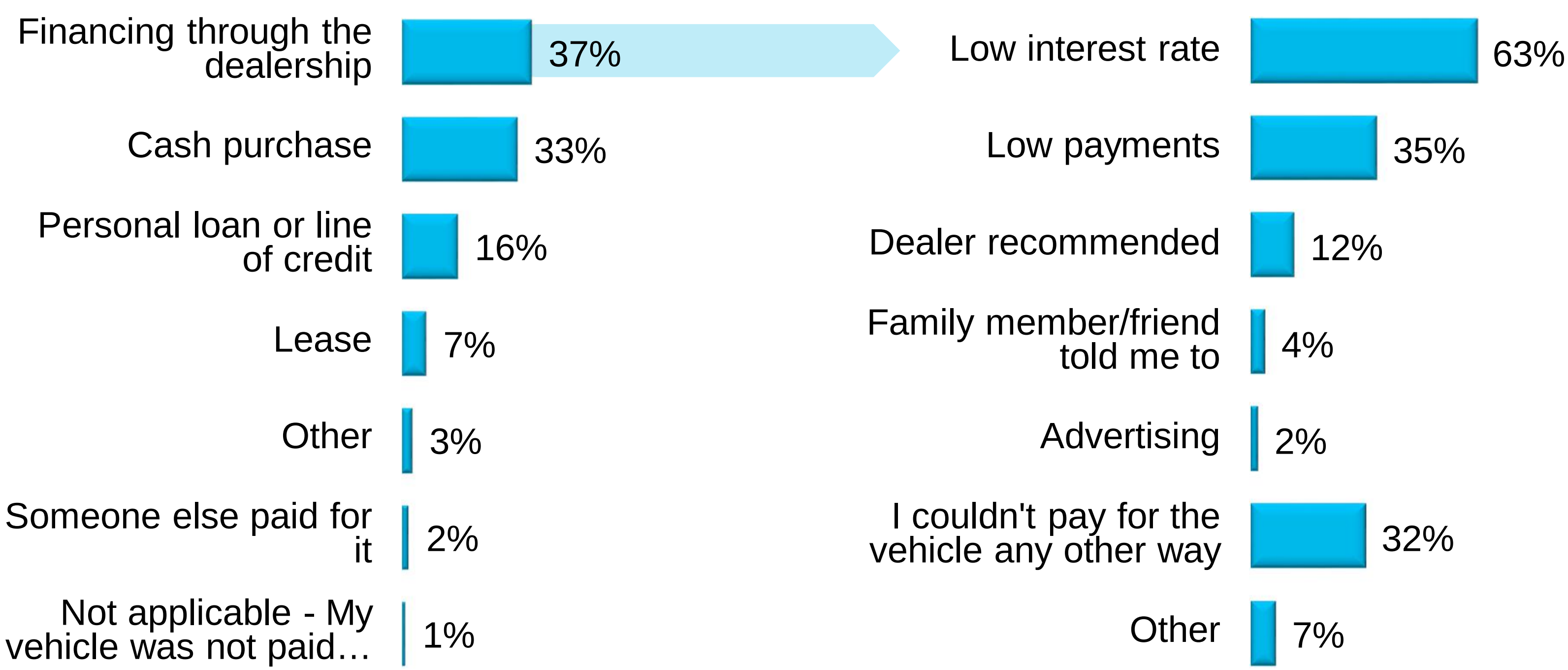
Financing is the most popular method of payment for vehicle purchasers followed by a cash purchase. Less than one-in-five used a personal loan/line of credit or leased the vehicle. Financing and using lines of credit are particularly favoured methods of payment among middle aged car owners:

	18-34	35-54	55+
Financing	39%	41%	32%
Personal loan	12%	19%	16%

Of those who financed their vehicle, the majority say it is because of the low interest rate. This following by one-third citing the low payments or that they couldn't pay for the vehicle any other way.

Payment Method

Reason for Financing



Base: All Respondents (n=1016)
Q6 How did you pay for the vehicle?
Base: Respondents who financed their vehicle (n=379)
Q7 Why did you decide to finance your vehicle?

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Vehicle Lease/Loans

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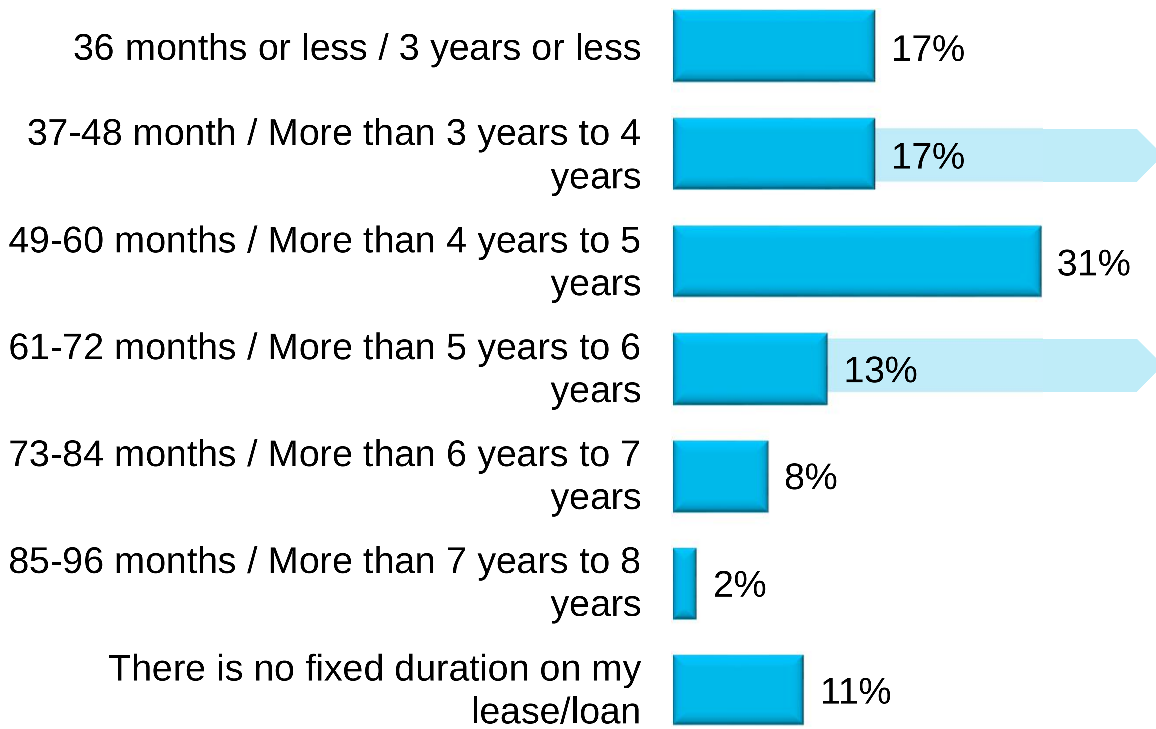
Duration of Vehicle Lease/Loan

49 to 60 months is the most popular duration for vehicle leases or loans. Three-in-ten Canadians who have a lease/loan on their vehicle say it is for 49-60 months. Shorter leases/loans are significantly less popular among those aged 18-34, while those aged 55+ are significantly less likely to prefer longer leases/loans.



18-34	35-54	55+
10%	18%	21%
-	-	-
20%	14%	8%

Base: Respondents who have a lease, loan or are financing their vehicle (n=620)
Q12 What is the duration of the lease or loan on your vehicle?

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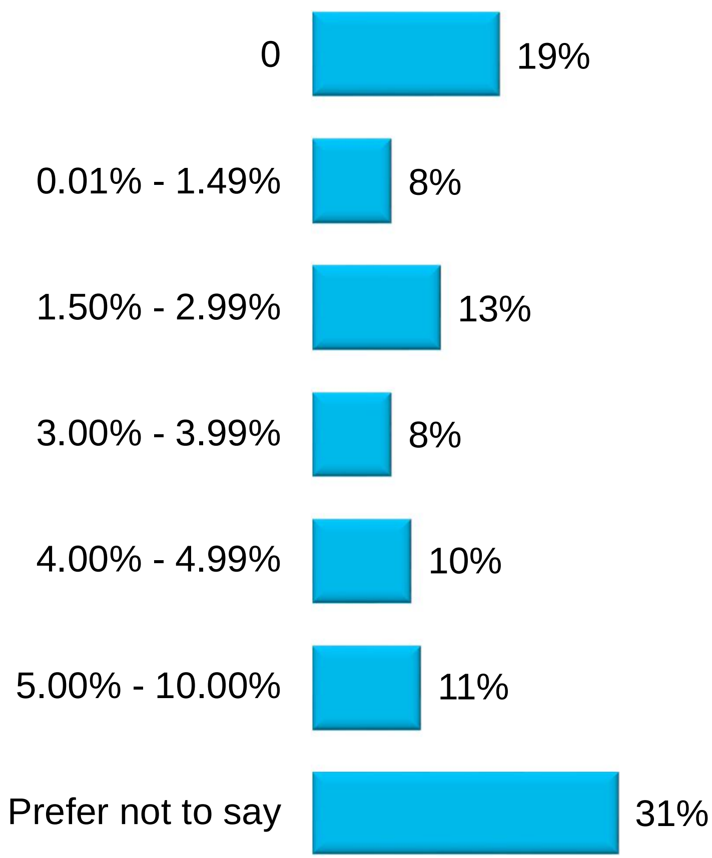
APR for Vehicle Lease/Loan

Of those with a lease or loan, their A.P.R. on average is 2.62 per cent. However, one-in-five have a 0 per cent A.P.R.



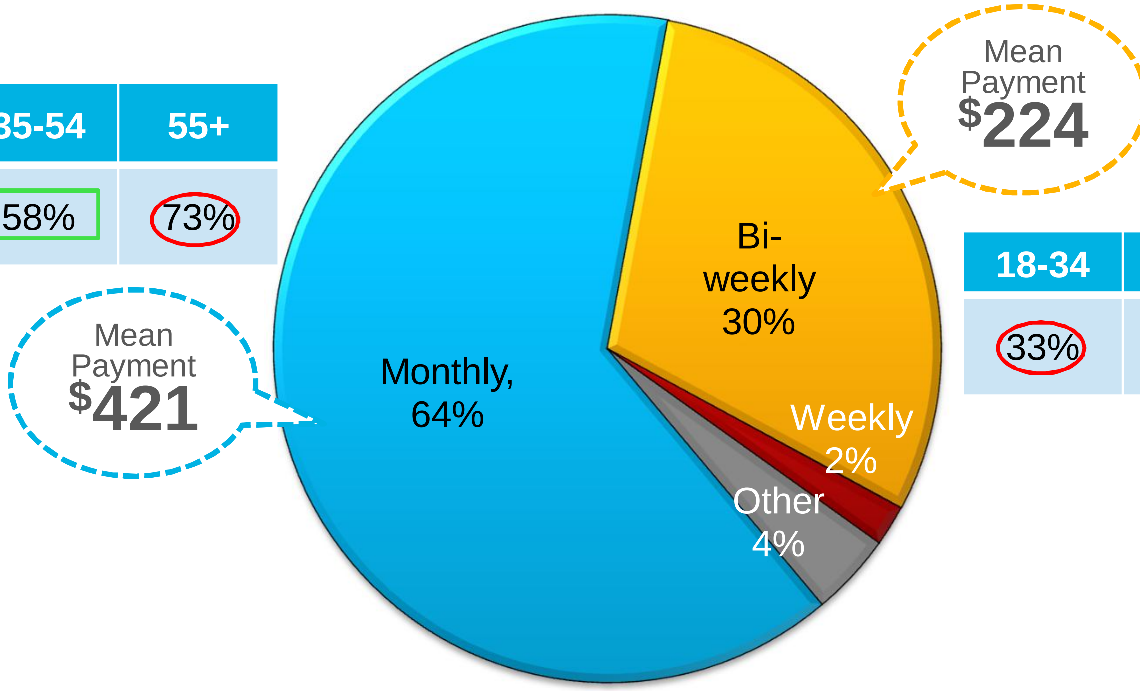
Mean A.P.R. 2.62%

Base: Respondents who have a lease, loan or are financing their vehicle (n=620)
Q15 What is your interest rate (APR)?

Payment Period of Vehicle Lease/Loan

Of those with a vehicle lease/loan, two-thirds have a monthly payment period while three-in-ten have a bi-weekly payment period. Monthly payment periods are significantly more popular among those 55+, while those under the age of 55 significantly prefer bi-weekly payments.

18-34	35-54	55+
61%	58%	73%



18-34	35-54	55+
33%	35%	21%

Base: Respondents who have a lease, loan or are financing their vehicle (n=620)
Q13 What is your payment period?
Q14 Approximately, how much is your [INSERT Q13] payment?

Additional Vehicle Costs

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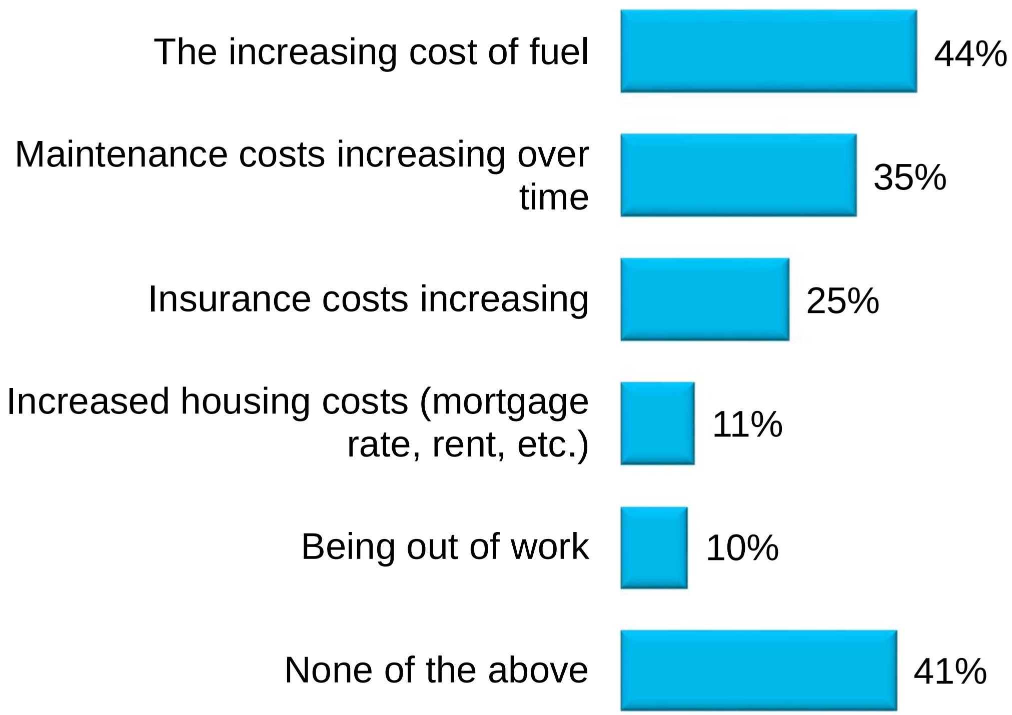
Considerations When Purchasing Your Vehicle

The increasing cost of fuel is the scenario considered by most, as about four-in-ten factored this into their purchase decision. However, the same amount of owners surveyed did not consider any of the scenarios below. Younger car buyers are the most likely to consider any of these scenarios, and in most cases are significantly more likely to consider them than those 55+.



	18-34	35-54	55+
The increasing cost of fuel	52%	44%	39%
Maintenance costs increasing over time	45%	32%	31%
Insurance costs increasing	39%	21%	21%
Increased housing costs (mortgage rate, rent, etc.)	15%	12%	9%
Being out of work	12%	11%	8%
None of the above	29%	41%	50%

Base: Respondents who purchased their vehicle (n=982)
Q8 When deciding to buy your vehicle, did you factor in any of the following scenarios?

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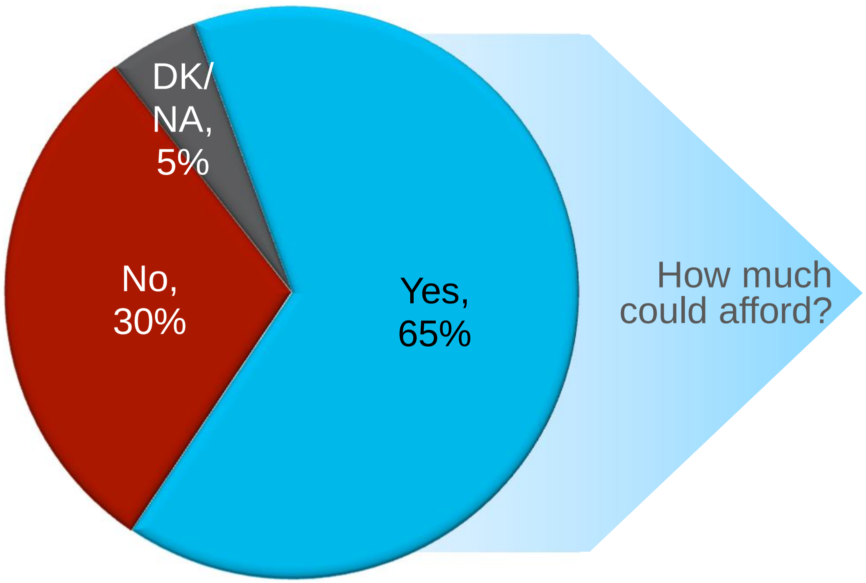
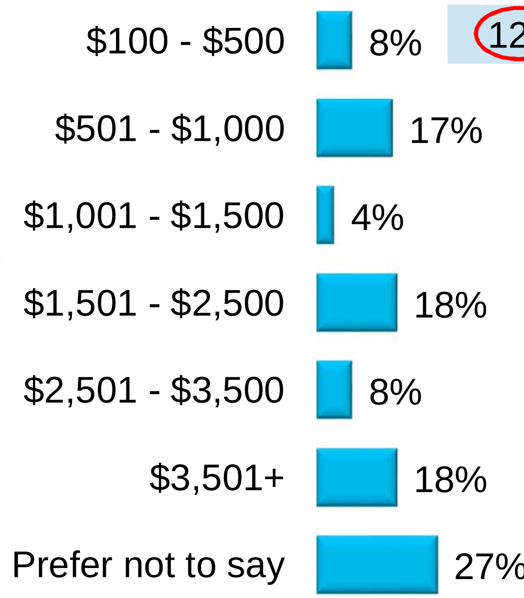
Vehicle Repairs

Even though 41 per cent didn't consider any of the scenarios listed, two-thirds of car owners say they have money set aside for repairs. This increases to three-quarters among those 55+. Of those who have set aside money, they have set aside about $2700 on average. Younger savers have the least amount set aside as 12 per cent have $500 or less for repairs compared to 5 per cent of those 55+ saying the same.

Have $ Set Aside for Repairs



18-34	35-54	55+
59%	59%	75%



18-34	35-54	55+
12%	8%	5%

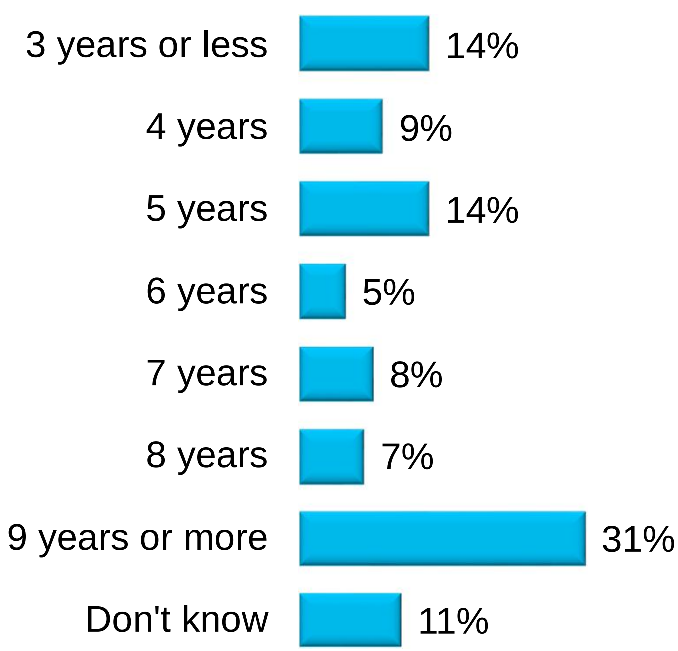
Mean: $2,750

Base: All Respondents (n=1016)
Q9 Do you have money set aside or available for a major breakdown or accident (i.e., any expenses that are not covered by insurance, like deductibles, etc.)?
Base: Respondents who have set money aside for repairs (n=660)
Q10 If your vehicle needed major repairs, approximately how much could you afford?

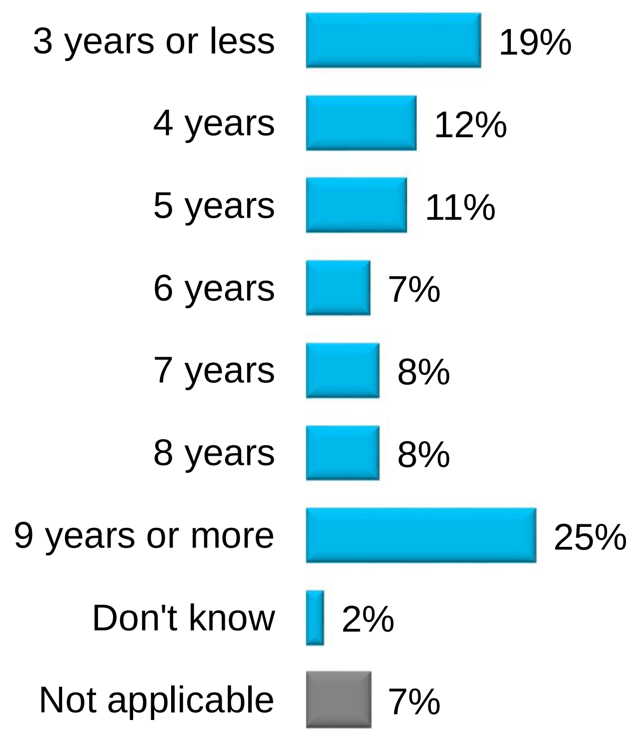
Length of Vehicle Ownership

One-quarter of car owners kept their last vehicle for 9 years or more, and about three-in-ten say they intend to keep their current vehicle for 9 years or more. At the other end of the spectrum, one-in-five say they kept their last vehicle for 3 years or less and 14 per cent say they intend to keep their current vehicle for 3 years or less. This is consistent with those who lease/loan a vehicle - 21% kept their last vehicle for 3 years or less and 12 per cent plan to keep their current vehicle for 3 years or less. Younger car owners kept their last vehicle for a shorter period of time as one-quarter kept it for 3 years or less compared to less than one-in-five of those aged 35+.

Intend to Keep Current Vehicle



Kept Last Vehicle



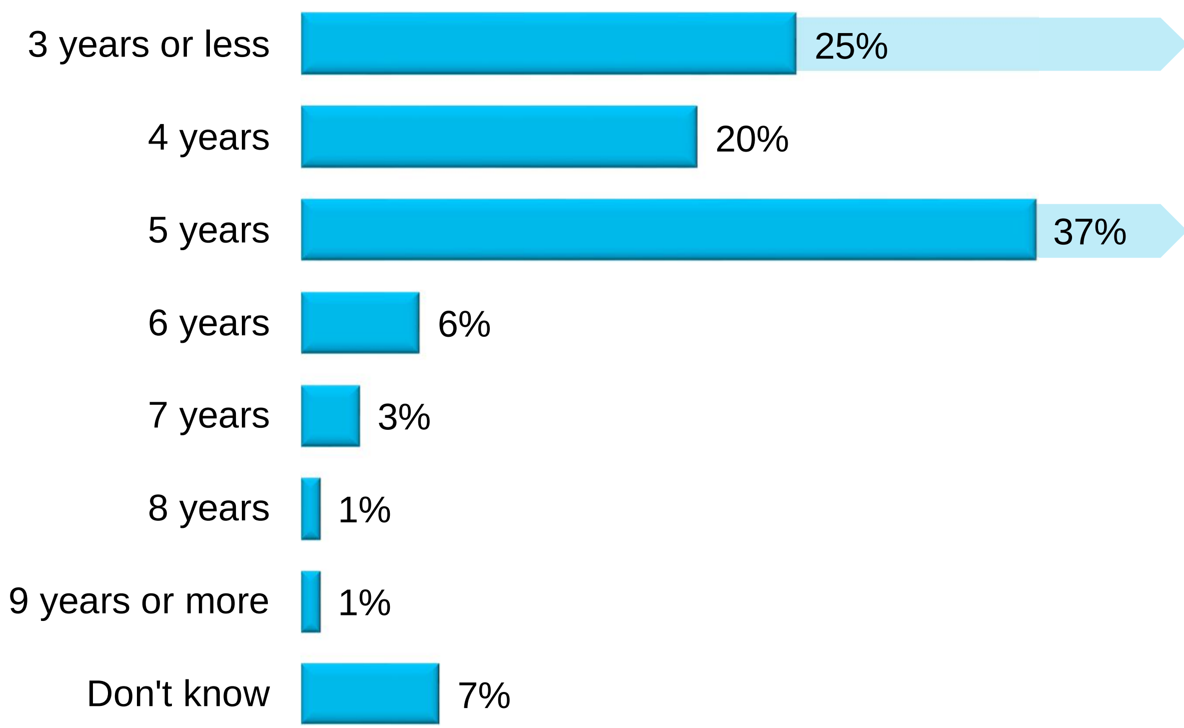
18-34	35-54	55+
26%	18%	16%

18-34	35-54	55+
10%	27%	33%

Base: All Respondents (n=1016)
Q5 How long do you intend to keep your current vehicle?
Q16 Finally, how long did you keep your last vehicle?

Recommended Maximum Car Loan Period

Most car owners recommend a maximum loan period of 5 years. This is followed by one-quarter recommending 3 years or less. Five year car loans are recommended by almost half (45%) of those with a lease/loan. Those aged 54 or younger are significantly more likely to recommend a car loan period of five years than those aged 55+. Conversely, older car owners are more likely to recommend a car loan period of 3 years or less than those middle aged or younger.



18-34	35-54	55+
26%	21%	30%
-	-	-
40%	42%	29%

Base: All Respondents (n=1016)
Q2 If a friend or family member were buying a vehicle, what would you recommend as the maximum time period for them to payback a loan on a vehicle?

Respondent Profile

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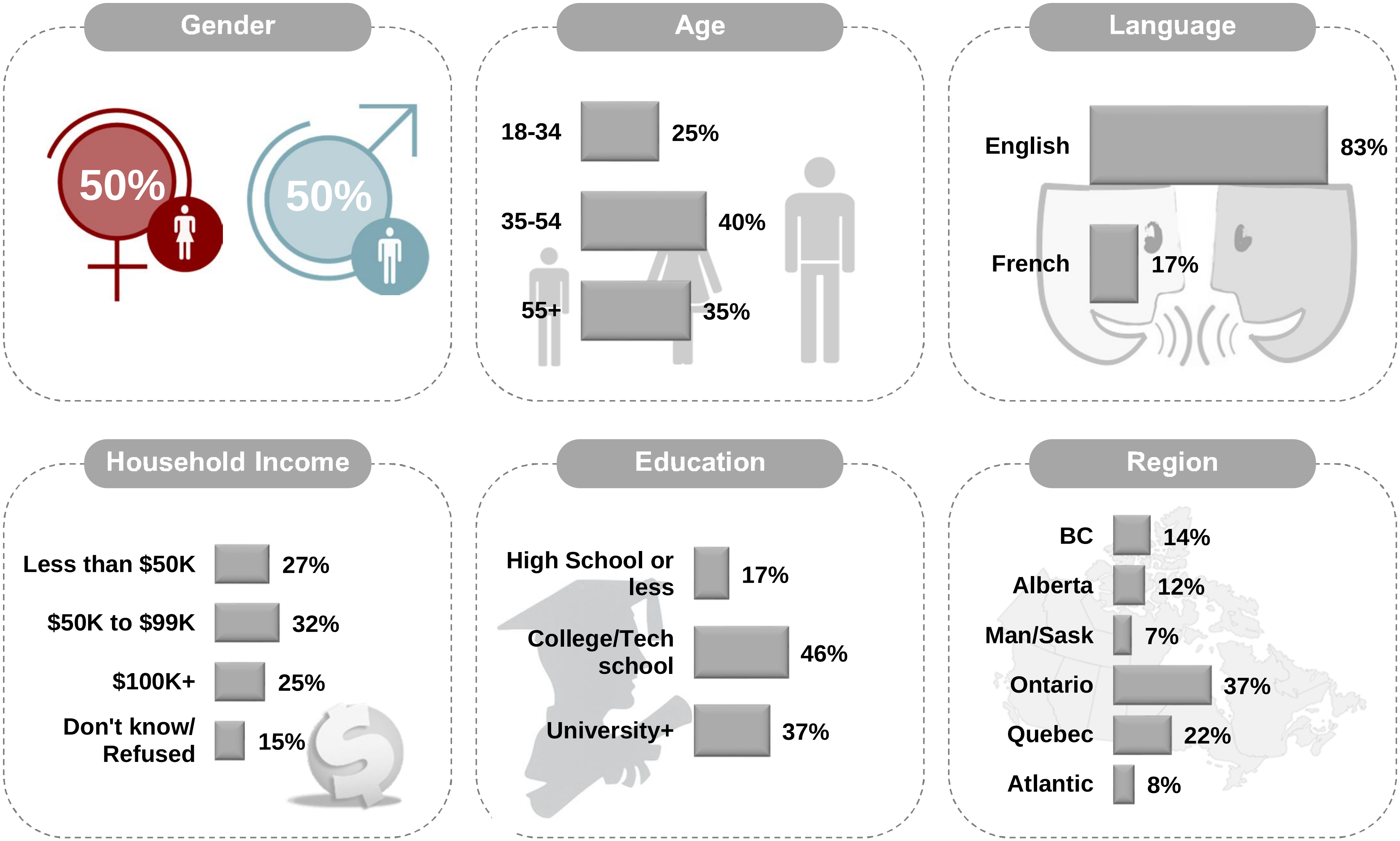
Respondent Profile



Base: All Respondents (n=1016)

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