Volume 115, No. 5 March 12, 2018

Auto loan amounts reach record even as interest rates on the rise

Despite rising interest rates, Americans are borrowing more than ever to buy new and used vehicles.

Analysis of auto loans in 2017's fourth quarter by Experian shows the average new-vehicle loan hit a record high $31,099, while the average loan for a used auto climbed to a record $19,589.

"I think we're certainly at a point where affordability is a question," said Experian's Melinda Zabritski. "When you look at how much income you need to support that payment, it certainly is higher than your average individual income."

In 2017's fourth quarter, the average monthly payment for a new vehicle hit an all-time high of $515, while the average used-auto loan payment hit a record of $371 per month.

The jump in payments and loans extends the trend of consumers paying more and taking longer to pay for the cars and trucks they're buying. On average, Americans are extending new-car loans over 69 months, according to Experian. The report shows the average used-vehicle loan has a term of just over 64 months.

See **Lending,** Page 2

Auto analysts: Industry is healthy enough to withstand next downturn

2017 was yet another good year for the U.S. auto industry. Overall, 17.2 million vehicles were sold last year — one of its five all-time best sales years — and profits were high.

But automakers aren't rejoicing, as sales declined about 2 percent after reaching a record in 2016. And, despite a good economy, analysts predict another drop this year.

"I can tell you (we're) coming off a plateau in the last couple of years, for sure," said Mark Scarpelli, chairman of the National Automobile Dealers Association.

Scarpelli, a Chevrolet and Kia retailer in Antioch, said normally he'd be worried about a forecast for slowing sales. But, he says, the industry is much healthier now than anytime he's seen it.

"They don't have large inventories parked in storage lots like they used to," Scarpelli said. He points to leaner plants, better-quality vehicles, and the cutting of labor and marketing costs as signs of an improved industry.

And that goes for dealers too, Scarpelli said. "We have made sure that we keep our budgets in line — marketing,

See **Healthy**, Page 4

International nameplate dealers: Tariffs will result in trade war

Citing a "big trade imbalance," President Donald Trump on March 8 imposed a 25 percent tariff on steel imports and a 10 percent tariff for aluminum. He exempted Canada and Mexico for now, backtracking from earlier pledges of tariffs on all countries.

But the American International Automobile Dealers Association points out that such a tax already exists, a relic from a trade war fought in the 1950s.

Consumers already absorb a 2.5 percent tariff on cars and a whopping 25 percent tariff on light trucks imported into the U.S., the AIADA said in a March 5 news release.

"More tariffs won't help American businesses or families," said AIADA President and CEO Cody Lusk. "Tariffs are taxes, and the result will be more expensive vehicles — effectively erasing any positive change Americans saw from the late 2017 tax reform bill. Auto sales, which are already slowing, will be hamstrung by these tariffs.

"America's 2,500 European branded

See **Tariffs**, Page 2

China's GAC Motor prepares to exhibit at this month's NADA Show

Dealer partnerships sought to sell in U.S.

GAC Motor, China's fastest-growing automaker, is among 550 companies exhibiting at the 2018 NADA Show (formerly the NADA Convention & Expo), March 22-25 in Las Vegas.

GAC plans to enter the U.S. market in the fourth quarter of 2019.

"We hope we can lay a solid foundation for the future sales network through seeking potential partners and hearing advice from friendly and effective communications with experienced dealers," said Yu Jun, president of GAC Motor, commenting on what the automaker hopes to accomplish at the National Automobile Dealers Association event.

GAC plans to display three to five premium models, including the 7-seat midsize GS8 and the minivan GM8, Jun said.

"The first model to enter the U.S. market is expected to be the changed GS8 model," Jun said. "GAC Motor is planning to bring more products to the U.S. market in view of the market conditions and consumers' preference in the future."

In terms of selecting the number of dealerships and its sales channels, Jun said the automaker still is conducting surveys and developing its action plans.

"We are considering various plans for sales channels, and cooperating with dealers will be a main direction," he added. "We are seeking to develop partnerships with more dealers at NADA Show."

"We also believe products with high quality are the foundation to gain the trust of the American market," Jun added. "GAC Motor is well prepared to embrace the challenges on our way to the U.S. market, which might come from aspects such as quality, technology and R&D."

The other automakers exhibiting at the NADA Show are Fiat Chrysler Automobiles, Ford Motor Co., General Motors Co., Mitsubishi Motors North America, Subaru of America and Toyota Motor Sales, U.S.A.

Lending

Continued from Page 1

Among the study's highlights:

- The average new-vehicle loan hit a record high $31,099, Experian said.
- For used autos, the average loan rose to a record of $19,589.
- In the fourth quarter, the average monthly payment for a new vehicle hit an all-time high of $515.
- The average used-auto loan payment was $371 a month, also a record.

Consumers are stretching out their loans because prices paid for new vehicles has climbed more than 10 percent over the last five years. The average price paid for a new vehicle in 2017 was an all-time high of $35,176, according to Edmunds.com. That price is up from $33,532 in 2015 and $31,773 in 2013.

One reason people are spending more is because they are buying more trucks and SUVs, which are sold at higher price points. Another factor, especially in the last year, is rising interest rates.

"For some buyers, this is going to come as a surprise," said Jessica Caldwell, executive director of Industry Analysis for Edmunds.com. "For buyers with average credit scores, the rates are higher than a couple years ago and that will mean a higher monthly payment."

The average interest rate for new financed vehicles in February was 5.2 percent, up from 4.9 percent a year ago and 4.4 percent five years ago.

"We're starting to see a trickle-down effect from the rate increases happening at the federal level," said Caldwell.

Tariffs

Continued from Page 1

dealerships and their 175,000 employees will be less competitive. The resulting trade war will undoubtedly spread to include other industries, including American agriculture. No one wins a trade war."

An analysis of tariffs on steel imposed in 2002 found that they cost 200,000 jobs, including 30,000 in Michigan, Ohio, and Pennsylvania alone.

The president defended his controversial decision by tweeting that "trade wars are good, and easy to win."

America's 9,600 international nameplate auto dealers, the majority of which are family-owned businesses, employ more than 577,000 Americans, resulting in a payroll of $32 billion and an additional 527,000 indirect jobs.

International nameplate dealers in 2017 sold 8.4 million vehicles to American consumers — 59 percent of total U.S. retail vehicle sales.

The CATA Bulletin is produced by the
Chicago Automobile Trade Association
18W200 Butterfield Rd. Oakbrook Terrace, IL 60181-4810

The CATA Bulletin is distributed via blast email every other Friday except during the Chicago Auto Show, when it is not produced.
Listings of items for sale are subject to the approval of the CATA.
Candidates for employment must submit a full resume to the Editor.
Review past editions dating to 1998 or search by subject at www.cata.info/publication/bulletins.

David E. Sloan — President, Publisher
Erik K. Higgins — Editor, Director of Dealer Affairs

Illinois revises the state's unclaimed property statute

By Zachary Robbins, J.D.; Christine Smith, CPA; and Margaret Young, CPA
Crowe Horwath LLP

Throughout the U.S., unclaimed property laws deal with intangible property that has not been used or claimed within a certain period of time (the dormancy period), after which the property holder must remit or escheat the property's value to the state for safekeeping.

The state of Illinois recently made significant revisions to its unclaimed property statute with Senate Bill 9 (SB 9), which will affect auto dealers' annual reports due May 1, 2018.

Prior Illinois law included business-friendly provisions such as an expansive exemption for most types of potential unclaimed property transactions between businesses. Illinois also provided relatively generous dormancy periods to give businesses ample opportunity to determine the true owner of unclaimed property.

The revised law, which generally became effective Jan. 1, 2018, eliminates these provisions on a retroactive basis. For a holder's annual report due May 1, holders must apply the new law retroactively for a period of five years.

Elimination of the business-to-business exemption

Prior law did not require businesses to escheat transactions owed from one business association to another. The new law repeals this exemption retroactively, so holders that relied upon this exemption in the past should revisit their prior analyses.

Reduced dormancy periods

Unclaimed property typically takes the form of intangible property, such as accounts payable checks, accounts receivable credits, payroll checks, and unredeemed gift certificates. Each property type has a unique dormancy period.

Illinois' prior unclaimed property law required holders to report most property after a five-year dormancy period. SB 9 shortens the period from five years to three years for many property types. The change will require holders to file a "catch-up" report on May 1, to incorporate the change. Unclaimed wages will retain a one-year dormancy period.

Additional contingent fee-based audits

Many states currently conduct unclaimed property audits through third-party audit firms, which often are paid contingent fees based on the amount of unclaimed property collected. Prior Illinois law prohibited the state from contracting with a third-party auditor to examine holders within Illinois on a contingent-fee basis. SB 9 allows the state administrator to contract with contingent-fee auditors.

Auto industry property

In the automobile industry, a "we owe" is a credit due to a customer who has paid for a good or service that is distinguishable from the price of the vehicle but is not deliverable at the time of purchase. It may be negotiated separately or as part of the general purchase of an automobile. Generally, Illinois takes the position that amounts paid on a "we owe," less restocking fees or the like, are escheatable to the state if unclaimed by the customer after three years as an unapplied customer credit balance.

Automobile dealers and holders of potentially escheatable property in Illinois should understand the intricacies of unclaimed property laws and enact policies and procedures to help them comply and mitigate risk. A holder advocate can offer advice regarding best practices and risk mitigation.

Most owners of 3-year-old vehicles still love 'em, J.D. Power finds

The affection U.S. consumers have for their 3-year-old vehicles is apparent in the J.D. Power 2018 U.S. Vehicle Dependability Study, released recently. In addition, overall vehicle dependability improved 9 percent from 2017, the first time since 2013 that the industry score has improved.

The J.D. Power study, now in its 29th year, measures the number of problems experienced per 100 vehicles during the past 12 months by original owners of 2015 model-year vehicles. A lower score reflects higher quality. The study covers 177 specific problems grouped into eight major vehicle categories. The overall industry average improved by 14 fewer problems per 100 vehicles in 2017 compared to the previous study.

"For the most part, automotive manufacturers continue to meet consumers' vehicle dependability expectations," said Dave Sargent, vice president, global automotive at J.D. Power. "A 9 percent improvement is extremely impressive, and vehicle dependability is, without question, at its best level ever. For people looking for a new or used model, now is a good time to find that special vehicle."

Among the study's key findings:

- In-vehicle technology continues to be most problematic: Audio/Communications/Entertainment/Navigation remains a troublesome category for vehicle owners, receiving the highest frequency of complaints. The two most common problems relate to built-in voice recognition and built-in Bluetooth connectivity.

Reversal sought on recent interpretation of Military Lending Act

The Department of Defense (DOD) in late 2017 issued a "surprise" interpretation of the Military Lending Act (MLA) that imposes substantial obligations on dealers who extend financing for certain credit-related products or services (e.g., GAP, credit life, and credit disability products) to active members of the U.S. armed forces and their dependents.

The National Automobile Dealers Association has been pushing to reverse the DOD's interpretation of the MLA on a variety of fronts including:

• seeking to meet with DOD Under Secretary of Defense (Personnel and Readiness) Robert Wilkie, to explain the interpretation's multiple flaws and adverse consequences and to request its immediate withdrawal;

• meeting with the DOD office that issued the interpretation, outlining dealer's concerns, and submitting a joint NADA-American Financial Services Association petition seeking the immediate withdrawal of the interpretation;

• providing Under Secretary Wilkie, the White House, and other government officials with written submissions detailing the same;

• coordinating a similar request to the DOD from the American Bankers Association;

• coordinating with numerous other industry groups (e.g., the Consumer Bankers Association, the Credit Union National Association, the U.S. Chamber of Commerce, the Guaranteed Asset Protection Alliance, and the Consumer Credit Industry Association) to support expedited DOD action to withdraw the interpretation;

• working with key U.S. senators to advise the DOD of the urgent nature of the pending request to correct the flawed interpretation; and

• providing detailed compliance information to dealers and their legal counsel through e-mails, webinars, conference calls, and posts in various online forums.

Only retail sales involving the financing of credit-related products or services are at issue with the new interpretation; lease transactions are not covered by the MLA.

Dealers must first determine whether a customer is covered by the MLA (either an active military member or the dependent of an active military member). There are specific notations on customers' credit reports which state whether customers fall within these categories. Dealers also can check the MLA's website to confirm a customer's military or dependent status.

Healthy

Continued from Page 1

inventory, handling costs," he said.

Another reason the industry is doing well: Consumers are buying SUVs and trucks, which tend to have higher price tags and bring much larger profits. The switch to the larger vehicles is a "seismic change in our industry and people's wants and needs," Scarpelli said.

All that cash coming in from SUVs and trucks means that employees of General Motors, Ford and the Fiat Chrysler Group, whose workers are represented by the United Auto Workers union, took home fat profit-sharing checks.

Kristin Dziczek, with the Center for Automotive Research, in Ann Arbor, Michigan, said the biggest of those checks ($11,750) are a sign of the industry's health. For some workers, that check represents as much as 30 percent of their take-home pay.

But she said profit-sharing or bonuses as opposed to raises "allows for the downturn to not be as rough as it might have otherwise been." The companies can cut costs or make production changes without first resorting to massive layoffs.

But Dziczek said the industry does have some things to be worried about: climbing auto loan defaults and rising gas prices. Nevertheless, she said car companies are "much, much, more ready to weather" a sales downturn.

Jessica Caldwell, an analyst with Edmunds.com, agrees. She said the car companies have become nimbler and more responsive to consumer tastes, shifting to profit off the SUV craze that began in the U.S. this decade.

"Most companies have acted quickly to get as many products that match the market demands on the road, whereas I'd say maybe 15 years ago that necessarily wouldn't be the case," she said.

Caldwell said today's SUVs are more fuel efficient, making them more immune to higher gas prices. And she said the companies are in a very good position to survive a slowdown or even a recession.

But Caldwell said the challenges posed by new technology such as the self-driving car are making automakers worry.

"I think the fears before were things like market share ... or how can I weather the next economic downturn in the economic cycle?" said Caldwell. Now, she suggested, the question is, "Can they stay relevant in the next two decades?"

Scam alert

Benjamin Franklin is often attributed to have said, "Watch the pennies and the dollars will take care of themselves." Keep that in mind when scam invoices for as little as $21.25 reach the in-box.

A Davenport, Iowa, dealer this month reported receiving such an invoice from CenturyLink, a Florida-based broadband service provider. The lone CenturyLink store in Illinois is in Moline.