Subprime Auto Loans â€“ Building Another Economic Bubble

February 19, 2015 â€“ The collapse in housing prices, which began in late 2007 and culminated in the Great Recession in 2008, was fueled by subprime mortgage lending. As a result of the collapse, congress moved to regulate banks and eliminate many types of risky mortgage loans. But they didnâ€™t do anything about automobile loans. Now, many lenders have found subprime auto loans are tremendously profitable (see the video below for an example). The trouble is, these loans are also risky for the economy. And lenders are selling off these loans in just the same way that they sold mortgage backed securities just prior to the recession.

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According to an article in todayâ€™s Wall Street Journal, roughly 40% of the auto loans made last year were subprime. The article states that subprime loans are at the highest rate since the beginning of the recession. There are more than 50 million of these loans that have been made, accounting for $189 Billion in lending.

And just like they were doing with mortgages prior to the recession, they are bundling these loans and selling them off. There is a real possibility that these loans could be building a new economic bubble that will eventually burst. And if that happens, it could sink the country into a new recession.
byJim Malmberg
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