

Upside Down Auto Loans Hit 3-Year High

December 19, 2023 - Owning a car in the U.S. has become tougher due to soaring new car prices, rising interest rates, and a surge in negative equity, where car owners owe more on their loans than their cars are worth. In November, for those who have negative equity in their car, average negative equity reached \$6,054, the highest in over three years.

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This financial struggle is driven by a combination of high-interest rates (7.4% for new cars and 11.6% for used), extended loan terms, and fluctuations in the used car market, where values have fallen by over 20% since early 2022. Inflation is compounding the issue because many owners are finding it more and more difficult to make their monthly payments.

Car owners facing negative equity encounter challenges when trading in their vehicles, as they are still responsible for the remaining loan balance. In order to address this, some car loans will allow buyers to roll the negative equity from an old loan into the balance of a new loan. But that only makes the situation worse for the buyer over the long haul. It means that when they drive their new car off the lot, it is already in a negative equity position. It's akin to standing in a hole and continuing to dig.

As a result of this situation, repossessions have risen to levels not seen in three decades. The issue highlights the impact of economic factors on individuals grappling with car loans that may be higher than they can afford.

by Jim Malmberg

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