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SET FOR SUCCESS

Align your auto lending strategy
to today's trends and tailwinds

APRIL 2021

Jonathan Smoke and Isabelle Helms

COX
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Today's Agenda

Economic Outlook

Consumer Spending & Sentiment

Credit, Sales & Inventory Trends

Digital Insights Every Lender Needs to Know

Q&A for the Road Ahead



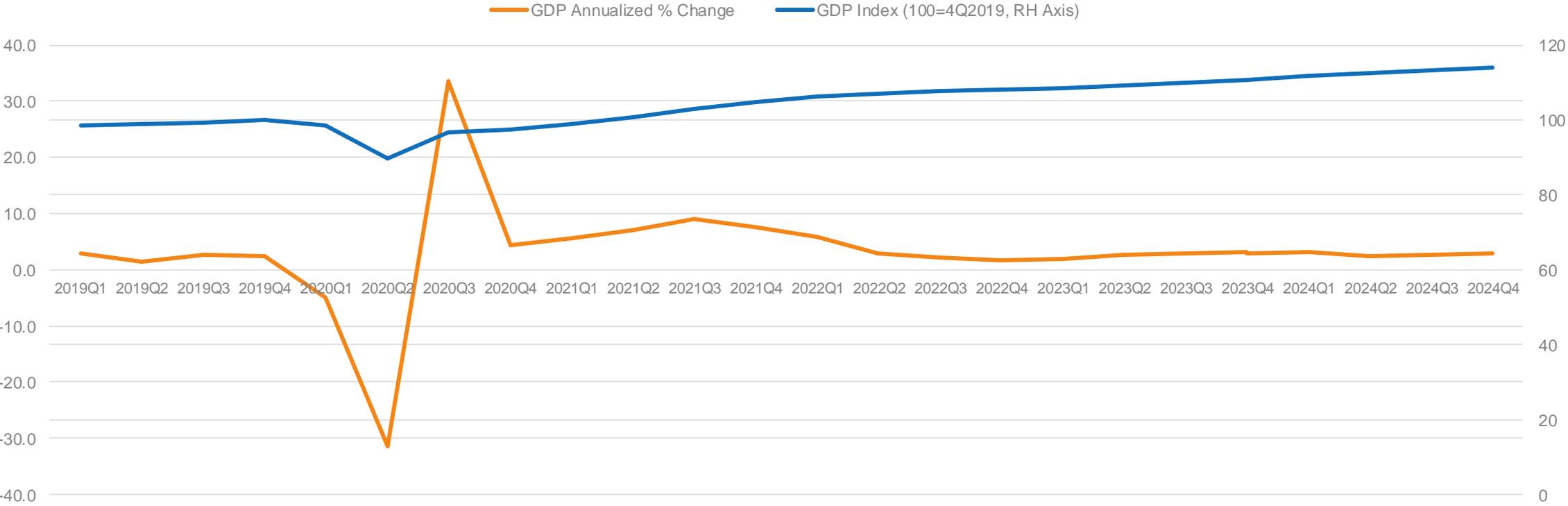
Jonathan Smoke
Chief Economist



Isabelle Helms
VP, Research &
Market Intelligence

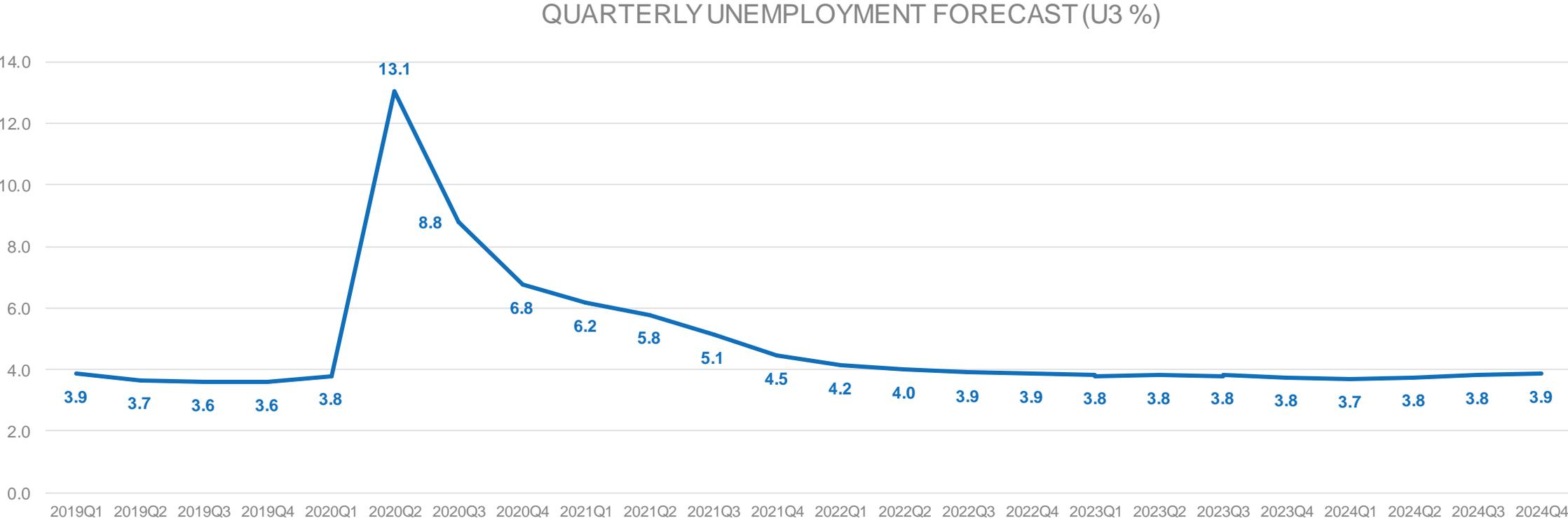
GDP on track for full recovery by mid-year

Real GDP sees full recovery by 2Q 2021 as fiscal spending expands and herd immunity is achieved in the summer



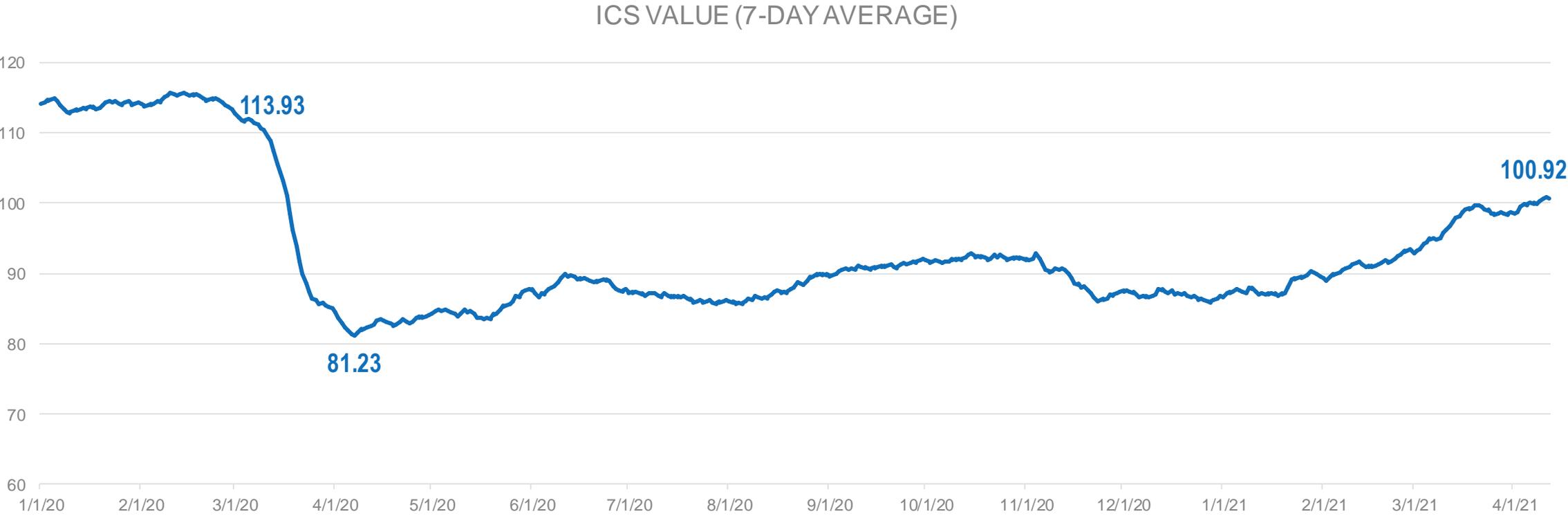
Unemployment rate continues to decline

Unemployment rate sees continued improvement and ends 2021 under 4.5%



Consumer sentiment improved again last week

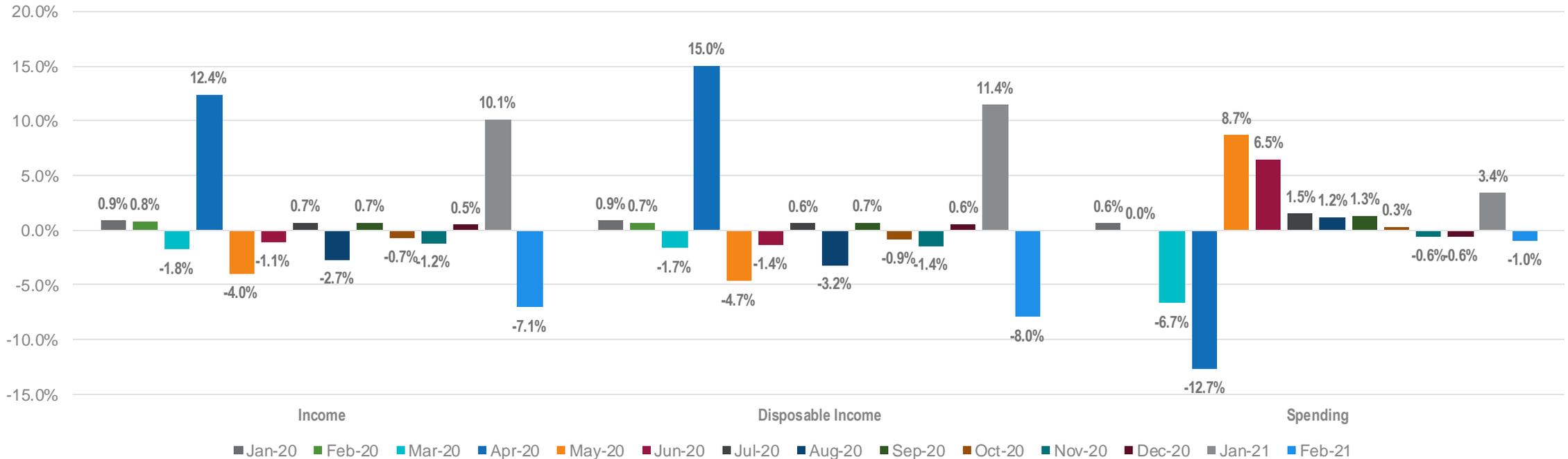
Morning Consult's Index of Consumer Sentiment on Monday was down 11.0% since February 29, 2020



Stimulus support causing dramatic swings in income and spending

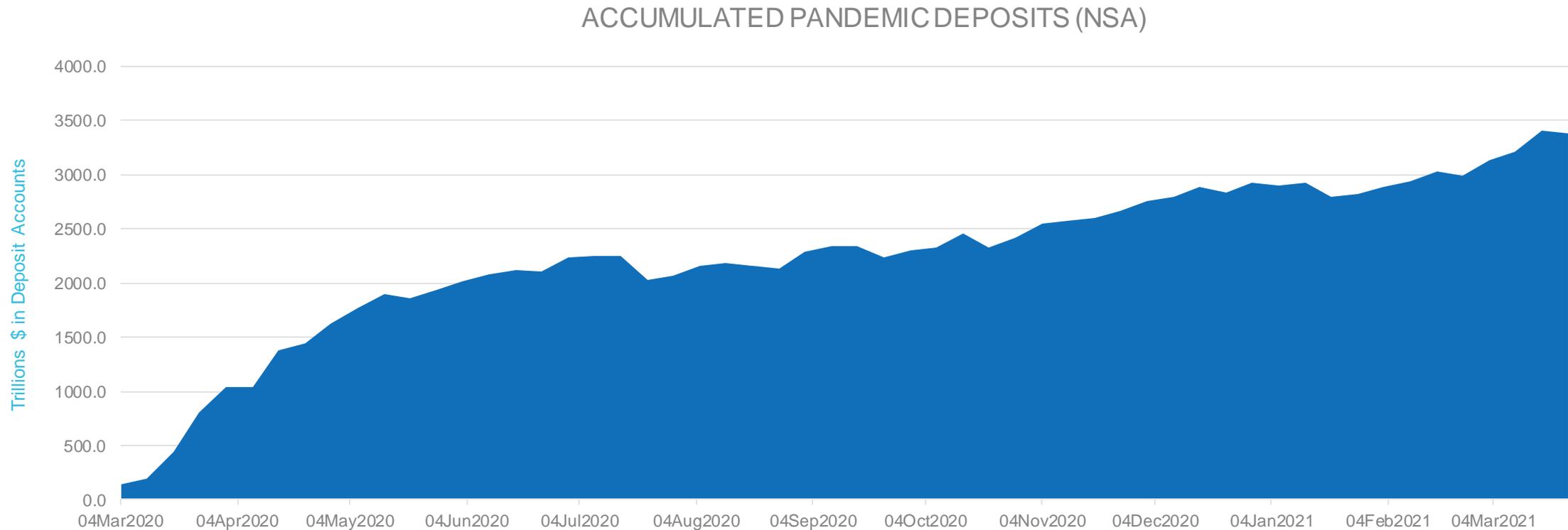
Income increased 10% in January, and spending increased 3.4%, but incomes fell 7% in February and spending declined

MONTHLY CHANGES IN INCOME AND SPENDING JAN 2020-FEB 2021



Pandemic accumulated savings boosted again at start of year

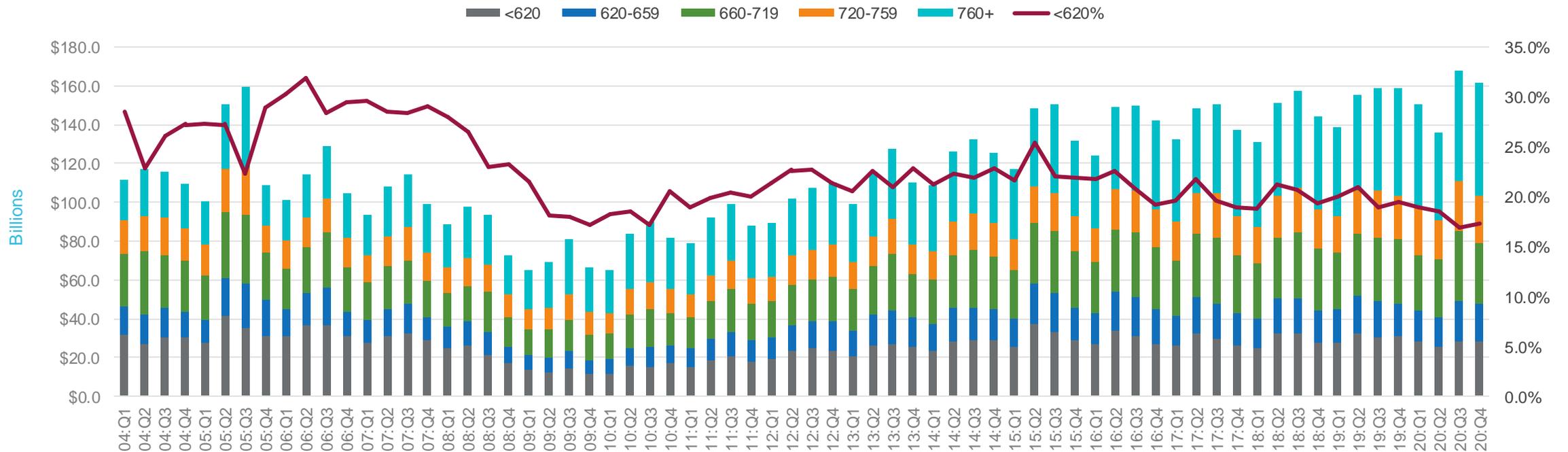
Accumulated increases in deposits reached a peak of \$3.4 trillion as of March 17, before new payments all hit



Auto credit rebounded but tightened, reducing subprime

Auto lending grew only 0.6% in 2020 with a contraction in Q2; subprime share fell to 17.8% for the year, a new low

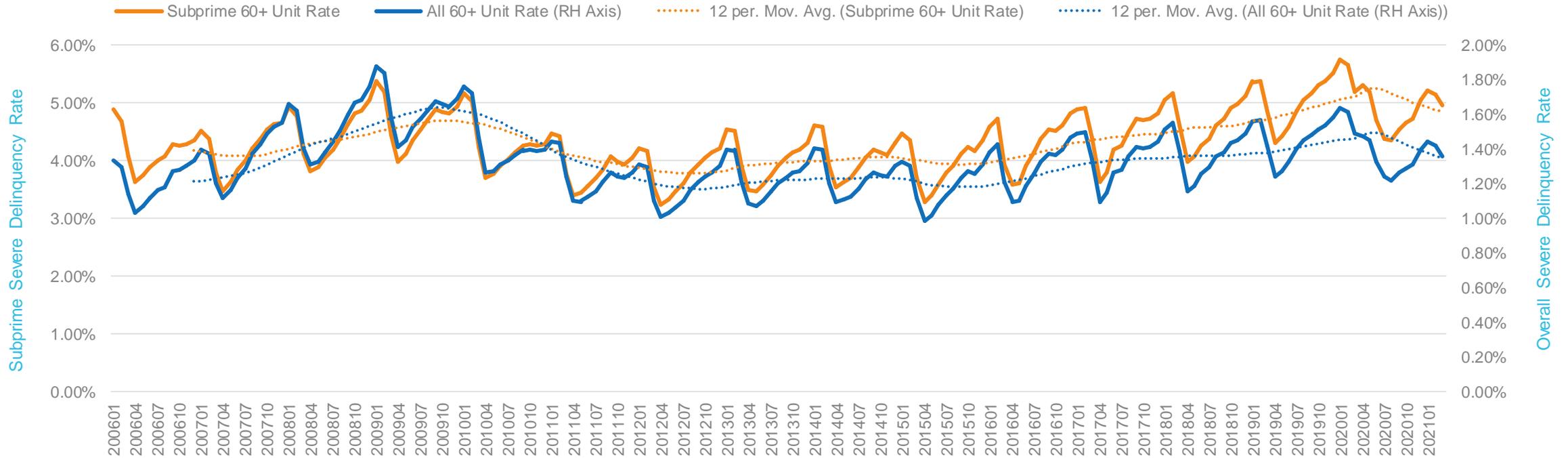
AUTO LOAN ORIGINATION \$ BY CREDIT SCORE



Delinquency rates declined in February and March

Accommodations are down, but stimulus and recovery have led to further declines in the severe delinquency rate

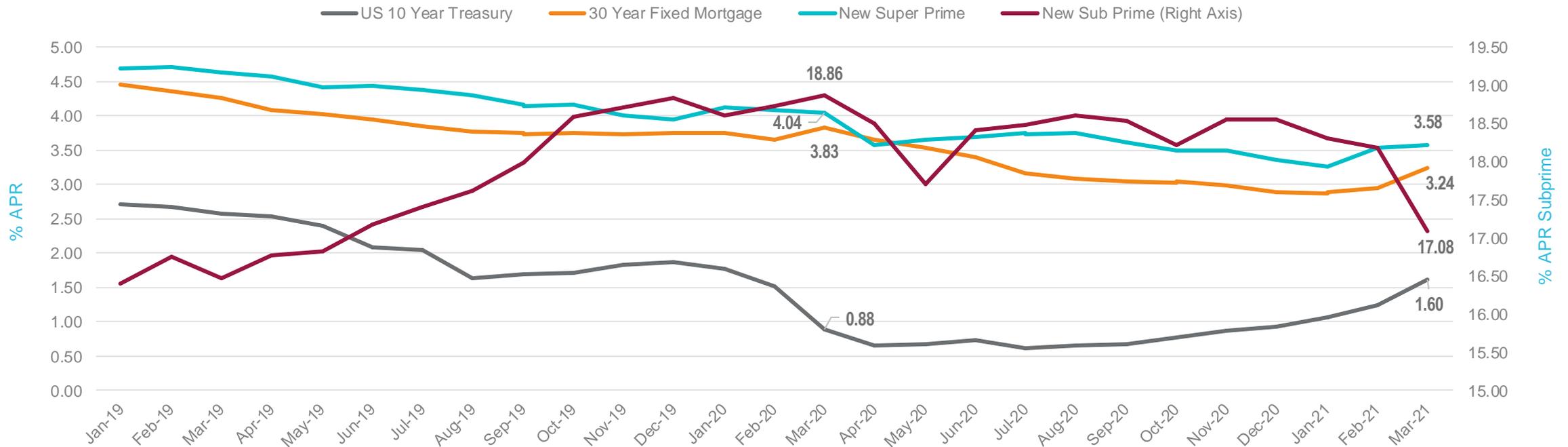
AUTO LOAN SEVERE DELINQUENCIES UNIT RATE



Consumer rates trending lower for subprime

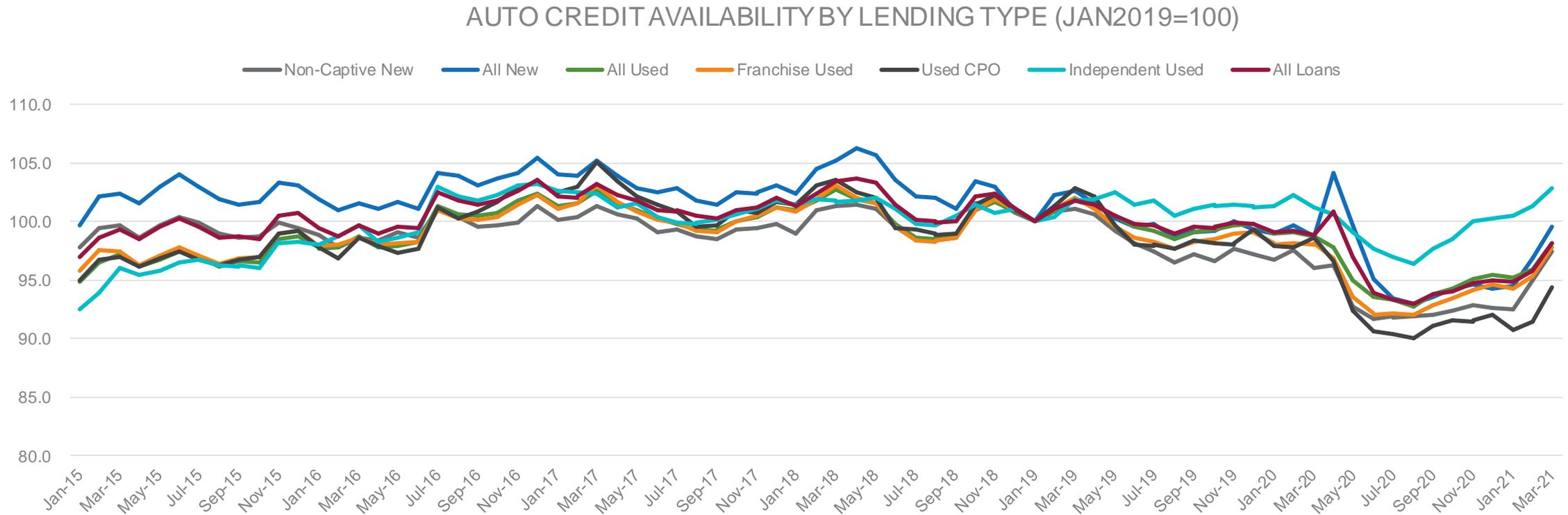
Average rates were lower this March for subprime even though yields are rising

10-YEAR VS. MORTGAGE AND NEW AUTO LOAN RATES



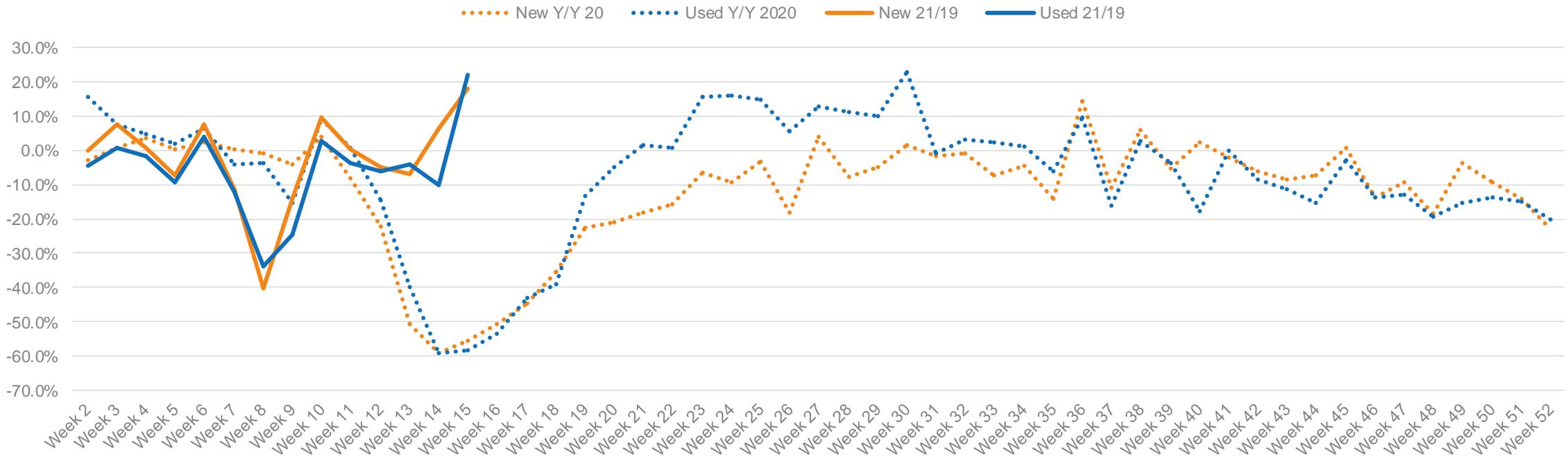
Auto credit availability improved in February and March

During the pandemic, Independent Used tightened the least; all loosened in February and March



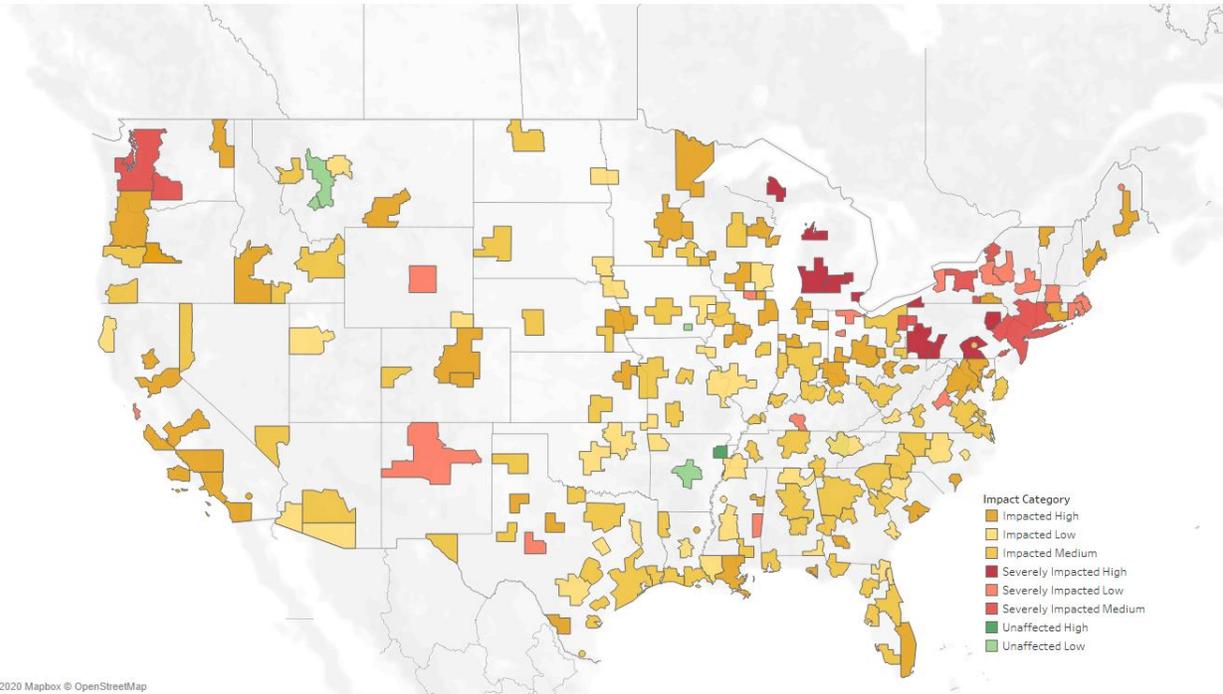
Retail sales estimates

2020 AND 2019 % CHANGE VS. 2019 IN RETAIL SALES BY WEEK

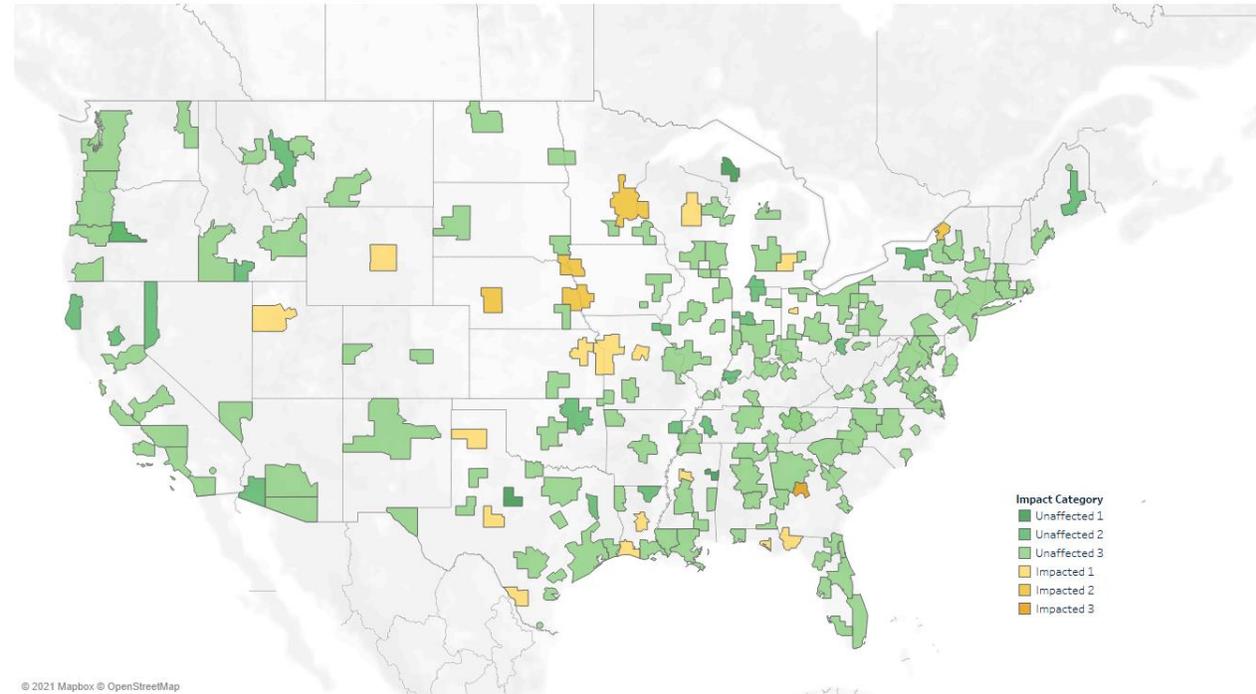


Sales impact varies by DMA as evidenced by unique credit apps

APRIL 5, 2020 (VS SAME-WEEK 2019)

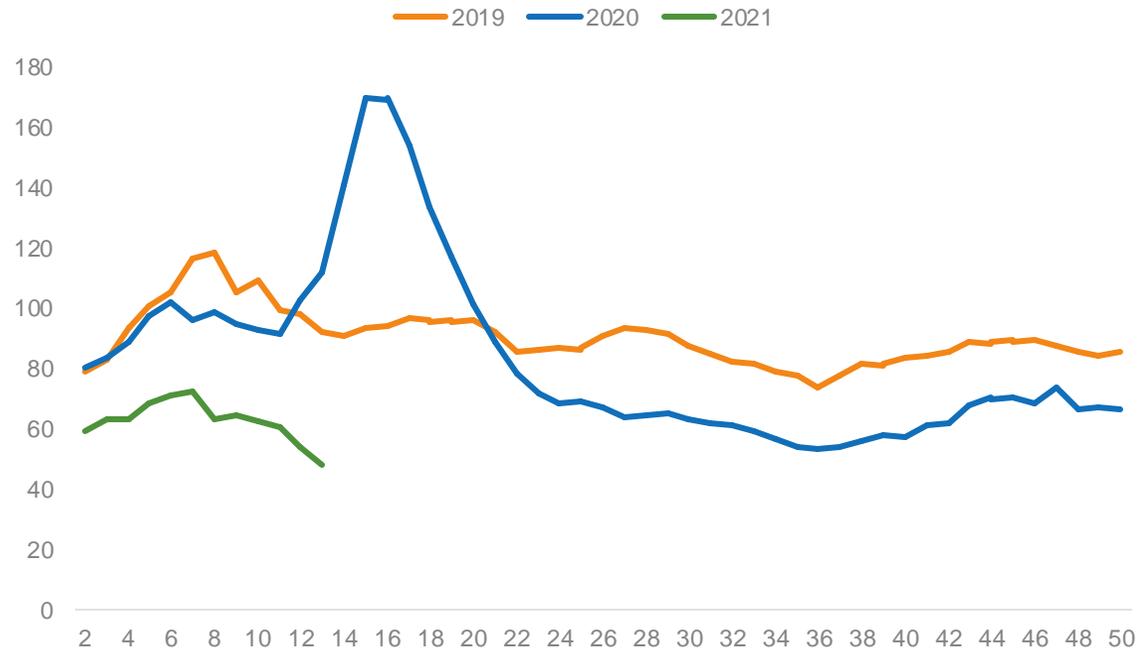


APRIL 4, 2021 (VS SAME-WEEK 2019)

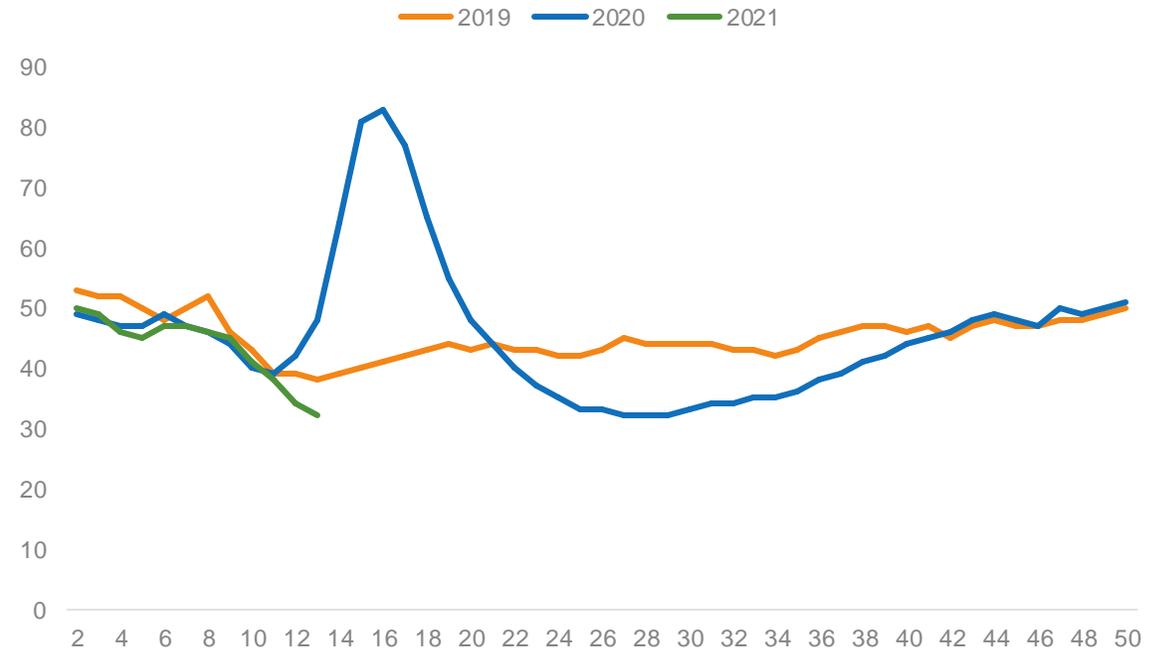


Retail inventory getting tighter

NEW DAYS' SUPPLY

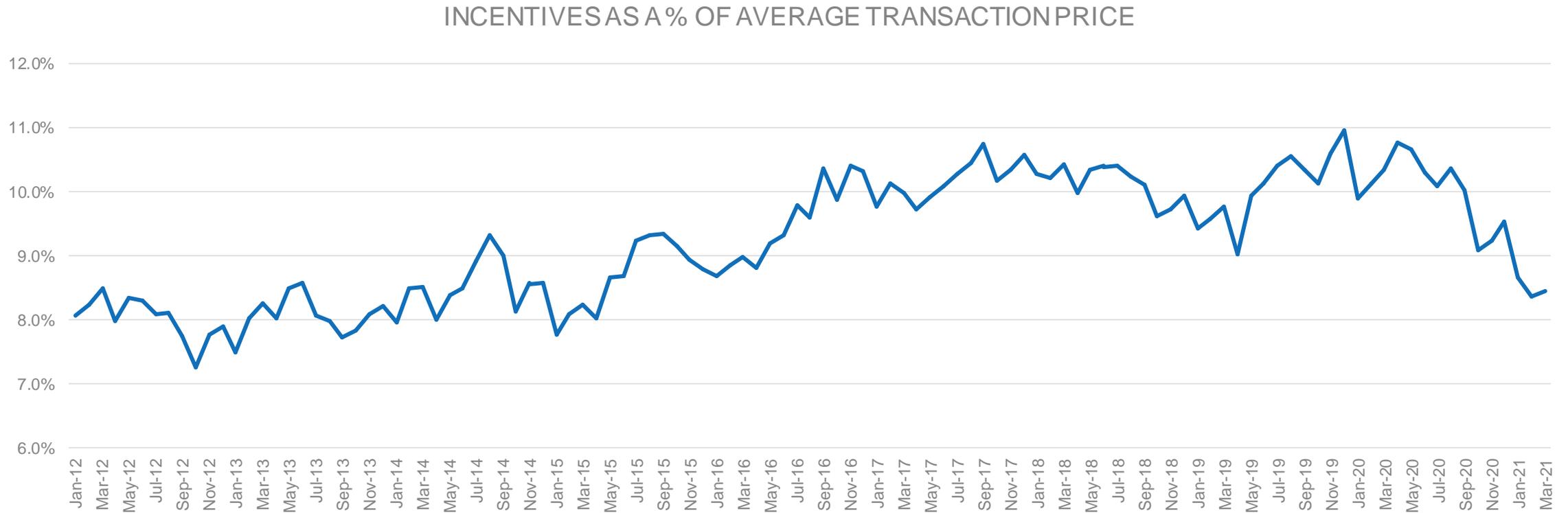


USED DAYS' SUPPLY



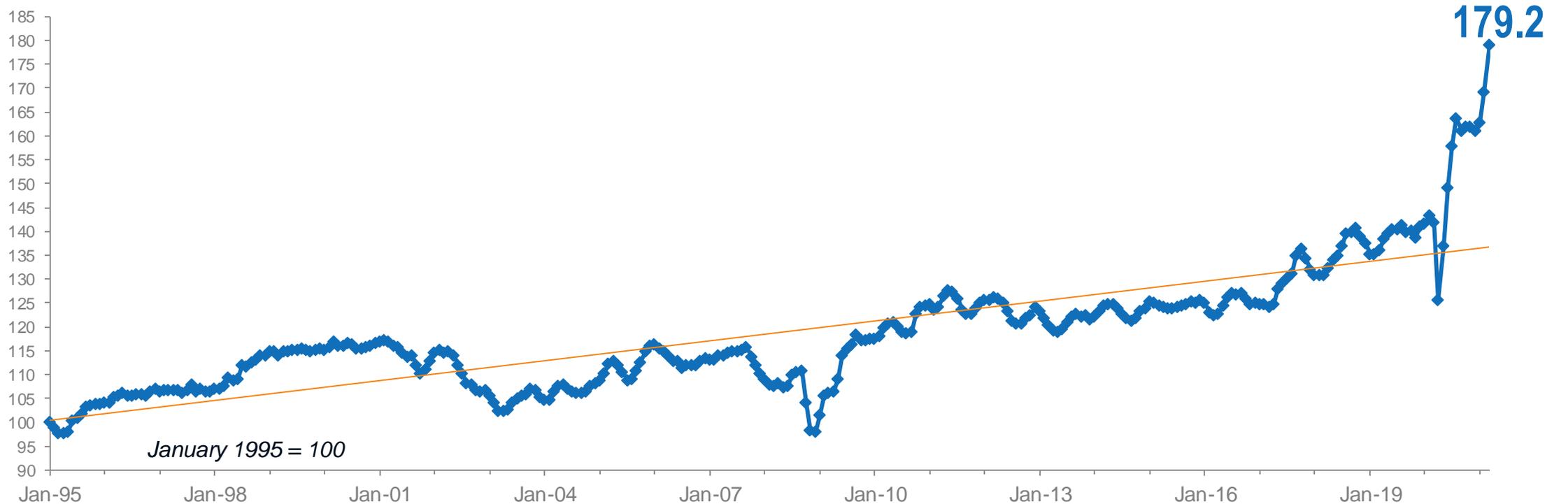
Incentives down and prices up

Incentives as a % of average transaction price were at a near 6-year low in February; edged up slightly in March



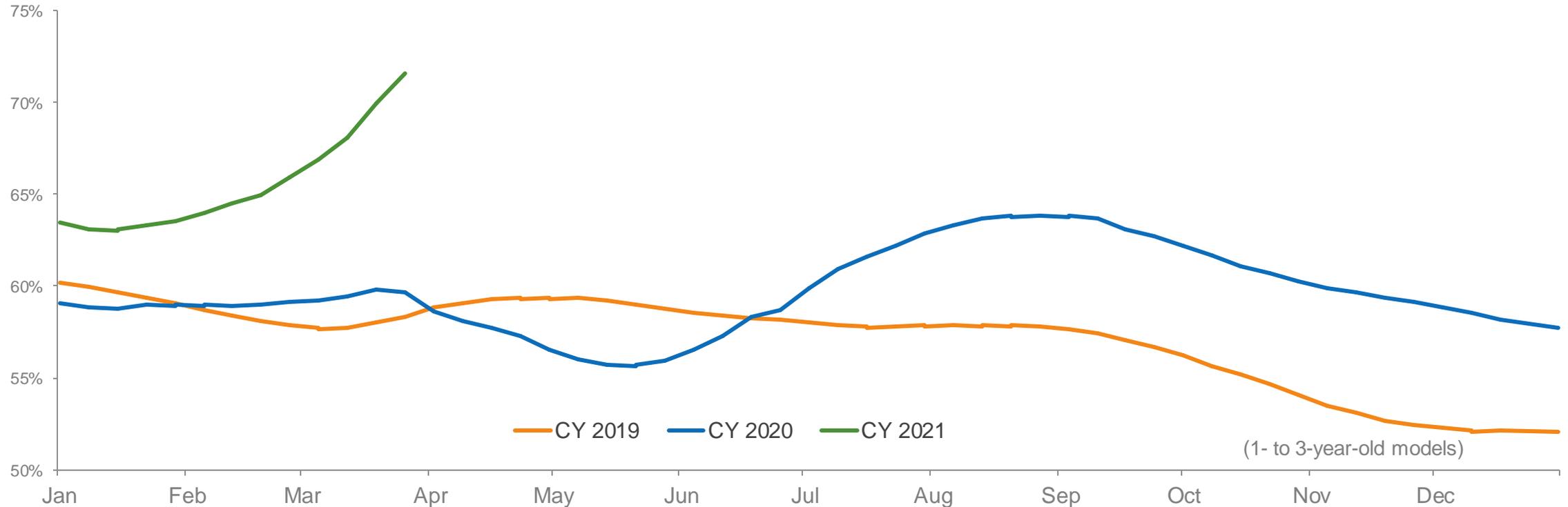
Wholesale vehicle values jump with spring bounce

Prices in March increased 5.87% from February 2021 and were up 26.2% compared to March 2020



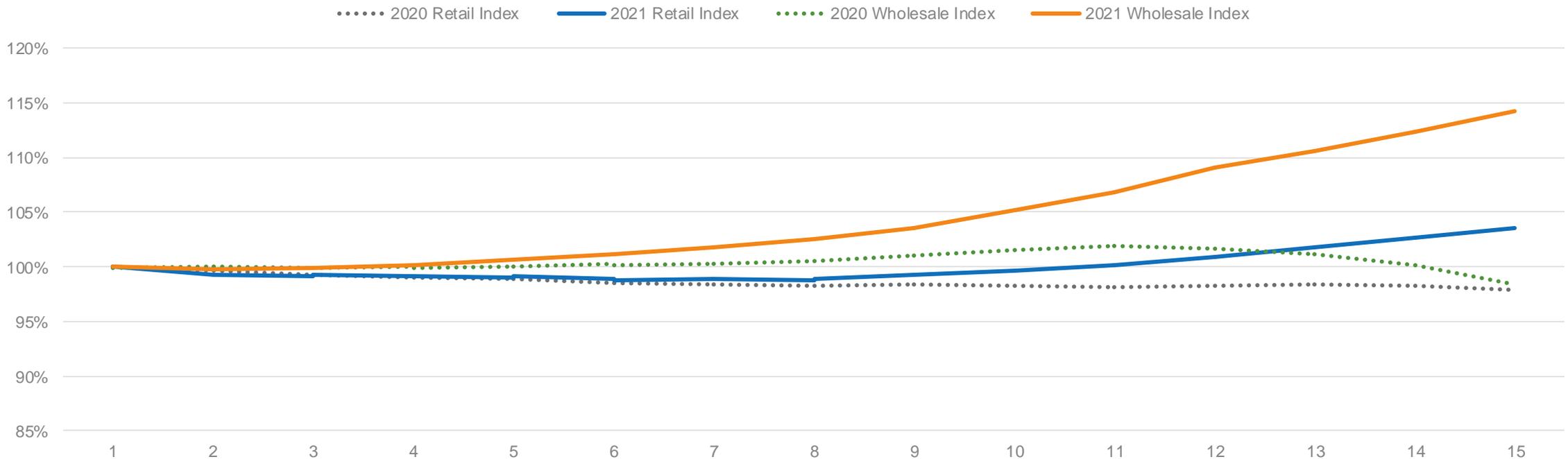
Retention values accelerated further up

Retention values are up 12 percentage points compared to last year at the end of March



Used prices keep moving higher

MY 2018 RETAIL AND WHOLESALE PRICE INDEX



2021 FORECASTS

16.1M
NEW SALES

13.6M
NEW RETAIL SALES

2.5M
FLEET SALES

3.9M
NEW LEASE
VOLUME

29%
LEASE
PENETRATION

2.8M
CPO SALES

39.3M
USED SALES

21.5M
USED RETAIL SALES

+20%
MANHEIM USED
VEHICLE VALUE
INDEX

A man in a dark suit and light blue shirt is holding a tablet computer. He is standing in a car dealership, with several cars visible in the background, which are out of focus. The lighting is soft and professional. The overall tone is blue and grey.

***DIGITIZATION OF
END-TO-END RETAIL***

**Cox
AUTOMOTIVE**

2020 gave rise to the adoption of “digital everywhere” ...

Forbes Subscribe | Sign In

EDITORS' PICK | Jul 27, 2020, 10:55am EDT | 9,126 views

More Customers Are Shopping Online Now Than At Height Of Pandemic, Fueling Need For Digital Transformation

 **Blake Morgan** Senior Contributor @ CMO Network
I am a Customer Experience Futurist, Author and Keynote Speaker.



GETTY

Consumers around the country have been sheltering in place for months and taking most of their shopping

CNBC SIGN IN

MARKETS BUSINESS INVESTING TECH POLITICS CNBC TV WATCHLIST PRO

TECH

Instacart's valuation has more than doubled in 2020 to \$17.7 billion following new funding round

PUBLISHED THU, OCT 8 2020-10:00 AM EDT | UPDATED THU, OCT 8 2020-11:18 AM EDT

 **Deirdre Bosa** @DEE_BOSA

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CNBC

RETAIL

Curbside pickup at retail stores surges 208% during coronavirus pandemic

PUBLISHED MON, APR 27 2020-5:32 PM EDT
UPDATED MON, APR 27 2020-7:36 PM EDT



McKinsey Digital

The COVID-19 recovery will be digital: A plan for the first 90 days

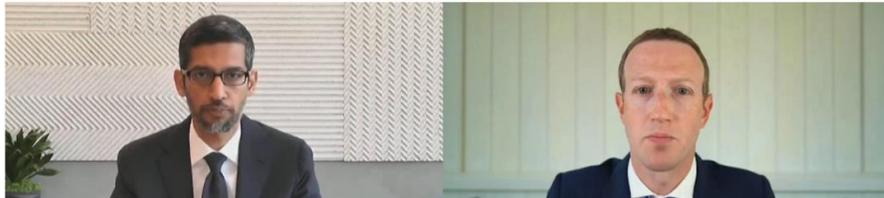
May 14, 2020 | Article

THE WALL STREET JOURNAL.

TECH

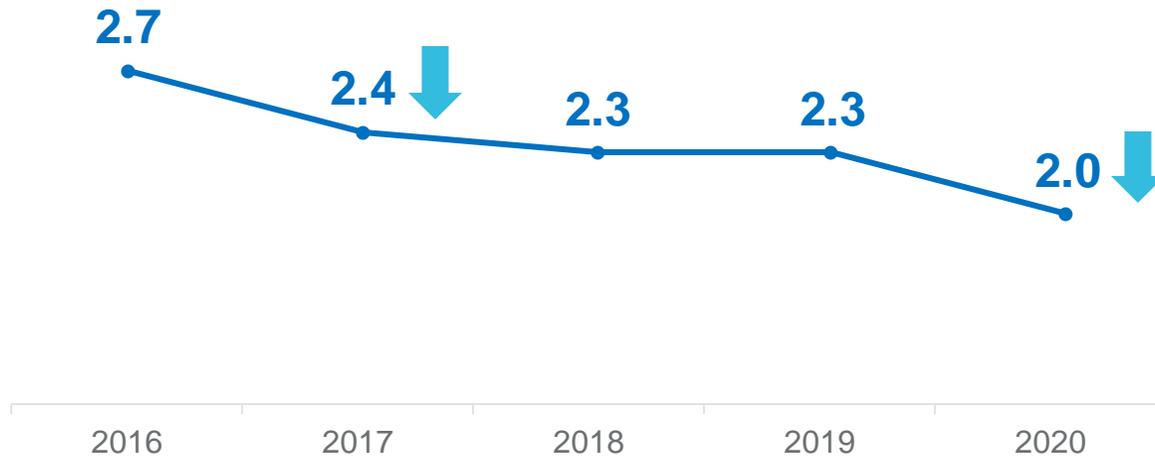
Big Tech Companies Reap Gains as Covid-19 Fuels Shift in Demand

Amazon and Google report strong quarterly sales and profits during debate on market sway



...changing the way we buy vehicles

NUMBER OF DEALERSHIPS VISITED Among Buyers



Arrows indicate significant differences from 2019 or previous timeframe at the 95% confidence interval.



As dealers adapted how they do business, buyers took advantage of a more digital experience...

69% OF FRANCHISE DEALERS ADDED AT LEAST ONE DIGITAL STEP DUE TO COVID-19

TOP STEPS ADDED DUE TO COVID-19

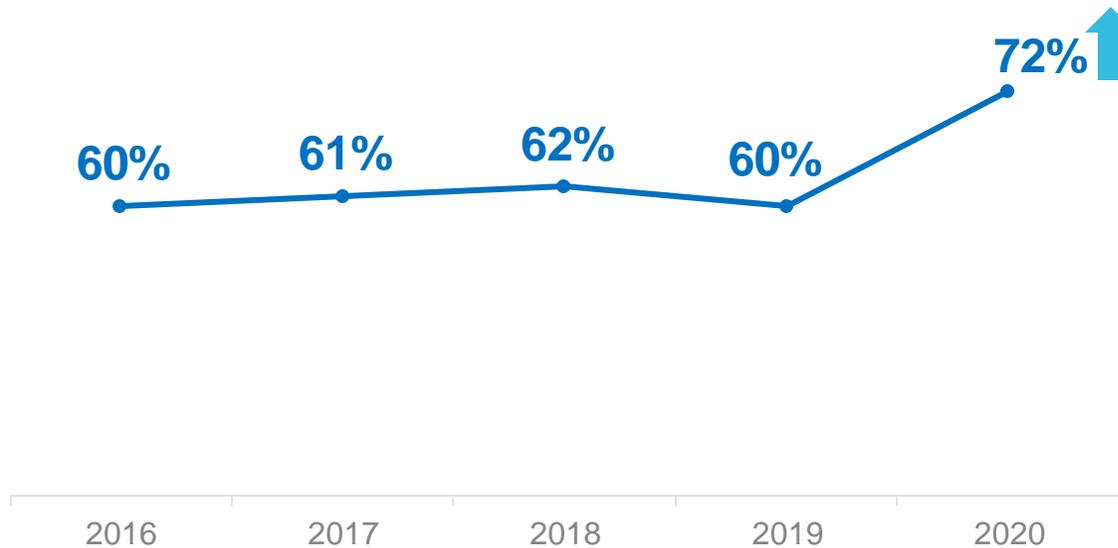
- Test drive home delivery
- Purchased vehicle home delivery
- Online credit application

74% OF FRANCHISE DEALERS SAY THEIR CUSTOMERS HAVE USED DIGITAL RETAILING TOOLS MORE SINCE COVID-19



...and their satisfaction rose to new heights...

% OF BUYERS SATISFIED With Shopping Experience



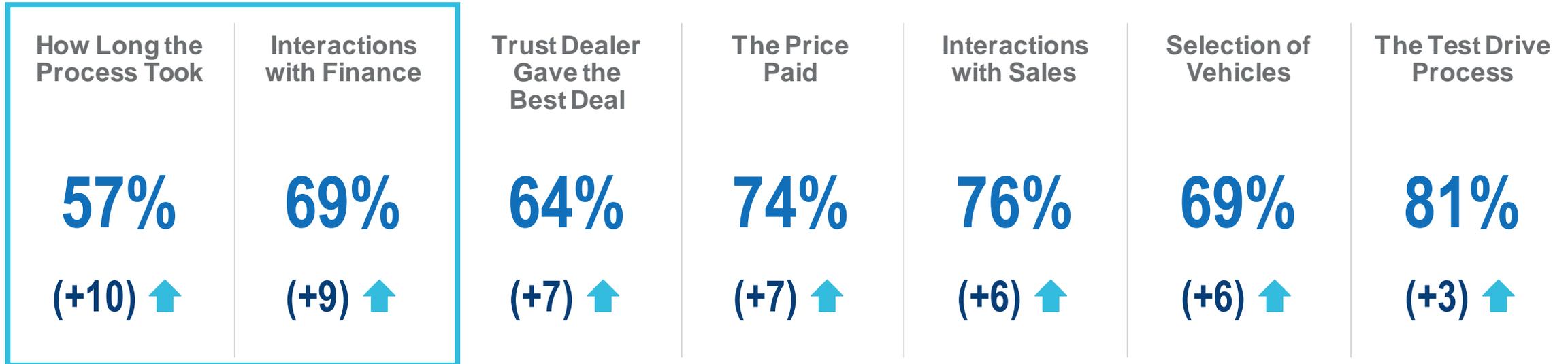
Arrows indicate significant differences from 2019 or previous timeframe at the 95% confidence interval.



...due to a more streamlined purchase process

% OF BUYERS SATISFIED IN 2020

() = Year-over-year Change



Arrows indicate significant differences from 2019 or previous timeframe at the 95% confidence interval.

Digital Retailing trends for lenders

#1 Online application process is **key driver** of an efficient purchase experience

#2 The **new era** of direct-indirect consumer lending is here

#3 Digital contracting is **incomplete** without remote signature

#4 Vehicle delivery process is **shifting** from in-store to at-home

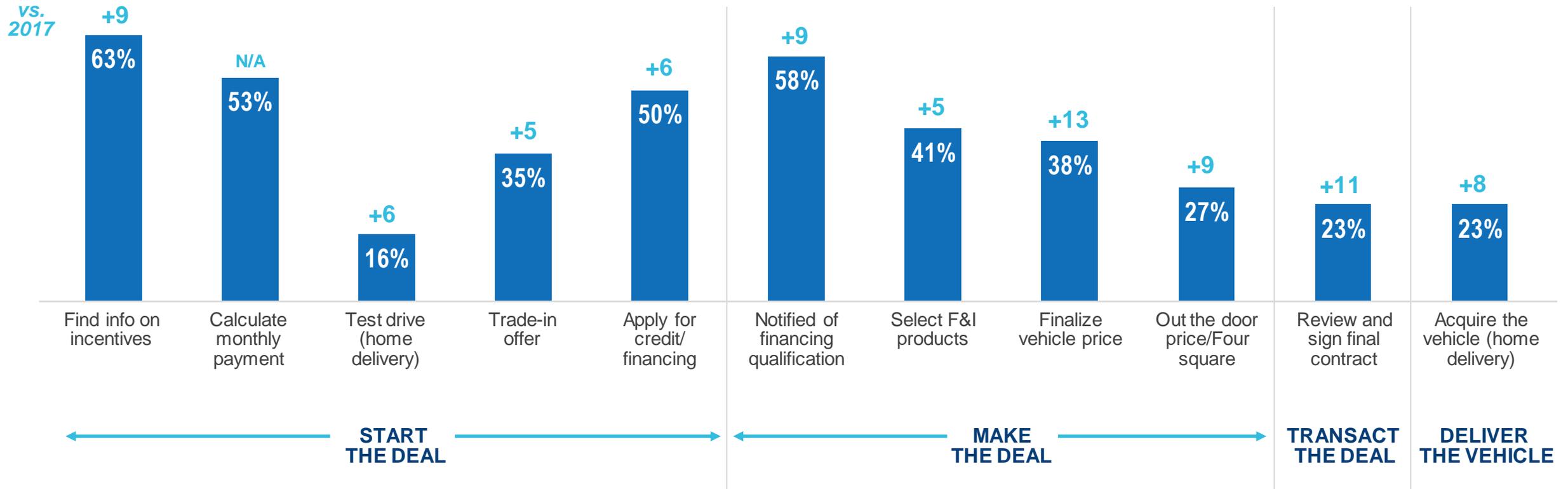


1

**ONLINE APPLICATION PROCESS
IS KEY DRIVER OF AN EFFICIENT
PURCHASE EXPERIENCE**



Consumers' desire to do more of the purchase online has increased in the last 3 years...



■ % of shoppers who prefer to complete activity online or at home

...with the expectation that
Digital Retailing will “save them time”

“Saving Time”

TOP SHOPPER
BENEFIT

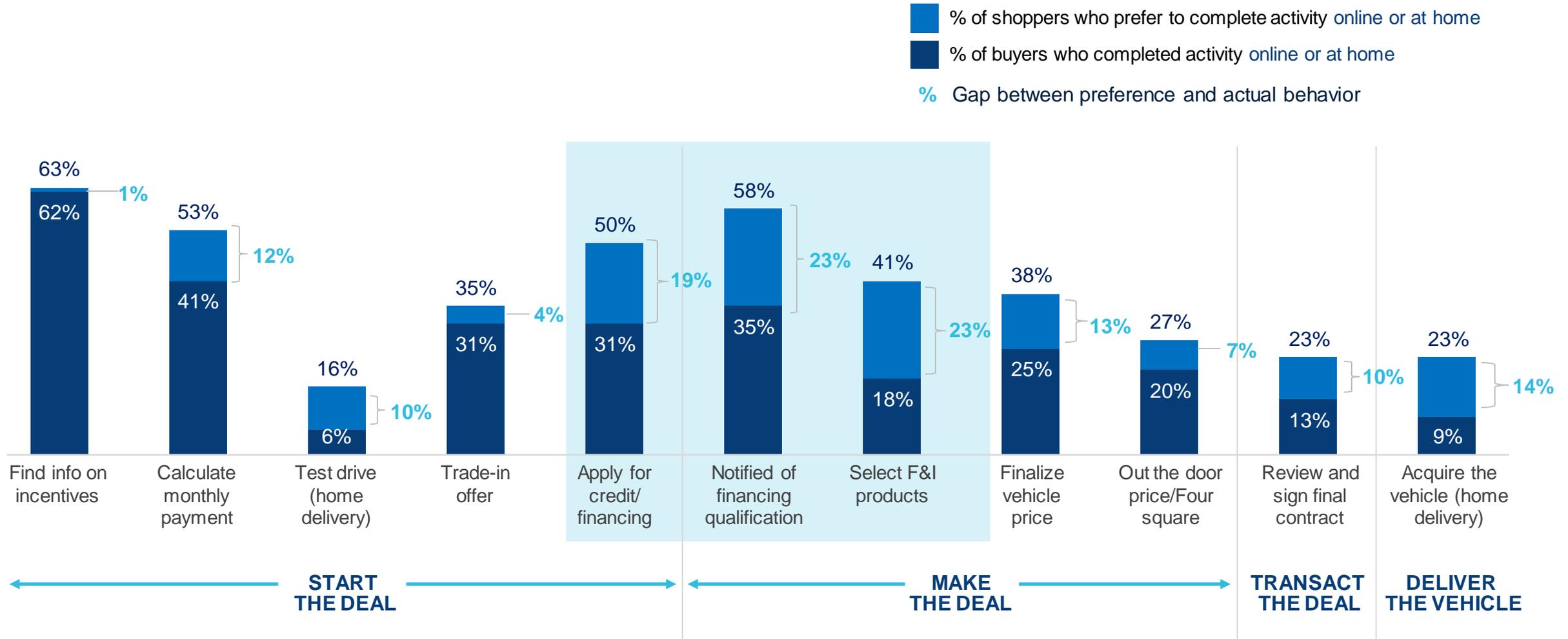
86%

TOP PROMISE
FRANCHISE DEALERS WANT
TO MAKE TO SHOPPERS

50%



However, they are not engaging with DR tools as much as they would like, particularly on steps related to financing



Buyers who apply for financing online save time at the dealership, often on steps they consider the most frustrating

TIME SPENT AT DEALERSHIP

Among Buyers Who Applied for Financing Online vs. In-Person

2:28

Applied Online

2:54 ↑

Applied In-Person

Arrow indicates significant difference between Online & In-Person at the 95% confidence interval
Source: Cox Automotive Car Buyer Journey - 2020



2

***THE NEW ERA OF
DIRECT-TO-INDIRECT
CONSUMER LENDING IS HERE***

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Financing activities are impacted by consumer engagement with digital retailing

Heavy Digital

Complete **more than 50%** of the buying steps entirely online

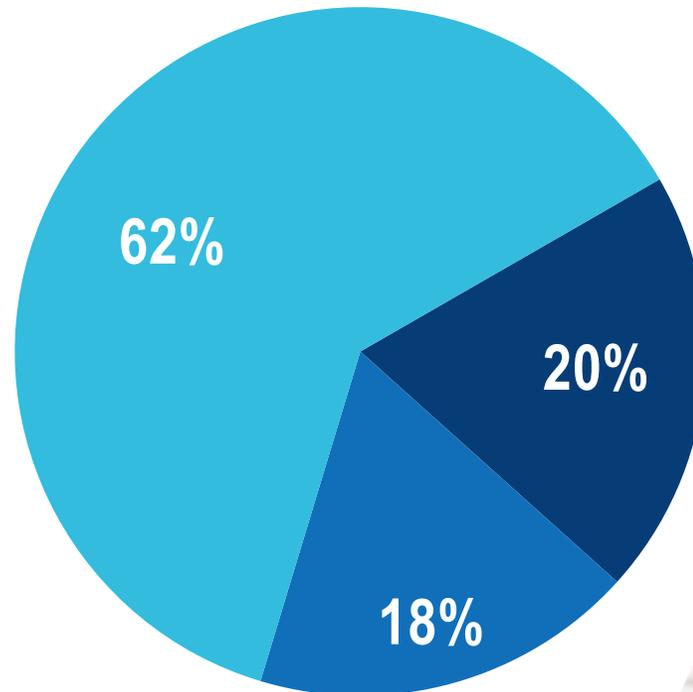
Moderate Digital

Complete **21% to 50%** of the buying steps entirely online

Light Digital

Complete **20% or less** of the buying steps entirely online

BUYER MIX



“Heavy digital buyers” are more likely to research finance options online...

% OF BUYERS WHO RESEARCHED FINANCING OPTIONS ONLINE
Among Buyers Who Researched Financing

23%
Light Digital*

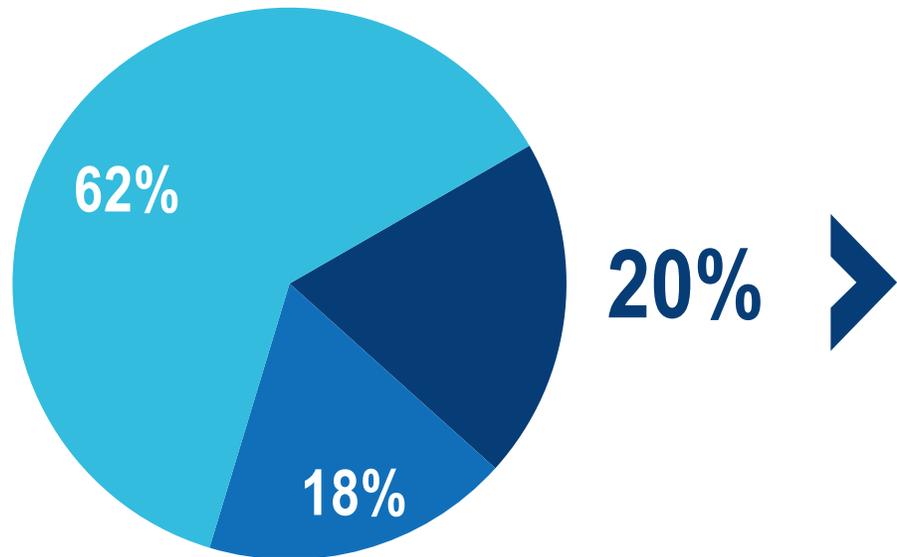
81% ↑
Heavy Digital*

Arrow indicates significant difference between DR categories at the 95% confidence interval
*Light Digital = <20% of purchase steps entirely online; Heavy Digital = 51%+ of purchase steps entirely online
Purchase steps: schedule a test drive, Get a trade-in offer, Apply for financing, Qualify for financing, Select F&I products, Finalize purchase price, Agree to “out the door” price/monthly payment, Sign contracts, Vehicle delivery



...and are more likely to have already secured financing before visiting the dealership

BUYER MIX



Light Digital

Moderate Digital

Heavy Digital

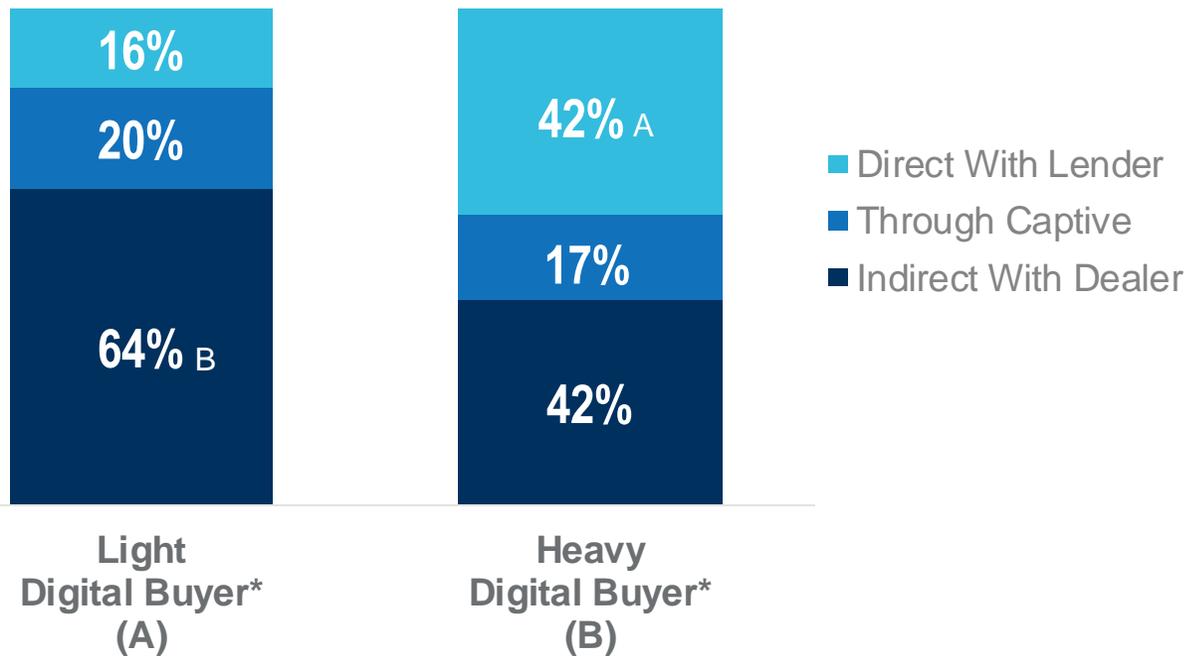
STEPS COMPLETED ONLINE

1. **Finalize vehicle price**
(90% vs. 2% Light Digital)*
2. **Notification of credit approval**
(90% vs. 3% Light Digital)*
3. **Apply for credit/financing**
(87% vs. 2% of Light Digital)*
4. **Agree on “out the door” price / 4-square**
(80% vs. 0% Light Digital)*

*%’s based to those buyers who completed each step; for example, 87% of Heavy Digital Buyers that applied for financing did so online
Purchase steps: schedule a test drive, Get a trade-in offer, Apply for financing, Qualify for financing, Select F&I products, Finalize purchase price, Agree to “out the door” price/monthly payment, Sign contracts, Vehicle delivery

“Heavy digital buyers” are more likely to finance directly through an independent lender

FINANCING METHOD Among Buyers Who Financed



Letters indicate significant differences between DR categories at the 95% confidence interval
*Light Digital = <20% of purchase steps entirely online; Heavy Digital = 51%+ of purchase steps entirely online
Purchase steps: schedule a test drive, Get a trade-in offer, Apply for financing, Qualify for financing, Select F&I products, Finalize purchase price, Agree to “out the door” price/monthly payment, Sign contracts, Vehicle delivery

3

**DIGITAL CONTRACTING
IS INCOMPLETE WITHOUT
REMOTE SIGNATURE**



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While shoppers are open to the idea of buying a car completely online, dealers are not ready

76%
OF SHOPPERS ARE OPEN
TO THE IDEA OF BUYING
COMPLETELY ONLINE

Only...
1-in-3

franchise dealers offer
ALL the purchase
process steps online

**MOST STEPS OFFERED
ONLINE TODAY OCCUR AT
THE BEGINNING OF THE
SHOPPER'S JOURNEY**

- #1** Apply for credit/financing
- #2** Find info on incentives/rebates
- #3** Schedule a test drive online
- #4** Payment calculator
- #5** Receive a trade-in offer

Dealers predict that online purchasing has longevity beyond COVID-19...

% OF SALES THAT WILL BE 100% ONLINE
Among Franchise Dealers

42%
5 years
from now

56%
10 years
from now

3-in-4

Franchise dealers agree that they won't be able to survive in the long run if they don't adopt digital retailing



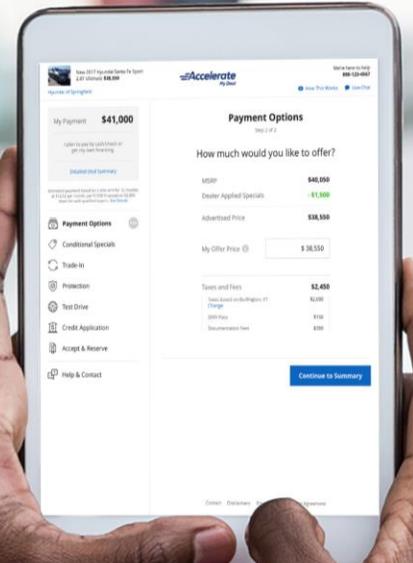
...and are committed to delivering in this new normal

80%

OF FRANCHISE DEALERS PLAN TO OFFER
MORE PARTS OF THE PURCHASE PROCESS
ONLINE IN THE NEXT 1-2 YEARS

MOST POPULAR STEPS TO ADOPT NEXT...

Payment calculator
Ability to select add-ons
Remote signing



Dealers who enable remote signature are more likely to report a streamlined and more efficient finance process

% WHO EXPERIENCED A STREAMLINED FINANCE PROCESS

Among Franchise Dealers

34%

(among dealers who **DO NOT OFFER** remote signing)

47% 

(among dealers who **OFFER** remote signing)

Arrow indicates significant difference between categories at the 95% confidence interval



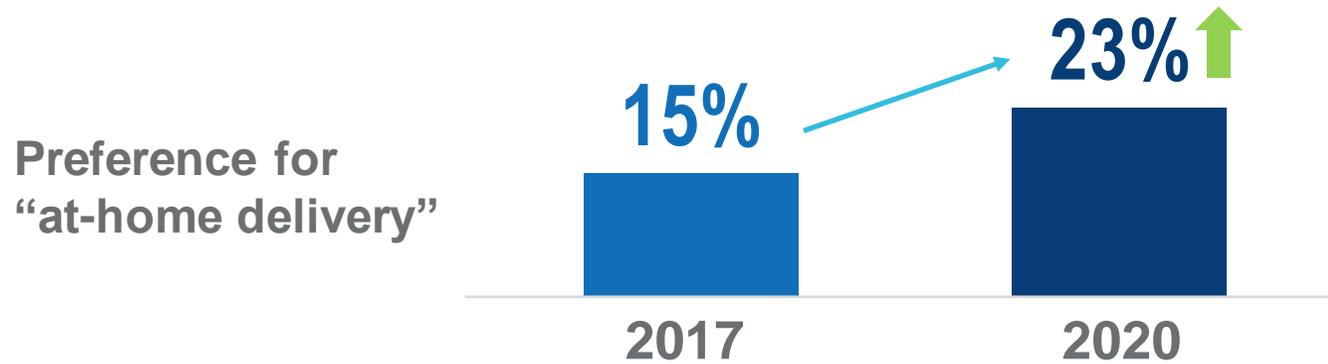
4

**VEHICLE DELIVERY PROCESS
IS SHIFTING FROM
IN-STORE TO AT-HOME**

Cox
AUTOMOTIVE



Growing consumer preference for at-home vehicle delivery is driven by time savings & convenience



TOP 3 BENEFITS OF “AT-HOME DELIVERY”

Among Consumers

75%

Saves time

66%

More convenient

45%

More personal



Majority of dealers were offering at-home delivery at the height of the pandemic

**% OF DEALERS WHO OFFERED
“AT-HOME DELIVERY”**
At End of April 2020

77%
Franchise

53%
Independent



A small, but growing number of dealers predict at-home delivery will surpass in-store pickup as the new normal

**% OF DEALERS WHO EXPECT TO OFFER
“AT-HOME DELIVERY” FOR A MAJORITY
OF 2021 PURCHASES**
(Instead of In-store Pickup)

24%

Franchise

12%

Independent





LENDER IMPLICATIONS

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Lender implications

#1 Re-think the online application process to enhance the **lender-to-consumer** connection

#2 Enable **digital contracting** by providing dealers the ability to produce all documents required for remote signature

#3 Adjust dealer and lender agreements to support the **delivery of vehicles** to consumers' homes



Q&A

What questions may we answer?



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VP, Research &
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Chief Economist

Joining today's presenters are...



Andy Mayers
Lender Solutions Strategist



Francis Gojcaj
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Thank You!

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