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SFA Research Corner

Affordability Pressures and the New Selectivity in Auto Finance

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Affordability Pressures and the New Selectivity in Auto Finance

The inaugural Auto Finance Capital Summit brought together participants from across the auto finance ecosystem to discuss the forces currently shaping the market. Across the conference, two themes surfaced repeatedly: evolving consumer dynamics and geopolitical volatility are increasingly shaping funding markets and capital allocation decisions.

Consumer affordability remained at the center of nearly every conversation. Rising vehicle prices, elevated rates, insurance costs, and fuel expenses continue to pressure consumers, with stress remaining most pronounced among lower-income and lower-FICO borrowers, according to data presented by BofA Global Research.

At the same time, several participants noted that deterioration is no longer isolated to traditional subprime borrowers as persistent affordability pressures strain household cash flows more broadly. Even so, BofA Global Research data showed that while borrowers are entering early-stage delinquencies more frequently, they are also curing at higher rates relative to 2019, suggesting consumer stress remains more liquidity-driven than permanently impaired.

Despite headlines surrounding select subprime lenders and isolated fraud-related situations, conference participants broadly characterized the overall auto finance market as resilient and functional. Several participants emphasized that broader consumer credit headlines do not fully reflect actual auto finance collateral performance, particularly as more recent vintages have generally benefited from tighter underwriting standards, stronger structures, and more conservative collateral selection.

These dynamics, combined with broader macro uncertainty, are causing investors, warehouse providers, and financing counterparties to place greater emphasis on underwriting discipline, servicing execution, transparency, and operational consistency. In some cases, though, this has resulted in longer execution times. “Investors are looking beyond headline metrics,” said Curtis Ash, CFO of specialized lender Rizz Lending. “They want to understand how underwriting adapts, how servicing performs, and how risk is managed operationally.”

In private funding markets, participants described growing demand for flexibility, diversification, and multiple sources of liquidity. Issuers discussed balancing warehouse facilities, private credit partnerships, forward-flow arrangements, and corporate balance sheet funding to navigate periods of market volatility more effectively, while emphasizing the increasing importance of strong lender relationships and diversified banking partnerships as funding counterparties become more selective.

Private credit was widely described as a complementary source of liquidity and diversification rather than a replacement for the ABS market, which remains the primary funding channel for many issuers given its scale, execution efficiency, and generally lower funding costs. Participants also noted growing involvement from insurance companies, pension funds, and other private credit investors, which has provided additional market depth and execution flexibility during periods of volatility.

Representatives from Fitch, DBRS, and Deutsche Bank Research noted that ABS issuance remains active and investor demand continues to be constructive, particularly as more recent collateral vintages have benefited from tighter underwriting standards, stronger structures, and more conservative collateral selection relative to the more stressed 2021–2023 cohorts. Deutsche Bank Research cautioned that while market conditions have stabilized following the onset of the Iran conflict, continued consumer liquidity pressures may limit the pace of further year-over-year performance improvement.

Participants emphasized the growing importance of consistency and predictability in ABS execution, particularly during periods of market volatility. Multiple issuers highlighted the value of programmatic issuance strategies, stable deal structures, and repeat investor engagement, while DBRS noted that issuers with demonstrated execution histories and long-standing investor relationships have generally benefited from stronger market positioning and more stable funding access during uncertain conditions.

Beyond funding strategy, discussions throughout the conference highlighted the growing operational sophistication across the industry. Multiple issuers described more dynamic approaches to underwriting, portfolio monitoring, collateral valuation, and funding management, including more frequent pricing reviews tied to changing spread assumptions, benchmark rates, and evolving loss expectations. Participants emphasized that disciplined asset pricing and ongoing portfolio surveillance have become increasingly important in an environment where funding costs and consumer performance can shift rapidly. One issuer noted that inaccurate asset pricing can ultimately weaken deal structures by compressing excess spread, reinforcing the close relationship between underwriting discipline and securitization performance.

Artificial intelligence and automation also emerged as recurring themes throughout the conference, particularly across underwriting, servicing, fraud detection, and operational analytics. However, Vadim Verkhoglyad, Head of Research at dv01, noted that adoption remains uneven across the industry, reinforcing broader differentiation between more operationally sophisticated platforms and those still earlier in implementation — differences that may ultimately translate into pricing advantages or funding concessions.

Taken together, the broader tone of the conference reflected what Nicole Bryns, Partner at Dumar Capital Partners and conference co-chair, described as “cautiously exuberant.” Participants broadly agreed that the industry is moving away from the liquidity-driven conditions of prior years toward a more fundamentals-driven market, where capital allocation is becoming increasingly selective and investors are placing greater emphasis on operational resilience, underwriting quality, transparency, funding diversification, and repeat execution. Some participants suggested those dynamics may ultimately strengthen the industry by rewarding discipline, institutional credibility, and long-term operating consistency over growth alone.