

Americans can't afford their cars any more and Wall Street is worried

Goldman Sachs' president warns 'it's not going to be pretty' as default fears mount

Melissa Lawford, Telegraph, 20 October 2025

In a country where public transport is scant outside major cities, car loans are one of the last things that Americans will let themselves default on. So, it is particularly shocking that the share of car loan borrowers missing payments on their debt has soared to levels last seen during the financial crisis. A study by VantageScore showed that delinquencies have surged by 50pc in the last 15 years, meaning car loans have gone from one of the safest consumer credit products to one of the riskiest. Even worse, among subprime borrowers – typically low income households with bad credit ratings – delinquency has hit a record high. In August, the share of subprime auto loans where borrowers had missed payments for 60 days or more was 6.43pc, according to Fitch Ratings. Bar a 6.45pc reading in January, this was the highest level recorded since Fitch's data began in 1993 (back then, the rate was just 0.12pc) and far above the financial crisis peak of 5.04pc. Last year, 1.73 million cars were repossessed, the highest number since 2009, according to Cox Automotive. The numbers are a threat to the lenders behind America's record \$1.66tn (£1.24tn) car debt pile, which has doubled in the last 12 years and much of which has been sold on to financial institutions in the form of asset-backed securities (ABS). Auto loans, like mortgages, are pooled into asset-backed securities – an investment vehicle similar to bonds – which are then sold on to financial institutions.

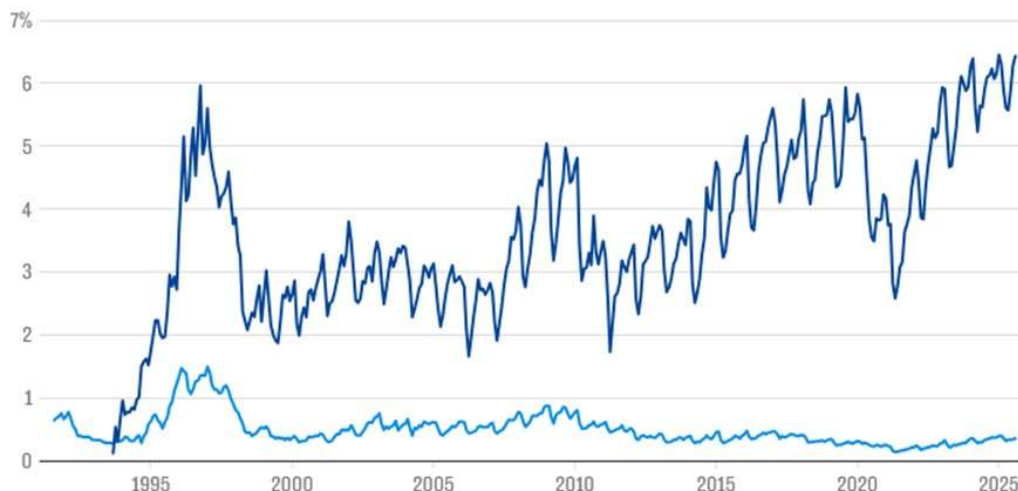
Wall Street is already reeling from the twin collapses of subprime auto lender Tricolor and car part supplier First Brands in September, which have triggered a volley of warnings about America's \$3tn private credit market. "When you see one cockroach, there's probably more," said Jamie Dimon, JP Morgan's chief executive, on Tuesday. Days later, John Waldron, the president of Goldman Sachs, warned that the recent collapses might indicate consumers in the lower end of the economy are suffering, posing a further threat to US lenders. "There's been a lot of lending in there and if there's weakness in consumer capabilities, then we're going to have a problem. It doesn't necessarily mean recession but we can definitely start to see some negative effects in credit," he said. "We may, we probably will, have some defaults and it's not going to be pretty." High levels of auto loan delinquencies are a clear sign of stress among lower and middle income households, says Mark Zandi, the chief economist at Moody's Analytics. "That should send off alarm bells," says Zandi – particularly considering unemployment is still relatively low at 4.3pc. The reality is that, increasingly, Americans cannot afford their cars anymore. The average price of a new car in the US has surged by 35pc since 2019 and surpassed \$50,000 this year. The average monthly payment on a typical loan for a new car is now \$761, says Jessica Caldwell, head of insights at Edmunds. For a second hand car, it is \$570. "Consumers are buying the same car that they owned before but their payments are \$300 more a month," says Caldwell.

Consumers are struggling on multiple fronts. American Consumer Credit Counseling (ACCC), which helps people manage their debt, has seen a boom in the number of people who need help. Across the entirety of 2019, the non-profit took calls from 33,000 people struggling with their debt. "So far this year, we're at 53,900 and the year isn't over," says the ACCC's Kenneth Mohammed. In five years, ACCC's clients' average debt load has surged by nearly 60pc to hit \$30,000. Increasingly, it is not only those on the lowest incomes who are struggling but people in white-collar jobs. Normally, the ACCC's average client had an annual income of \$50,000. "That's gone up to \$75,000 over the past year," says Mohammed – and the number of clients who have four-year college degrees has doubled since 2024. "People are using their credit cards for basic living expenses," he adds.

US subprime defaults on car borrowing are at a record high

Auto loan 60+ delinquency index

— Prime — Subprime



Source: Fitch Ratings

Credit card delinquency rates have climbed and figures from the Federal Reserve Bank of New York show the share of student loan borrowers missing their payments has also hit a record high. "When you look at the aggregate measures of consumer health, it all looks pretty healthy until you get to delinquencies. You have a tale of two consumers," says Kayvan Darouian at Deutsche Bank. "The subprime borrower is clearly under stress." Auto loans are particularly problematic because, unlike houses, the value of a new car drops dramatically after it is first bought. In September, around 30pc of all car loans that were traded in were in negative equity, meaning the vehicle was worth less than the buyer borrowed to pay for it, says Caldwell. Each of these borrowers rolled nearly \$7,000 of debt into their next loan. Tricolor's collapse was not a typical case. The US justice department is investigating the collapsed lender over allegations of fraud, which include accusations that Tricolor used the same collateral on multiple loans. Its downfall was owing to its own "idiosyncratic risk", says Mike Girard, a senior director at Fitch Ratings. Yet it is still a red flag for the health of the subprime auto lending sector.

Michael Lavin, of auto financier Consumer Portfolio Services, last month said the company had pulled back on lending this year. "The customer is constrained and under pressure," he told a conference. The number of Consumer Portfolio Services' outstanding loans that fell into repossession has more than doubled since 2022. Bill Nash, the chief executive of CarMax, the largest seller of used cars in America, told investors on an earnings call in September: "The consumer has been distressed for a little while. I think there's some angst." It is certainly possible that more auto lenders could go bust, particularly if unemployment climbs closer to 5pc, says Zandi.

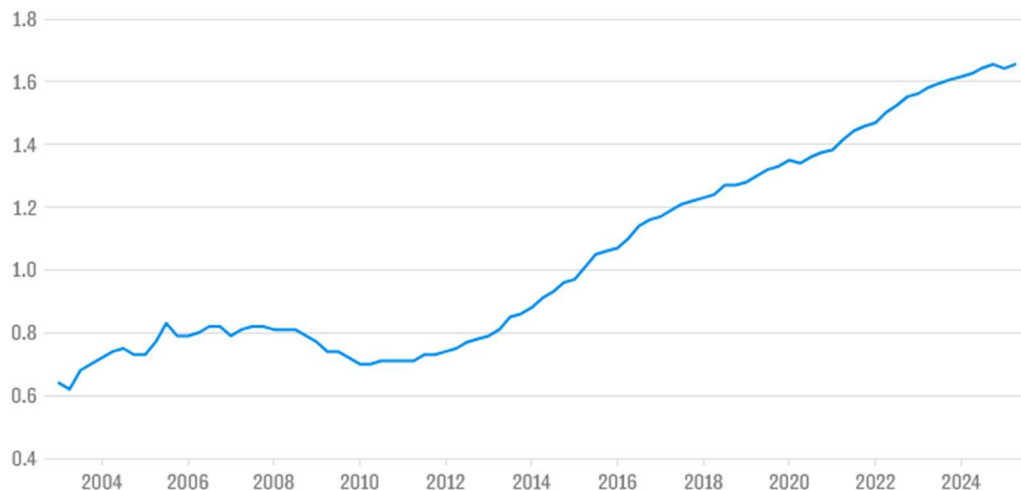
Deutsche Bank's Darouian adds: "There's some concern with other issuers who have a similar niche, where they're lending to potentially undocumented borrowers or people with no credit score." In 2022 and 2023, in the aftermath of the pandemic when borrowers were flush with cash, there was a period of weaker underwriting for a number of loan issuers, says Darouian: "They maybe widened their box a little bit too much."

Lending standards have tightened since. But the Trump administration has shifted the goal posts. Subprime lenders often lent to people who did not have social security numbers. Now that Donald Trump, the US president, is pressing ahead with his election campaign promise to forcefully deport America's 14 million undocumented immigrants, these borrowers are at increased risk of default. In September, S&P Global Ratings put a series of auto ABS bonds from Lendbuzz and the Southern Auto Finance Company, two subprime lenders, on negative watch with a warning that many of the underlying borrowers may be undocumented immigrants who are vulnerable to the immigration crackdown. On Thursday, Moody's downgraded 17 classes of bonds issued by subprime auto loan lender First Help Financial. Moody's said this was owing to higher anticipated losses and "increased default risk" because a significant portion of First Help's borrowers are undocumented. "Voluntary or involuntary emigration could undermine these borrowers' ability to repay and limit lenders' usual remedies, such as repossession," Moody's said. The deteriorating performance of auto ABS will continue into 2026, says Fitch's Girard: "More pressure is expected on subprime borrowers and overall we expect to see continued moderate increases in delinquencies and defaults."

Stress in auto loans has wider implications for the financial sector. In 2008, the global financial crisis was triggered by the subprime mortgage crisis, which hammered the institutions that had invested heavily in mortgage-backed securities. However, subprime auto ABS is a much smaller part of the financial system. Of the \$1.7tn in outstanding auto loan debt, about \$330bn is considered subprime of which around \$90bn is in subprime ABS, says Darouian. By contrast, in the run up to the financial crisis, the subprime mortgage sector had outstanding debt of \$2.3tn – or more than \$3tn in today's money. "At the end of the day, as a sector, it is just nothing close to what we saw with subprime mortgages," says Darouian. Rather than a threat to financial stability, the bigger issue is the sign of consumer strain, says Zandi of Moody's. He adds: "You're seeing all of this stress when everyone has got a job, so what happens if people start losing their jobs?"

American auto loan debt is at a record \$1.66tn

Car finance borrowing soars



Source: Fitch Ratings

Trump's Secret Student Loan Forgiveness Bombshell: Millions to See Debt Wiped — But What's the Catch?

Borrowers warned of possible tax bills when relief becomes official

By Michael Toledo, IBTimes, 19 October 2025

It sounded too good to be true. Across America, inboxes pinged this month with unexpected emails from the Trump administration announcing that long-time student-loan borrowers could finally see their debts erased. The Department of Education confirmed that millions enrolled in income-based repayment plans will soon have their balances wiped clean. The first wave of loan discharges, officials said, could appear within weeks. But as celebrations erupted online, experts were quick to ask the question on every borrower's mind: what's the catch?

Relief With Strings Attached

The forgiveness drive follows a White House overhaul of the Income-Based Repayment (IBR) programme, which limits monthly payments to a small slice of a borrower's income for 20 or 25 years before any remaining balance is cancelled. The changes expand eligibility to roughly two million borrowers and remove the need to prove financial hardship. Some parent PLUS loan holders, who took out loans for their children, can now qualify too. For many, it could mean freedom after decades of payments. Yet hidden in the fine print is a clause that could turn relief into a tax headache.

The Tax Trap Waiting in 2026

Under the American Rescue Plan of 2021, student-loan forgiveness is tax-free only until 31 December 2025. Any debt cancelled after that date may count as taxable income, potentially saddling borrowers with bills running into thousands of dollars (around £8,000–£10,000). Financial analysts warn that those whose discharges are processed in 2026 or later could face unpleasant surprises at tax time. To prevent that, the Education Department says the crucial date is when a borrower becomes eligible, not when paperwork is completed. Borrowers who reach the 20- or 25-year mark before the deadline should still qualify for tax-free relief, even if bureaucratic delays push their files into the new year.

Bureaucratic Backlog and Shutdown Chaos

Adding to the uncertainty is the ongoing government shutdown, now in its third week. Thousands of Education Department employees are furloughed, leaving borrowers struggling with unanswered calls and frozen online systems. Officials have urged borrowers to keep making regular payments until they receive written confirmation that their discharge has gone through. Discharge data will be sent to loan servicers after 21 October, though processing could stretch into November as staff work through the backlog.

What Borrowers Should Do

Financial advisers are warning borrowers not to sit back just yet. They should check their payment histories, confirm that their repayment plans are listed correctly, and ensure any earlier payments have been counted. Those who received the government's email should monitor their loan-servicer accounts for updates. Borrowers who think they qualify but have not been contacted should verify their status through the Federal Student Aid website once normal operations resume.

Politics or Policy?

The timing has stirred debate in Washington. Critics argue that launching a massive forgiveness push during a shutdown is political theatre aimed at boosting the president's popularity. Supporters insist it shows the administration's commitment to easing America's \$1.6 trillion (£1.3 trillion) student-debt crisis. Whatever the motive, the catch remains: relief may come with tax bills, red tape, and weeks of waiting. As one education analyst told NBC News: 'If it holds, this could be the biggest act of debt relief in Trump's presidency. But the fine print could make all the difference.' For millions of borrowers, the dream of debt freedom is finally within reach — provided they can navigate the pitfalls hiding beneath the promise.