

Recap from the Fourth Biennial Conference on Auto Lending

By José Canals-Cerdá

In this *Supervisory Research Forum (SURF)* brief, we recap the Fourth Biennial Conference on Auto Lending in July. The conference was another successful collaboration between the Supervisory Research Forum (SURF) and the Consumer Finance Institute (CFI). Kudos to the organizers Chellappan Ramasamy, Jason Keegan, Suzanne Schatz, and Iris Gonzalez for an engaging and informative event.

[Conference presentations](#) focused on the status of the auto credit market, industry trends, auto pricing and dealer incentives, competition, and consumer protection. Biographies of the presenters and speakers are included in the conference [agenda](#). The event provided regulators, industry experts, and academic contributors an opportunity to share insights on the auto market, auto lending, and consumer welfare in an emerging landscape.

James D. Narron, first vice president of the Federal Reserve Bank of Philadelphia, provided [welcoming and opening remarks](#) and discussed his views on the impact of the pandemic, price inflation, and supply chain constraints on the auto market and current lending dynamics. He also reflected on the future of the auto industry and the impact of innovations such as electric cars and autonomous driving.

Melinda Zabritski, from Experian Automotive, provided [auto finance insights](#) on auto lending under the COVID-19 environment. In her [presentation](#), she documented trends in auto lending and leasing as well as the continued trend of increases in auto balances, payments, and terms.

Patrick Manzi, from the National Automotive Dealers Association, gave an [auto market update](#) and outlook for 2021 and beyond. In his [presentation](#), he highlighted past and present trends in the auto market business and insights on future auto market challenges, with particular attention to the transition from internal combustion to electric engines.

Joelle Scally, from the Federal Reserve Bank of New York, moderated the next conference session. In this session, Nick Laverty, from McKinsey & Company, offered his perspectives on electric mobility after the crisis and long-term market dynamics. Amin Shams, from Ohio State University, presented his academic research on [the impact of automated underwriting](#).

The [next session](#) was moderated by Richard Murphy, from the Federal Reserve Bank of Richmond. First, Yichen Su, from the Federal Reserve Bank of Dallas, [presented](#) his research on the demand for prestige consumption in vehicle purchases by non-prime consumers. The research found that the demand for expensive vehicles is partially driven by preferences for prestigious brands, which may lead to adverse financial outcomes. Second, Russ Walsh, from Ally Bank, [presented](#) his analysis of the current state of the used car market, paying special attention to inventory and valuation methodologies.

The [first afternoon session](#) on Day 2 of the conference was moderated by Larry Santucci, from the Federal Reserve Bank of Philadelphia. In this session, Ethan Dornhelm, from FICO, [presented](#) his perspectives on COVID-19 credit score trends and new model developments. Among the many relevant insights from the presentation, he pointed out the material increase in FICO scores since

the onset of the pandemic, with the largest score increases observed in lower FICO score bands. He focused on new developmental work on scores at FICO. In particular, he highlighted the novel resilience index as particularly useful during periods of stress. Next, Erik Mayer from Southern Methodist University [presented](#) his research on racial discrimination in the auto loan market. He identified that academic studies of discrimination in auto lending are lacking. He and his coauthors constructed a novel data set that links credit bureau data with Home Mortgage Disclosure Act (HMDA) data to expand the set of available demographic characteristics, with race/ethnicity, sex, income, etc. The authors noted that increased regulatory oversight reduced discrimination in recent years. Then, Mark Jansen, from the University of Utah, [presented](#) his work on the spillover effects of the opioid epidemic into auto finance. Among other findings, he observed that lender credit models perform poorly in opioid-afflicted areas and that the likelihood of default is higher in counties with high levels of opioid abuse; these areas also face higher loan costs.

The [final session](#) of the conference was moderated by José J. Canals-Cerdá from the Federal Reserve Bank of Philadelphia. First, Anthony Lee Zhang, from the University of Chicago, [presented](#) his work on competition and selection in credit markets. His paper develops a simple model of consumer screening and loan-terms setting and shows empirical evidence broadly consistent with model predictions. Specifically, more concentrated markets lead to more screening, and concentration also has an impact on loan terms across different risk segments. Second, David C. Low, from the Consumer Financial Protection Bureau, [presented](#) his work on auto dealer loan intermediation. His research points out that car sales are typically bundled with car loans. Thus, it is important to understand the effects of auto dealer intermediation on consumers. Third, Pamela Foohey, from Benjamin N. Cardozo School of Law of Yeshiva University, [presented](#) her work on consumers' declining power in the fintech auto loan market. Her work discusses potential extensions of consumer protections, such as limits in fees and charges, decoupling of auto sales from auto loans and other forms of public intervention in the auto loan market.

[Concluding conference remarks](#) were delivered by Bob Hunt, senior vice president of the Federal Reserve Bank of Philadelphia and director of the Consumer Finance Institute. He outlined the conference highlights and encouraged continued collaboration among the agencies, academia, and the industry.

The Federal Reserve Bank of Philadelphia's [YouTube channel](#) features regular updates on relevant events sponsored by the Bank.