

Market Scan

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Driving Growth in Automotive Lending Under Pressure: A Practical Guide

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Executive Summary

The automotive lending market is shifting into a more volatile, payment-driven phase. Average monthly loan payments are up 31% in just five years and have stayed above \$750 throughout 2025. Meanwhile, policy, incentive, and rate dynamics are moving quickly enough to make pricing and term agility a defining competitive capability.

Lenders and captives are operating in an environment where affordability pressure and market volatility reinforce the importance of rapid program response.

This paper outlines three strategies that will matter most for lenders as the market enters its next chapter:

- 1 Deliver a single, trusted digital payment experience**
- 2 Deepen operational partnerships with dealers to keep pricing and approvals aligned**
- 3 Monitor competitive and market moves with the speed required to stay relevant on a regional, near-real-time basis.**

The lending environment in the years ahead: what is changing

As the industry looks ahead, the sales environment is likely to remain challenging for lenders, with multiple affordability drivers moving at the same time.

- **Affordability pressure is expected to remain the central constraint.** Price mix and payment levels are keeping **affordability at the top** of the purchase decision stack, reinforcing the lender's role in payment engineering. This pressure is amplified by industry benchmarks showing new-vehicle prices moving above the \$50,000 threshold in recent months, underscoring how quickly affordability headroom can tighten.
- **Interest rates are likely to remain elevated and uneven, with volatility playing out over short cycles.** As a result, APR competitiveness can no longer be managed as an annual reset. Advantage will hinge on how quickly lenders adopt to rate shifts and translate them into program updates. Close, continuous rate monitoring, paired with rapid recalibration of offers, will be a core capability for sustaining competitiveness.
- **Tariffs and policy uncertainty are poised to remain active cost variables.** **Tariff fluidity** will continue adding uncertainty to OEM pricing, incentives, and captive subvention strategies, complicating affordability planning over the next several model years.
- **The market will continue to see a balancing act around term length.** Longer contracts are still a practical lever to keep payments viable, and usage is rising. 84+ month new-vehicle loans made up 23% of originations in August 2025, up five percentage points from 18% a year earlier. But lenders and OEM captives are also working to reduce dependence on very long terms as risk and portfolio performance pressures grow. The competitive challenge is to support affordability without drifting back toward higher default risk, and without treating extended terms as the primary fix.
- **Program competitiveness is becoming increasingly regional and precise.** Diverging buy-versus-lease preferences and payment sensitivity across markets are driving lenders to tailor offers locally. As a result, broad national programs are giving way to more targeted regional playbooks.
- **The competitive set will continue to broaden.** As consumers rely more heavily on payment outcomes, lenders are facing a **wider and more aggressive competitive landscape**, including growing roles for non-captives and regional players.

These trends do not change the foundational levers lenders can pull. However, they raise the threshold for execution. Digital convenience must translate into reliable, real-time payment performance; dealer collaboration must be built into operations, not just relationships; and market monitoring must move fast enough to trigger timely action.

Strategy 1: Deliver a single, trusted digital payment experience

Digital lending remains a primary battleground, and consumer expectations will continue to climb as digital retail becomes a standard part of the path to purchase. Customers progressively expect fast, low-friction transactions, and they value transparency and convenience as baseline requirements.

In a payment-first market, digital advantage extends to **establishing one reliable payment narrative across every touchpoint**. When online tools and dealership quotes surface different payments for the same vehicle and customer, it introduces doubt, extends decision time, and increases churn. A single source of payment truth, carried from digital browsing through finance-desk contracting, will be essential to conversion, confidence, and loyalty.

To deliver this, leading lenders are building three capabilities:

1 Payment transparency by design.

Digital journeys should show customers a stable, explainable payment that accounts for incentives, rate programs, and realistic term options. Monthly payment clarity has become a **direct driver** of conversion in high-price segments.

2 Seamless application and approval flows.

Automation and pre-qualification tools reduce friction and shorten time to decision, while clear digital offer terms reduce back-and-forth at the dealership. Speed alone is no longer a differentiator, as advantage comes from orchestrating a consistent end-to-end experience.

3 Data-enabled loyalty.

Loyalty is difficult in lending because the market remains highly price-competitive. The differentiator is not simply offering the lowest payment once, but **anticipating when customers re-enter the market and meeting them early with the right program**. **S&P Global Mobility's AutoCreditInsight™** reflects the value of pairing lender portfolio signals with broader return-to-market and regional demand indicators.



In the near to mid-term, lenders that connect these elements can improve conversion today and reduce reacquisition costs tomorrow. Digital leadership will increasingly mean owning the payment story, not just the application channel.

Strategy 2: Deepen dealer partnerships to keep pricing and approvals aligned

Dealers remain the central execution point of most financed transactions. What will define top-tier lender performance going forward is the precision of lender-dealer alignment.

An effective partnership is defined by two operational outcomes:

- **Approvals that happen quickly enough to support the retail process.** Delayed decisions create friction for both the customer and the dealer. Lender speed must be coupled with program clarity at the point of sale to influence dealer behavior.
- **Payments that match what customers saw earlier in the journey.** Alignment between digital payment quotes and dealership payments is now a core trust metric.

This requires lenders to reduce deal-structure complexity and integrate more fully into dealer workflows. In practice, leading lenders are:

1 Simplifying program logic for dealer execution.

When programs are complex or difficult to apply, dealers default to the simplest or most familiar path. Ease-of-use increasingly determines lender selection in a crowded field.

2 Embedding affordability tools into dealer systems

Payment optimization levers, such as rate subvention, targeted incentives, residual support, and term strategies, must be surfaced clearly and consistently inside dealer tools to be used effectively at scale. When applied in real time at the point of sale, these levers help dealers **convert payment-sensitive shoppers** by keeping offers aligned with affordability expectations.

3 Supporting regional dealer needs.

Regional variation in lease-versus-buy behavior and sensitivity to APR or term structure is increasing, and dealers expect lender programs to reflect that reality. As a result, lenders need localized payment strategies that match local demand patterns, helping dealers sustain volume while protecting margin.

For captive lenders and their OEM partners, the next phase of dealer collaboration will hinge on balancing near-term affordability with longer-term portfolio health. Longer terms remain a practical payment lever, but lenders are increasingly working to moderate reliance on 84-month financing by pairing rate, incentive, and term strategies more selectively.

At the same time, program design is becoming more regional and more precise, as localized buy-versus-lease patterns and payment sensitivity push the market away from national “one-size-fits-all” offers toward tailored regional playbooks.



Strategy 3: Compete through market agility and regional precision

Competitive benchmarking and market monitoring are transitioning from strategic hygiene to a primary operating discipline. In the years ahead, the lenders that win will not be those with a single compelling program, but those that can adjust offers quickly as conditions move.

Multiple forces are compressing the decision window:

1 Program competitiveness is increasingly payment-sensitive.

With payments dominating purchase decisions, small gaps in APR, incentives, or term structure can shift consumer and dealer preference rapidly. Payment competitiveness is now the decisive lever in many segments.

2 Regional differences are widening. Competitiveness is no longer a national average.

Lenders need visibility into how APR programs, term extensions, and incentive-linked offers are performing in specific regions where affordability constraints and buy/lease mix diverge. Regional benchmarking is therefore becoming a **competitive requirement**, enabling lenders to tune programs to local conditions rather than relying on broad national assumptions.

3 Policy and tariff shifts can alter cost and pricing assumptions quickly.

Lenders that monitor these changes early can respond with targeted pricing and term strategies before the market resets. **Tariff variability** is likely to remain a recurring disruptor, reinforcing the value of fast scenario-based program response.

Executionally, this means shortening the feedback loop between market movement and program response. Leading lenders are already adjusting pricing and term strategies on a monthly or bi-monthly cadence, and that tempo is becoming standard as volatility becomes more structural.



Conclusion: why these strategies will matter in the next phase of the market

The core challenge facing automotive lenders over the coming years is not only that affordability is constrained, but that the variables shaping affordability are moving faster and differently across regions. In this environment:

- Digital convenience must deliver **speed and a single payment truth**.
- Dealer collaboration must ensure **approval velocity and payment alignment**.
- Market monitoring must support **rapid, regional, data-driven program tuning**.

Lenders who connect these three strategies will be best positioned to compete through volatility, build durable loyalty, and sustain growth as the market continues to rebalance.

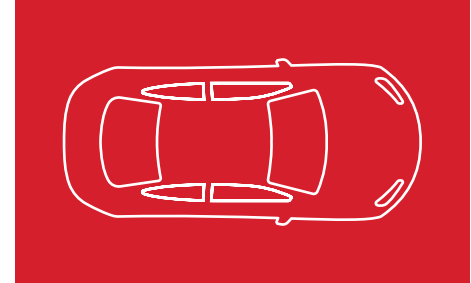
Market Scan's mGauge can enhance lending potential by providing real-time visibility into market dynamics. These metrics can be integrated into existing lender tools or used as the basis for custom solutions, enabling lenders to apply data-driven monitoring to stay competitive and win business across market conditions.

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