BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

June 14, 1976

To: Federal Open Market Committee

From: Murray Altmann M.A.

Attached for your information is a memorandum prepared in the Board's Division of Research and Statistics in response to a question raised at the May FOMC meeting.

Attachment

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 10, 1976

To Mr. Gramley

Subject: 60-Month Auto Loans

From Charles Luckett

In response to your question on automobile loan maturities, I conducted an informal inquiry among industry sources concerning the extent to which lenders are making 60-month new-car loans. I contacted the three "captive" auto finance companies and several commercial banks around the country, the American Bankers Association, and the National Credit Union Administration. Further inquiries were made through three Federal Reserve District Banks (Cleveland, Philadelphia and San Francisco). In summary, although three banks were interviewed which write auto loans for terms exceeding four years, the granting of 60-month loans still appears to be a very rare event.

Since early in 1973, lenders have steadily expanded the proportion of longer-term auto loans, which has permitted borrowers in such cases to maintain the monthly payment close to $100--or to purchase a more expensive car for a given size of payment--in the face of rapidly increasing car prices. (Table 1 shows monthly payments at various maturities for a given loan amount and finance rate.)

Almost one-fourth of all new-car loans now made carry a maturity exceeding 36 months, according to FRB statistics and a Credit Union Administration tabulation, but very few contracts exceed 48 months. Many lenders apparently are finding the risk exposure on a 42-or 48- month loan to be acceptable. On a 60-month loan, however, as Table 2 indicates, a borrower's equity might not become positive for almost three years--a point at which a 36-month loan would be paid off entirely, and equity on a 48-month loan would be approaching $900.[1/]

The captive finance companies--GMAC, Ford Motor Credit, and Chrysler Financial--adamantly state that they write no 60-month passenger car loans (some 60-month loans are made for light trucks and recreation vehicles). Commercial banks, according to an ABA survey, made 12 per cent of their direct loans in 1975 for longer than 36 months, 60 per cent of which were for 42 months, 39 per cent for 48 months, and 1 per cent--or only about .1 per cent of all new-car loans--for more than 48 months. According to a limited NCUA survey,[2/] credit unions made .9 per cent of their loans during 1975 for maturities exceeding 48 months. (Altogether, 19 per cent exceeded 36 months in this survey.)

I located three banks which regularly offer maturities of 54 or 60 months. All three have done so for at least three years. A West Virginia bank offering such terms (see attachment) now has

1/ One banker who offers 54-month auto loans remarked that the bank was "relying on the customer rather than the security."
2/ Only large federally chartered credit unions were surveyed.

22 per cent of its $16.5 billion new car loan portfolio in 60-month loans, with about an equal percentage exceeding 36 months, but under 60 months. The bank confines its 60-month loan program to borrowers who have equity in a home, have held the same job for at least three years,[3/] and who drive less than 12,000 miles a year. It is interesting to note that the bank's delinquency rate is somewhat lower for extended-term loans than for standard-maturity loans. A bank in Florida, making about 40 new-car loans a month, has a 60-month plan with lending standards similar to those of the West Virginia bank. About 10 per cent of its loans in the last six months have carried the 5-year maturity. Another bank, in Wisconsin, has offered a 54-month plan for several years, but has found it to be less heavily used by customers than expected. Five per cent or less of the bank's loans are made for 54 months. None of these banks was aware of any other banks in their areas offering similar maturities. Elsewhere, our calls uncovered no banks which made 60-month auto loans, including calls to several banks on the west coast, the area where the trend to 42-48 months began.

In general, it appears that virtually no lenders currently make passenger car loans with 60-month maturities. Even the ABA and NCUA statistics could be somewhat suspect, in that some of the 5-year truck and recreation vehicle loans made by some lenders could have been included in the reported data.

3/ Exceptions are made for retired persons who held their last job for several years.

Table 1

Monthly Payment and Total Interest
On $4500, 12% - APR Auto Loan
At Various Maturities

	36-Mo. Loan	48-Mo. Loan	60-Mo. Loan
Monthly Payment	$ 149	$ 119	$ 100
Total Interest	881	1188	1506

Table 2

Amortization and Depreciation Schedules
For Hypothetical $5300 Car
At Various Maturities 1/

Number of Payments Completed	Remaining Loan Balance			Wholesale Value of car	Borrower's Equity		
	36-Mo. Loan	48-Mo. Loan	60-Mo. Loan		36-Mo. Loan	48-Mo. Loan	60-Mo. Loan
0	$ 4500	$ 4500	$ 4500	$ 4350	$ -150	$ -150	$ -150
12	3174	3567	3801	3480	306	- 87	-321
24	1682	2517	3013	2784	1102	267	-229
36	0	1333	2125	2227		894	102
48	0	0	1125	1781			656

1/ Amortization schedules assume an 85 per cent loan-to-value ratio, and 12 per cent finance rate (APR). The depreciation schedule is based on wholesale cost, starting at 72 per cent of retail price (range for 1976 cars is 78-86 per cent), with the car depreciating 20 per cent per year.

Auto Loans

We offer many different choices of new auto financing to meet many different needs. And you can do the choosing.

From our 36-month new auto loan at an ANNUAL PERCENTAGE RATE of 9%—you won't find a lower rate anywhere—to our extended term auto loans (48-month at 10% APR and 60-month at 11% APR*). With several options in between. Life insurance and accident and sickness insurance are available too.

Study the chart, decide what you need and come see us. For a #1 for the road new auto loan from Kanawha Valley Bank.

NEW AUTO RATES

Term	36 Months		48 Months*		60 Months*	
Annual Percentage Rate	9%		10%		11%	
Amount Financed	**Monthly Payment**	**Total of Payments**	**Monthly Payment**	**Total of Payments**	**Monthly Payment**	**Total of Payments**
$2,000.00	$ 63.60	$2,289.60	$ 50.73	$2,435.04	$ 43.48	$2,608.80
3,000.00	95.40	3,434.40	76.09	3,652.32	65.23	3,913.80
4,000.00	127.20	4,579.20	101.45	4,869.60	86.97	5,218.20
5,000.00	159.00	5,724.00	126.81	6,086.88	108.71	6,522.60
6,000.00	190.80	6,868.80	152.18	7,304.64	130.45	7,827.00

The trade-in value of your present auto or its cash equivalent will usually be an adequate down payment.

*Special qualifications necessary

Payments low enough to fit any budget.

Consider our Valleyplan Auto Financing. You can take up to five years to repay, reducing the monthly payment substantially. You may qualify for terms beyond 36 months if you drive less than 12,000 miles a year, have equity in a home, and have been on the same job for at least three years.

People you can talk to

Kanawha Valley Bank