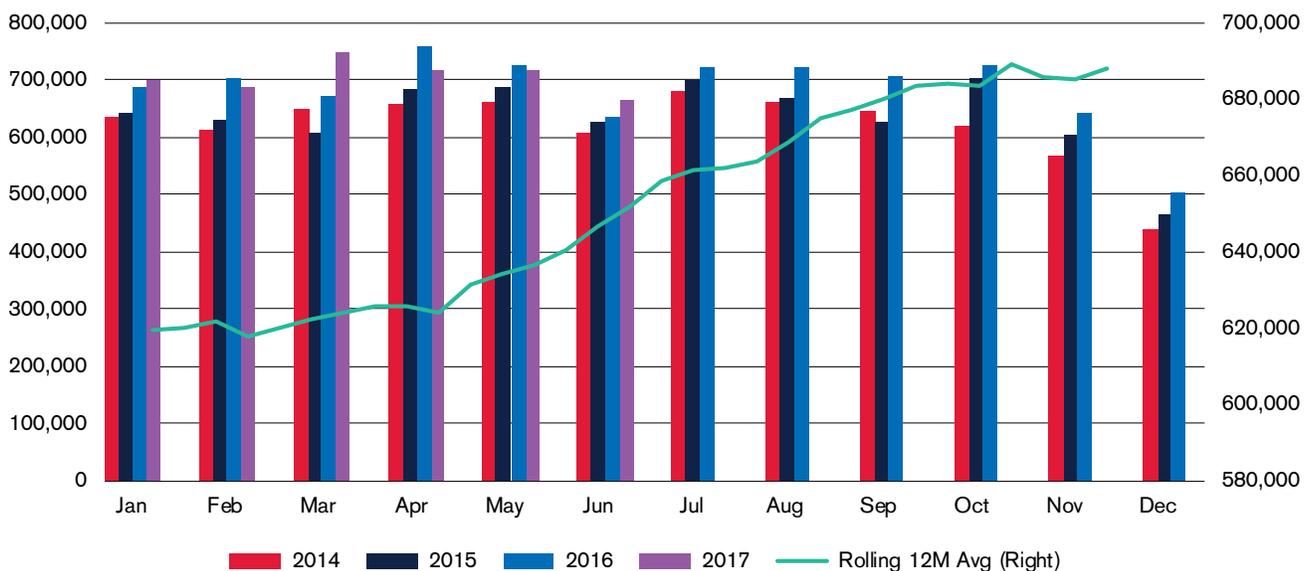




DBRS *Illustrative Insights* newsletter, delivering some of the most important and interesting charts commenting on the global economy through easy-to-read infographics, one at a time.

This week, we highlight the theme of **U.K. Autos**.

Monthly U.K. Used Auto Sales and Rolling 12-month Average, 2014-2017



Source: Society of Motor Manufacturers and Traders.

An increasingly competitive U.K. Auto Market and changes in consumer behaviour over the past decade have posed fresh challenges to both captive and non-captive automotive lenders. In the first quarter of 2017, new car sales reached record levels, largely driven by the increasing popularity of personal contract purchase (PCP) agreements.

The growing popularity of personal contract purchase (PCP) agreements and the increasing availability of dealership auto financing have been paramount in shaping the dynamics of the U.K. auto market over the past decade. This rise in PCP lending is prompting a potential oversupply of used vehicles, placing downward pressure on the used car market, and exposing lenders to potentially higher than anticipated future residual value losses. As shown in the chart above, used car sales volumes have increased dramatically in 2016 and 2017 and are currently forecast to eclipse 2016 levels of more than 8.2 million second hand vehicles sold by YE2017.

In a series of recently published articles, DBRS analysed the changing dynamics of the auto market. The first report, “[PCPs Putting Pressure on U.K. Auto ABS](#)” explores the 15 U.K. auto asset-backed securities (ABS) transactions DBRS has rated since 2010. The report notes a high correlation between new car registrations and U.K. Auto ABS prepayment rates, as well as an increasing weight of PCP agreements within transactions and within the market. This reinforces the role of captive auto finance lenders in supporting new car sales growth.

The second report, “[U.K. Auto ABS: Used Car Oversupply Forging New Challenges](#)” examines the effects of growing new car sales on the used car market, and the new challenges it has fostered for captive finance lenders. Manufacturers are addressing used car price pressure by introducing scrappage schemes whilst their captive auto lenders promote used car financing offers that include PCP agreements in lieu of traditional conditional sale agreements. However, the increase in volumes has put pressure on automobile prices and residual values in U.K. Auto ABS transactions.

Despite these recent changes in the U.K. auto market, delinquencies and defaults have remained at relatively low levels. In DBRS's view, U.K. auto ABS transactions rated by DBRS incorporate sufficient credit enhancement levels, and the recent changes in the market should not negatively affect the ratings of transactions rated by DBRS in the short term, and DBRS will continue to monitor progress.

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