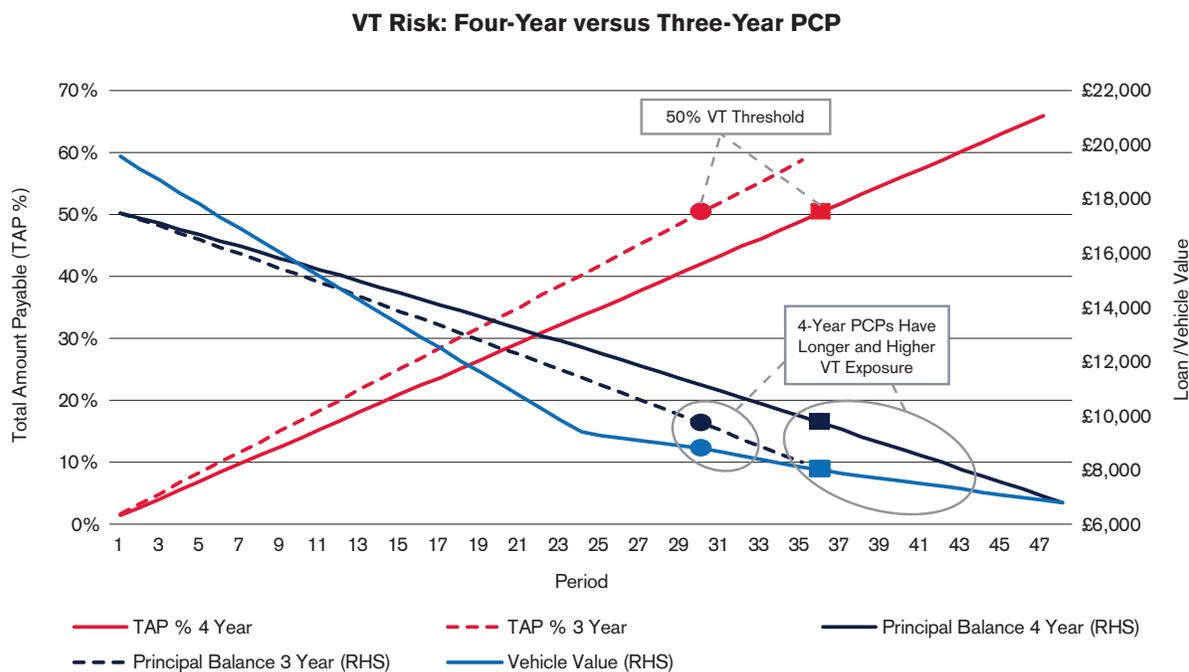


U.K. Auto Voluntary Terminations

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 the **U.K. auto voluntary terminations**.



Source: DBRS.

DBRS has observed an increase in the use of personal contract purchase (PCP) agreements in the United Kingdom over the last ten years (first commented on by DBRS in September 2017 [here](#)). Furthermore, the use of PCPs has evolved over this period with the product now regularly used to finance new and used vehicles, while contract terms have also widened. In DBRS’s view, the extended duration of these agreements creates an increased risk in the auto financing market from voluntary terminations, as recently commented on by DBRS [here](#).

As shown in the chart above, under a three-year PCP, the 50% threshold is reached around month 30, leaving only six months until the final payment is due. However, under a four-year PCP, the customer would reach the same point around month 36, leaving a full year for a termination to be considered. Additionally, because of the amortisation profile of the PCP agreement, the delta between the principal balance of the contracts and the vehicle value is greater under a four-year PCP.

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DBRS estimates that the voluntary termination (VT) exposure to the lender is almost doubled under a four-year PCP compared with a three-year PCP when deposit and interest rate variables remain constant. To offset the negative impact of a tenor increase, the four-year PCP agreement would have to be structured with a substantially higher deposit.

As four-year PCP agreements have become the norm, DBRS has observed increased cumulative voluntary termination rates for the U.K. Auto ABS transactions it rates. An increase in VTs typically results in a lower recovery rate compared with a PCP at final maturity while also denying the transaction additional cash flows and yield because of the early termination.

U.K. Auto ABS transactions have multiple performance variables that also include credit losses from defaulted contracts, turn-in rates at contract maturity and stresses related to market value decline. DBRS continues to closely monitor developments in the U.K. auto market and their potential impact on DBRS-rated deals.

Further details on DBRS's view of the impact of voluntary terminations can be found [here](#).

Other DBRS commentary on U.K. Auto ABS can be found on [dbrs.com](#), including a commentary on secondary market oversupply [here](#), a teleconference on U.K. autos [here](#), and the impact of Brexit on U.K. Auto ABS as part of DBRS's "UK: Countdown to Brexit" event [here](#).

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