

HEADLIGHT

Shining a light on the car finance market

SUMMER 2015

“Optimistic about the future”

60%

of brokers describe confidence amongst car buyers as strong or very strong

1 in 8

finance customers are changing their vehicle at least once every two years

23%

of brokers report that finance customers are willing to pay a little more each month for their car

Brokers would like to see more finance products for

LCVs
and older vehicles



JULIAN RANCE

Head of Paragon
Car Finance

paragon car finance

SUMMER 2015

HEADLIGHT

Car market buoyant according to finance brokers

Welcome to the very first Paragon Car Finance Headlight Survey.

The first of its kind, the new quarterly Headlight Survey collects and consolidates the views of the UK's largest motor finance brokers, providing a unique insight into car buyer confidence, finance trends and market outlook across the country.

Motor finance brokers provide a vital service, linking lenders to car dealers, specialist vehicle retailers and car buyers in order to source vehicle finance for the full spectrum of consumers and businesses across the UK. Active in the market each and every day, they are uniquely placed to comment on both the demand for and the supply of finance.

In this, our inaugural survey, the overwhelming sentiment is one of optimism. Confidence amongst car buyers is buoyant.

Overall, 60% of brokers describe car buyer confidence as strong or very strong, 40% say confidence is stable and no brokers report confidence as weak.

Interestingly, this optimism is reflected in two noteworthy trends. First, customers are replacing their vehicles more frequently. In fact, three times as many brokers report that the replacement cycle has become shorter (39%) for their customers over the last 12 months than those who've seen it lengthen (13%). Second, about a quarter of brokers (23%) reported that customers are willing to pay a little more each month when arranging finance for a car purchase, painting an encouraging picture of economic stability and growth.

On the supply side, brokers seem broadly content with the range and availability of finance products on offer from lenders. That said, they point to scope for improvement in

three specialist areas – finance for LCVs, finance for older vehicles and variable rate finance.

Finally and reassuringly, despite some concern about the implications for smaller dealers and different commission structures, our survey panel report that the switchover of consumer credit regulation to the FCA is progressing well.

I'd like to thank all the brokers who took part in the survey and look forward to hearing their views on a regular basis.

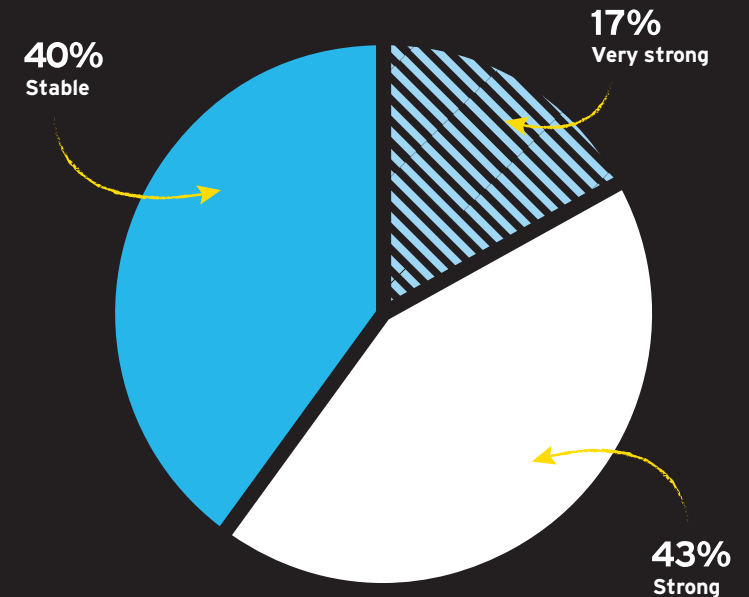
I hope you enjoy the results and find them informative.

Brokers are optimistic about the future



Motor finance brokers describe confidence amongst car buyers as stable (40%), strong (43%) or very strong (17%). No brokers describe confidence as weak.

How would you describe confidence amongst car buyers at present?



This is reflected in brokers optimism about the future, with almost three quarters (74%) expecting to finance more vehicles over the next three months and more than a quarter (26%) expecting to finance about the same amount. No brokers expect finance volumes to drop.

Despite this optimism, the majority of brokers are not expecting to see a surge in new car registrations in the next three months. The majority (74%) expect new car registrations to be stable compared with the same period last year, with 22% expecting an increase and 4% anticipating a drop.

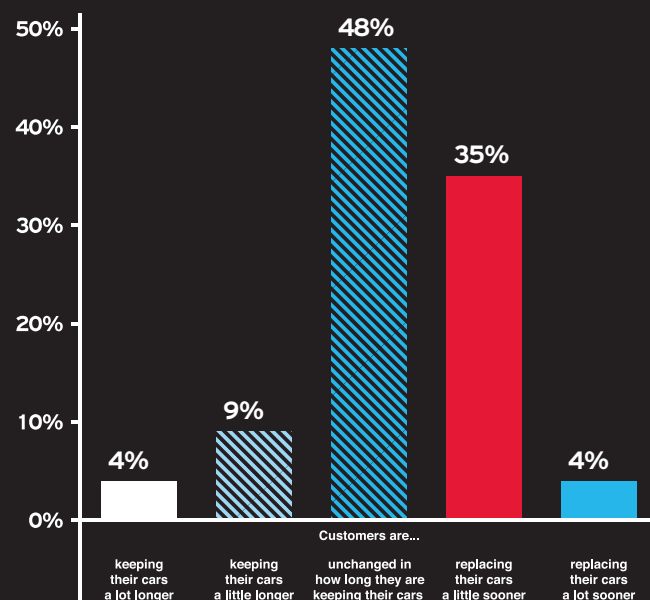
Customers are replacing their vehicles more frequently



Amongst customers using brokers to arrange finance, one in eight will look to update their vehicle at least every 1-2 years. Almost half (48%) will exchange their car every 2-3 years and a further 39% will look to switch cars every 3-4 years.

Over the last 12 months, three times as many brokers report that the replacement cycle has been getting shorter (39%) than those who say they've seen it lengthen (13%).

Has the replacement cycle changed in the last 12 months?

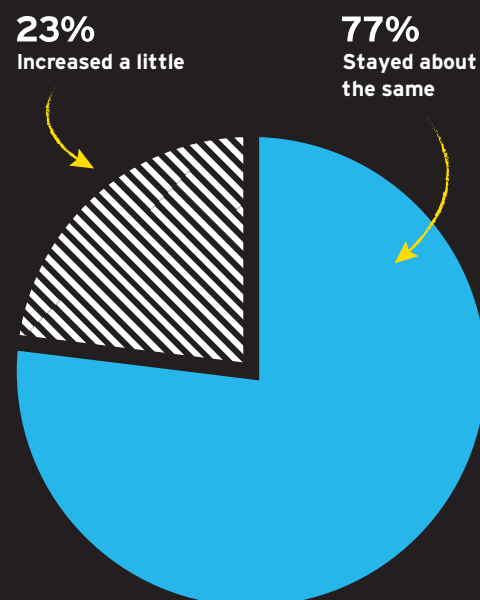


Almost a quarter of customers are willing to pay a little more each month



Over the last three months, 23% of brokers surveyed reported that they were seeing a slight increase in the average monthly payment on car finance agreements. The majority of brokers (77%) felt that average monthly payments on new finance deals had stayed about the same. No brokers reported a fall.

Monthly payment amount



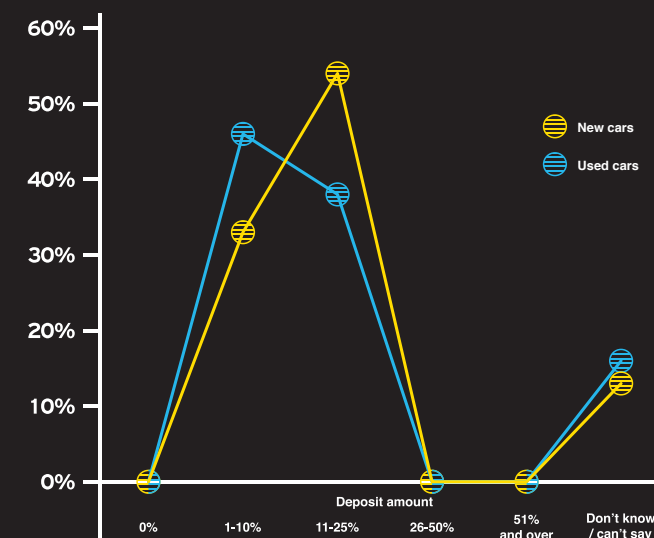
Customers make bigger deposits on new cars



For new cars, brokers report that the average deposit (including part exchange) on the majority of finance agreements (54%) is between 11% and 25% of the value of the vehicle.

In contrast, for used cars, the average deposit (including part exchange), is between 1% and 10% of the value of the vehicle for most agreements (46%).

Deposit amount for new and used cars



Looking ahead, over 80% of brokers expect the average deposit on new and used cars to stay about the same. 4% expect deposit amounts to increase a little and 4% expect it to decrease a little. The remaining 12% don't know.

Encouragingly, the majority of brokers report that availability of car finance has improved marginally (43%) or significantly (33%) over the last three months.

While the majority are not anticipating any major changes on car finance interest rates in the next quarter, one in six (17%) see the scope for a slight decrease in rates on new car finance and one in five (21%) on used car finance.

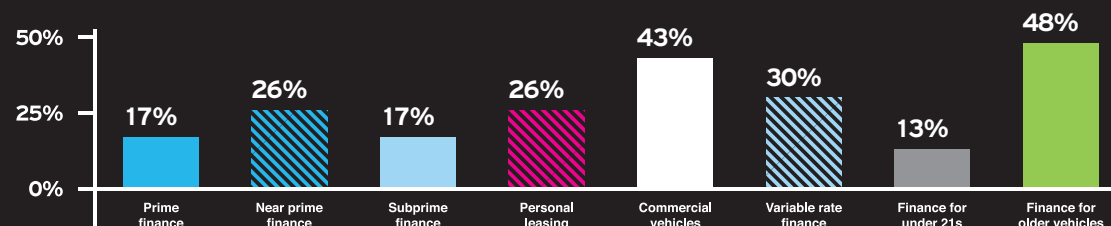
Brokers believe that suitable finance products are available to meet most (52%) or all (39%) of their customers' needs.

The areas they would most like to see improved availability are finance for older vehicles, finance for commercial vehicles and variable rate finance products.

Availability of finance is good with room for more finance for commercial vehicles, older vehicles and variable rate finance



In which areas would you like to see a greater availability of products in the car finance market?



Overall, the FCA switchover is progressing well with some impact on smaller dealers and commission structures

The majority of brokers (57%) report that the FCA switchover has had no impact on business volumes with 35% saying it has, in fact, boosted volumes.

For most, the FCA switchover has not made it more difficult for customers to obtain finance (74%) nor has it limited the variety of products on offer (83%) or made the process of applying for finance more complicated for them as brokers (74%).

However, a significant proportion (70%) agree that it has reduced the number of dealers offering finance and over 61% agree that it has resulted in different commission models that are difficult to understand.



About Headlight Survey

The Paragon Car Finance Headlight Survey is a quarterly survey of the UK's top 30 vehicle finance brokers operating across the UK. It includes a wide range of brokers, including those who arrange business for car dealers and specialist vehicle retailers as well as brokers who arrange finance with customers directly.

About Paragon Car Finance

Paragon Car Finance is a trading style of Paragon Bank PLC, a British bank with a specialist lending focus. Launched in February 2014, Paragon Bank applies its specialist lending expertise to offer competitive finance packages for customers in a range of carefully selected UK finance markets.

Paragon Bank is a wholly owned subsidiary of The Paragon Group of Companies. Established in 1985, The Paragon Group of Companies is best known as the UK's leading specialist buy-to-let lender and consumer finance Group. A FTSE 250 company, the Group has over £10.5 billion of assets under management and has helped one and half million customers with their finances.

Paragon Group was an active lender in the car finance market between 1998 and 2008, originating in excess of £900 million of business via 2,100 dealers and funding over 100,000 cars.

Paragon Car Finance is a trading style of Paragon Bank. Paragon Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered in England number 5390593. Registered office 51 Homer Road, Solihull, West Midlands B91 3QJ. Paragon Bank PLC is registered on the Financial Services Register under the firm reference number 604551.

Julian Rance
Head of Paragon Car Finance

Tel: 0121 712 6701
Email: julian.rance@paragonbank.co.uk

Kathryn Rhinds
PR Manager

Tel: 0121 712 3161
Email: kathryn.rhinds@paragon-group.co.uk

0345 149 7777

pcf@paragonbank.co.uk

www.paragoncarfinance.co.uk

paragon car finance