

# HEADLIGHT

Shining a light on the car finance market

SUMMER 2016



“Strong growth in used car finance”

**6 out of 10**

brokers report growth  
in used car finance

over **90%**

of brokers rate low interest  
rates as the most important  
factor supporting growth

**67%**

of brokers say finance  
customers want to change  
car every 2-3 years

**4 out of 10**

brokers report monthly  
payments are increasing



**JULIAN RANCE**

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Car Finance

paragon car finance

Summer 2016

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## Strong growth in used car finance

Welcome to the latest Paragon Car Finance Headlight Survey, gathering the views and opinions of the UK's largest motor finance brokers.

As new car registrations start to plateau in the UK, the majority of brokers report that they are seeing a faster rate of growth in used car finance applications than in new and that they expect this to continue for the foreseeable future.

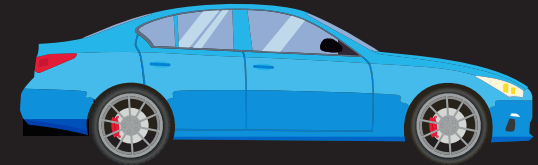
Looking at the first half of 2016, 62% of brokers reported growth in used car finance applications compared with 48% highlighting growth in new.

For the second half, brokers expect that used car finance will continue to perform well and they are also optimistic on a longer term view. For instance, four out of ten expect used car finance to grow faster than new car finance over the next five years, with only one in ten expecting to see new car finance spearhead growth.

Low interest rates top the list of factors attracting used car buyers but there are other important aspects for lenders and introducers to note. These include growing familiarity with monthly payment models, a wider choice of used car finance products including PCP and increasing access to motor finance online.

Although the EU referendum creates some uncertainty, for the time being, it appears the market remains in good health. More than two thirds (67%) of brokers report that finance buyers are keen to change their vehicle once every two to three years compared with almost half (48%) twelve months ago. In addition, four out of ten said customers are willing to pay a little more each month for their car, up from two in ten a year ago.

Used car finance  
accelerating

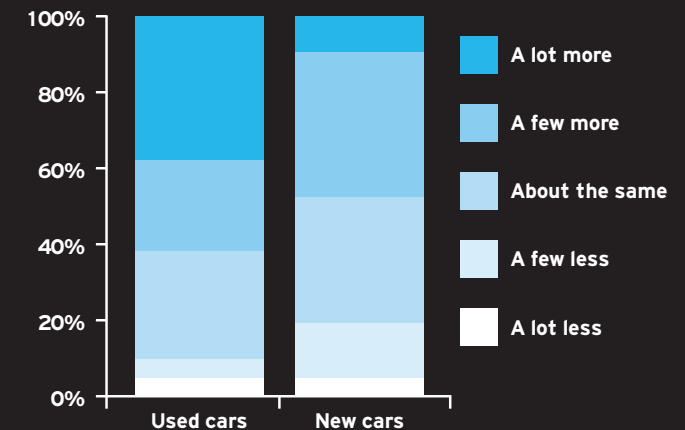


Brokers report good growth in both new and used car finance applications, with used car finance application growth outstripping new.

During the first half of 2016, 62% of brokers reported growth in used car finance applications compared with 48% highlighting growth in new. And whilst 38% of brokers pointed to 'a lot more' growth in the used car finance market over the last six months, only 10% of brokers reported such fast-paced growth for new cars.

Looking forward to the second half of the year, brokers expect that used car finance growth will continue to outstrip the new car market, with 43% expecting to see more growth in the used car market compared with 33% of brokers forecasting growth in new car finance.

**Number of car finance applications proposed in the first half of 2016 compared with the same period last year**



## Long term outlook for used car finance strong

Brokers are also enthusiastic about the long term prospects for used car finance growth, with four out of ten (38%) expecting used car finance to grow faster than new cars over the next five years. In contrast, only one in ten (10%) expect new car finance to spearhead growth.



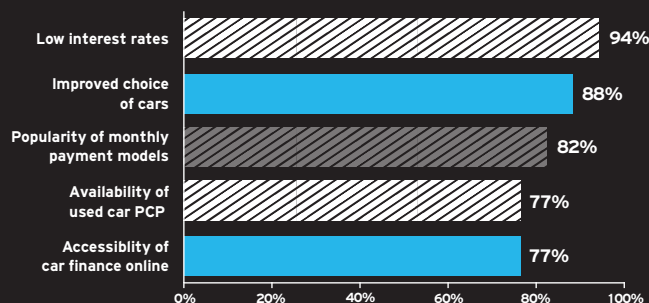
Used car finance to grow faster



New car finance to grow faster

Almost all brokers point to low interest rates (94%), improved vehicle supply (88%) and widespread adoption of monthly payment models (82%) as the main factors driving used car finance growth. Also important is the growing availability of PCP plans for used car finance (77%), better access to car finance online (77%) and an increasing desire amongst used car customers to change their vehicle more frequently (65%).

## Factors driving growth in the used car finance

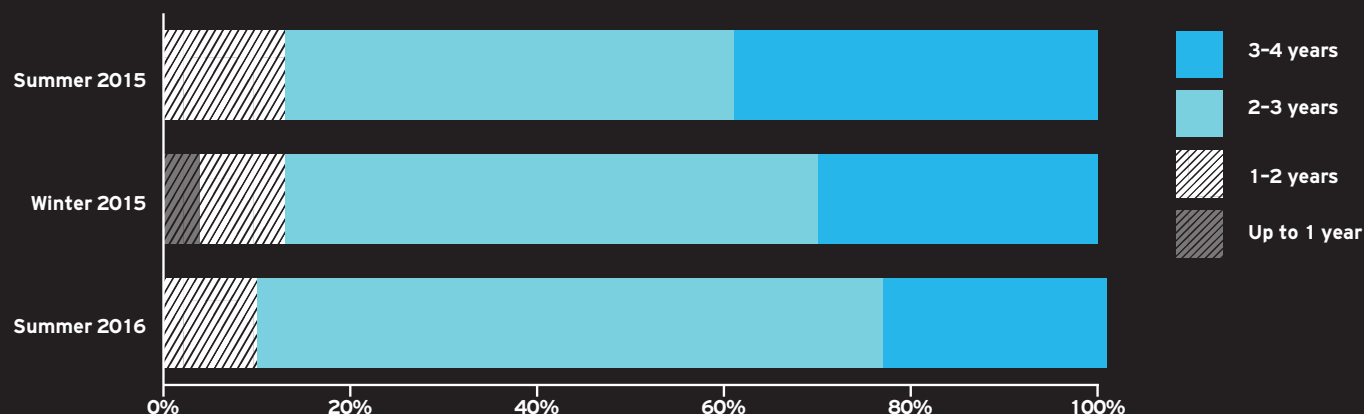


## Majority report finance customers changing car more frequently



Brokers continue to report an increasing propensity for car buyers to change their vehicle more frequently with two-thirds of brokers (67%) reporting that car buyers now look to change their vehicle once every two to three years compared with almost half of all brokers (48%) twelve months ago.

### Frequency with which customers change their car



Proportion of brokers reporting an increase in monthly payments

2 out of 10  
First half 2015

4 out of 10  
First half 2016

At the same time, brokers point to a continuing trend for lower deposits on new cars and a growing proportion of car buyers willing to increase their monthly payment by a modest amount.

Most notable in this survey, 43% of brokers reported that their customers were willing to pay a little more each month for their car compared with 23% that felt this way last year.



## Demand for electric vehicle finance growing but difficult to satisfy

Industry figures show alternatively fuelled vehicles led the growth in new car registrations during the first half of 2016, with numbers up over 20% year on year.

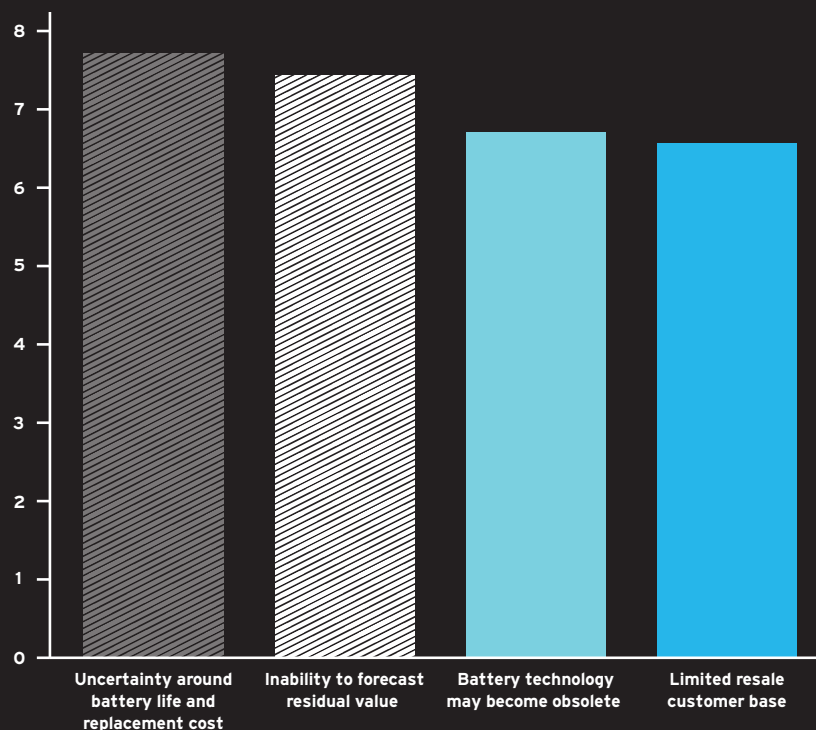
Our Headlight Survey brokers also highlight an increasing demand for finance for this category, with more than half (52%) reporting stronger demand for finance for alternatively fuelled vehicles compared with last year.

Whilst all our brokers are supportive of the growth, just over half experience difficulty in arranging finance for alternatively fuelled vehicles some or most of the time.

Highlighting some of the most common difficulties in setting up finance for early life cycle technologies, brokers pointed to uncertainty around battery life and replacement cost, inability to forecast the residual value of the vehicle and the potential for battery obsolescence.



## Factors affecting choice and availability of finance for alternative fuel vehicles on a scale of one to ten



## About Headlight Survey

The Paragon Car Finance Headlight Survey is a six monthly 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 £12.9 billion of assets under management and has helped more than 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.

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