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HEADLIGHT

Shining a light on the motor finance market

*Indications on the road ahead
for the motor industry*

- Used cars expected to keep their value longer, particularly diesels
- Positive outlook for motorhomes, LCVs and prestige cars
- Advancement of electric and hybrid vehicles hampered by lack of finance

Autumn/Winter 2018-19



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HEADLIGHT

Indications on the road ahead for the motor industry

Welcome to the latest edition of the Paragon Headlight Survey, shining a light on the UK motor finance market and gathering the views and opinions of the UK's largest motor finance brokers.

These are changing times, what with Brexit uncertainties, further developments for alternative fuel vehicles (AFVs) and increasing moves to tackle diesel emissions - so our latest report makes for a fascinating read on what brokers expect in the coming year.

Trends for refinancing, the sale of leisure vehicles and issues securing finance for electric cars and AFVs all give a snapshot of the road ahead for the motor industry. What came across from the results was that there is a lot of volatility in the market and brokers are noticing the changes.

It may be no surprise that Brexit is at the forefront of people's minds but this survey gave some interesting insight into how brokers feel the motor market may react to the UK leaving the EU.

Many said they expected a short-term fallout after Brexit and while most thought the impact would depend on the kind of deal secured, it was telling that no brokers thought Brexit would have a positive impact on the motor industry. When asked about various types of vehicles after Brexit, more brokers had a positive outlook for commercial vans, caravans and

motorhomes than prestige or new cars.

An overview of the results also painted a more in-depth picture of what is happening generally within the industry. For instance, nearly three quarters of brokers expected an increase in both hybrid and electric car sales in the coming six months yet around a quarter of brokers said they had difficulty organising finance for electric cars.

AFVs are clearly growing in popularity as 72% of brokers said they dealt with electric cars on a quarterly or more frequent basis, so this throws open the question on how much quicker electric car sales and development would grow if funders could get more comfortable with this type of vehicle. Many aren't keen to fund them while manufacturers are still improving the technology and battery life.

What we need is the government to step up to the plate when it comes to electric cars and the pollution agenda. If it is serious about outlawing the sales of new cars or vans powered solely by a petrol or diesel engine from 2040 as part of its Road to Zero strategy, then the government also needs to help fund AFV vehicles through a scheme like an Enterprise Finance Guarantee.

Due to the technology involved with electric cars constantly being updated, there is a huge amount of risk in terms of valuation and merchandise complaints. Lenders need some form

of financial guarantee for these cars and we are happy to take risks, but only to a certain point. An Enterprise Finance Guarantee would mean that lenders could take a view on where residual value would be and the government would stand the loss beyond that. This partial guarantee could make a real difference.

There was also optimism for light commercial vans (LCVs), prestige cars and motorhomes and the most buoyant market was for LCVs with 52% of brokers reporting an increase in sales over the past six months. Over a quarter also expected sales to increase for these vehicles in the coming six months.

While we are seeing a decline in new car registrations, brokers reported that refinancing was a growing trend. Brokers are telling us that people are keeping and refinancing both new and old cars. When pieced together with other responses, I believe this indicates that an increase in the value of used cars is likely and I could see diesel used cars also holding their value well as new diesel cars are now a reducing breed.

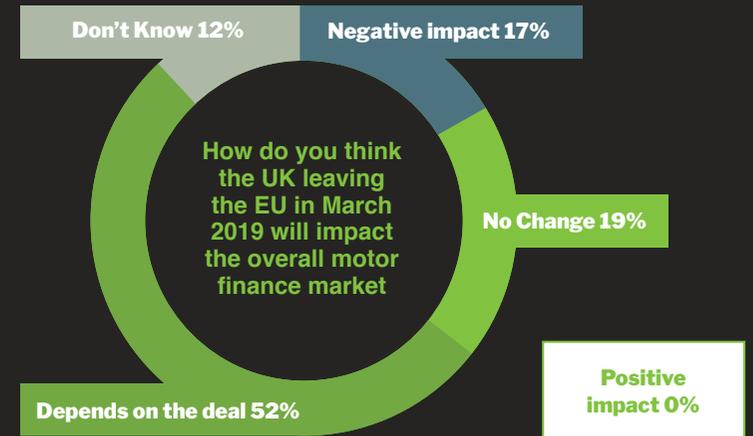
You can read more detail on key findings in this report and I hope it helps build a picture of what lies ahead for the British motor finance industry.

It's just left for me to say many thanks to everyone who took part in our survey.

Brexit expected to hit sales in short-term

No British motor finance brokers and dealers questioned thought Brexit would have a positive impact on the motor finance market.

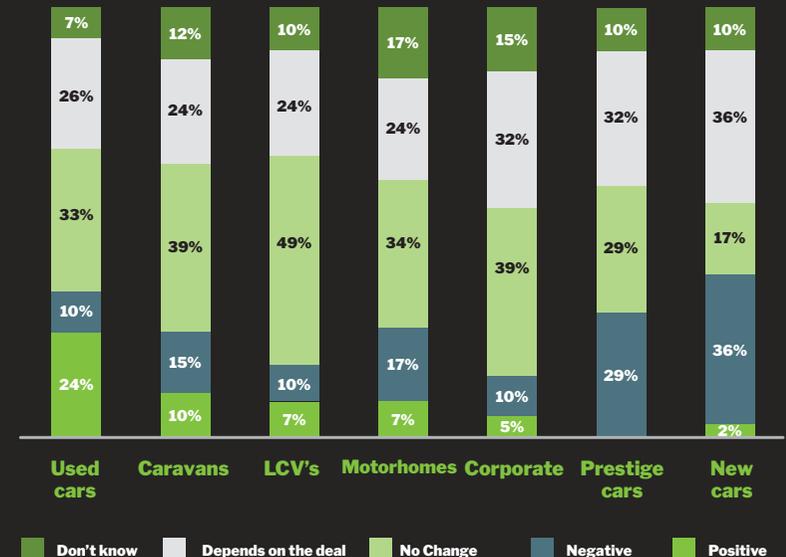
You can see how they thought Brexit would impact on overall motor finance market in the graph below.



General views also highlighted that many thought there would be a short-term blow to sales that could dissipate within a few years' time.

They were also asked their thoughts on how Brexit would impact on varying types of vehicles for which more brokers had a positive outlook for commercial vans, caravans and motorhomes than prestige or new cars, as shown below.

Do you think the UK leaving the European Union in March 2019 will impact the following types of motor finance?

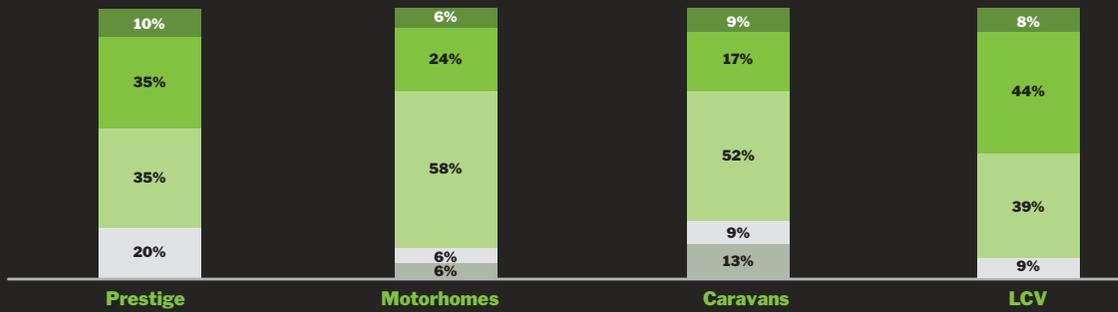


The changing shape of sales

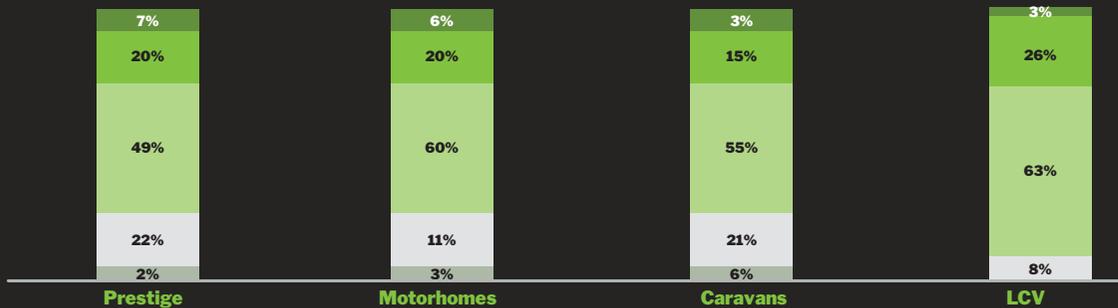
There was optimism for electric, hybrid, LCVs, motorhomes and prestige cars with a faster rate of growth anticipated for these vehicles. Amid the buoyant market for leisure vehicles, only caravans were expected to buck this trend with brokers predicting a fall in applications in the coming six months.

Reflecting figures of a slowdown in new car sales from The Society of Motor Manufacturers and Traders (SMMT), brokers reported a negative outlook for new car applications and diesel cars. Nearly half of brokers (47%) reported a decline in new car sales and one in three (33%) were expecting less sales in the coming six months.

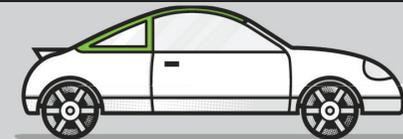
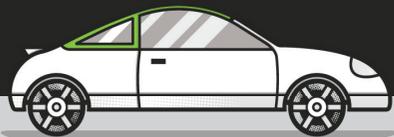
Finance applications for vehicle types last six months



Predicted finance applications for vehicle types next six months



■ A lot more
 ■ Little more
 ■ About the same
 ■ Little less
 ■ A lot less

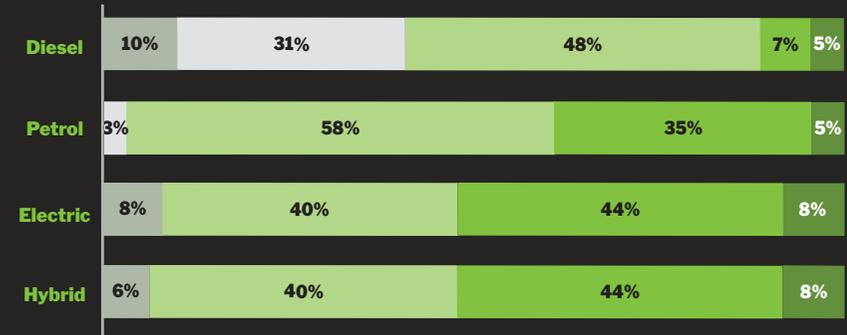


Electric cars and issues with finance

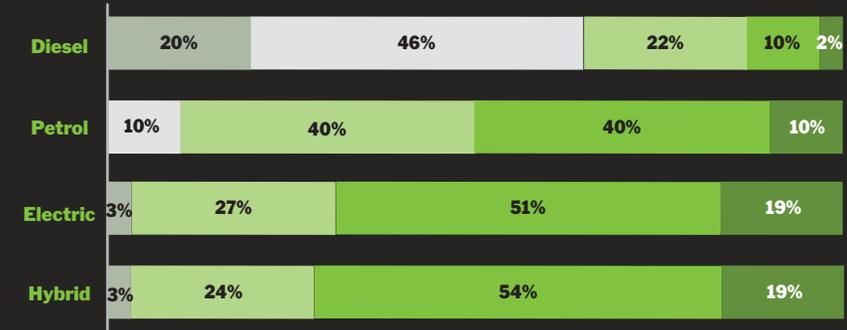
The market for both hybrid and electric car sales looks promising in terms of both the past six months and looking ahead. Nearly three quarters of brokers expected an increase in both hybrid and electric car sales in the coming six months yet around a quarter of brokers said they had difficulty organising finance for electric cars.

AFVs are clearly growing in popularity as 72% of brokers said they dealt with electric cars on a quarterly or more frequent basis.

Application fuel types past six months



Application fuel types next six months

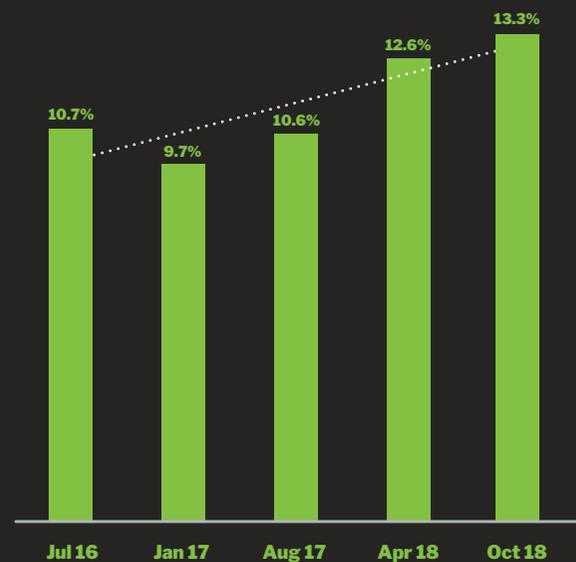


Deposits continuing to rise

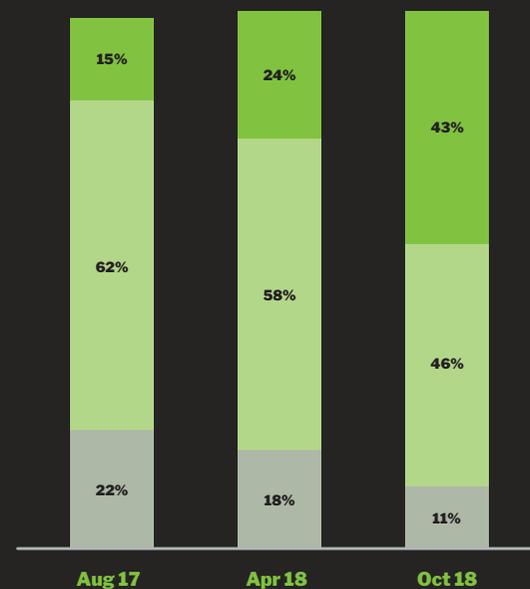
Average deposits increased for the fourth wave in a row for used cars with the latest average deposit reported to be 13.3% compared to 9.7% in July 2017. This reflects lenders' having a low appetite for risk in the current times amid a volatile and difficult market.

Respondents said average monthly payments for used cars had also increased heavily over the past 12 months, as shown in the graph.

Average deposit on applications in last 6 months



Has the average monthly payment changed for used cars in the last 12 months



■ Increased a little ■ About the same
■ Decreased Significantly

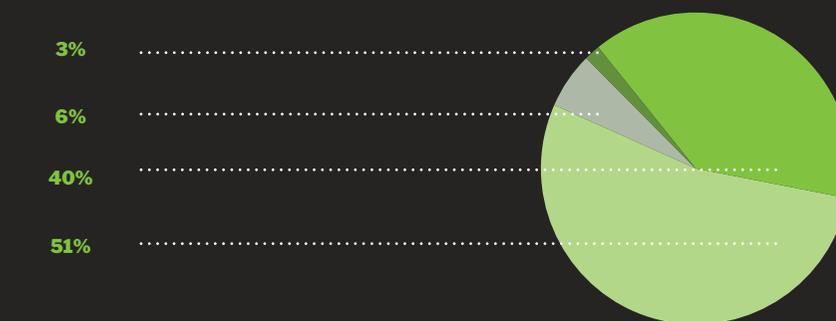


Surge in refinancing

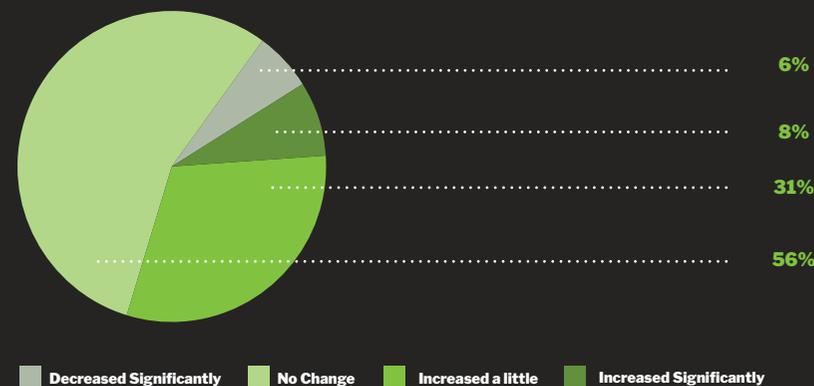
Brokers reported that refinancing was a growing trend for both new and old cars as shown in the graph below. For new cars, 43% of brokers said financing had increased in the past 12 months while the figure was 39% for used cars.

Has the number of customers refinancing their existing car at the end of term changed in the last 12 months?

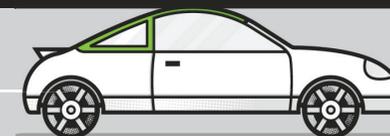
New cars



Used cars



■ Decreased Significantly ■ No Change ■ Increased a little ■ Increased Significantly



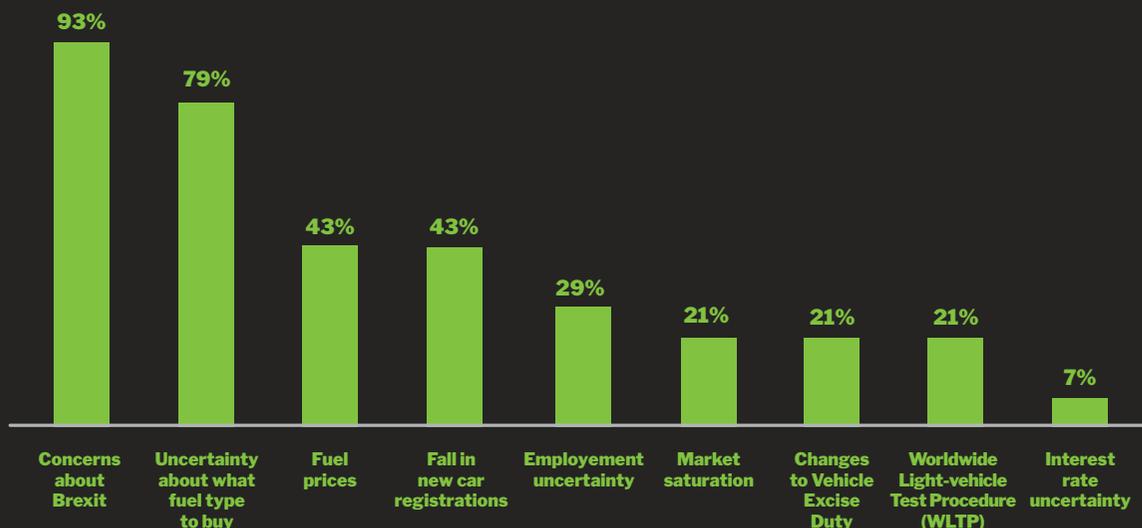
Confidence continues to fall

Confidence fell for the fourth wave in a row in our Headlight survey with weak confidence mainly blamed on Brexit.

How would you rate confidence amongst car buyers at present on a scale from 1 (very low) to 10 (very high)?



Reasons given for confidence being weak



About Headlight Survey

Paragon's Headlight Survey is a six-monthly survey of around 45 key vehicle finance brokers operating in the UK. It includes a wide range of brokers from those who arrange business for car dealers and specialist vehicle retailers to those who arrange finance with customers directly.

About Paragon

Paragon provides motor finance for cars, LCVs, motorhomes and caravans through approved intermediaries and registered dealers.

Paragon Bank PLC is a subsidiary of the Paragon Banking Group PLC, which is a FTSE 250 company based in Solihull, in the West Midlands. Established in 1985, Paragon Banking Group PLC has over £12 billion of assets under management.

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