



THE PAPER TRAIL

A Monthly Market Brief

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The Squeeze Is Real: Why Subprime Auto Is Getting Hit from Every Direction

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It Starts with the Consumer

If you're in the subprime auto ecosystem right now — whether you're originating, servicing, buying paper, or running a lot — you already feel it. The macro picture is rough. But what's different about this cycle is how many pressures are converging at once. This isn't one problem. It's five of them stacked on top of each other.

The subprime borrower has been absorbing cost increases for two years straight. Shelter costs are up double digits for renters. Grocery bills haven't come back down. Health insurance, prescriptions, utilities — all elevated. The cumulative effect on household budgets has been severe, and the borrowers living it feel every dollar.

The jobs picture is shifting in a way that doesn't show up in headline numbers. We're not seeing mass layoffs in base wages — yet. But overtime is evaporating. Logistics is contracting. Warehouse jobs, delivery routes, construction cleanup crews — thinning out. A big chunk of the BHPH borrowing base earns \$17–\$28 an hour, and a significant portion of that income was padded with overtime.

“Take away six hours of overtime a week from someone earning \$25 an hour and you've wiped out \$500 a month. That's a car payment gone.”

Then layer in the immigration enforcement effect. Hispanic borrowers have historically been some of the most reliable payers in the subprime stack. At the BHPH level, immigrant paper typically performs with very low static loss rates — roughly 90% collection rates. That base is now contracting as deportation fears reduce engagement across the board. What's left is the core subprime borrower with significantly higher loss rates. The math changes fast.

Insurance: The Silent Killer

Here's a cost shock that doesn't get enough airtime: auto insurance premiums. A borrower who was paying \$195 a month in premiums two years ago is now looking at \$240 at renewal. That jump doesn't sound catastrophic in isolation, but it's hitting consumers who are already stretched to the breaking point.

So they make a choice: pay the car note, or pay the insurance. Many stop paying insurance. That puts the lender in a box. Force-place collateral protection insurance at roughly \$100 a month, and now a portion of every payment is going to CPI instead of principal and interest. The amortization schedule stretches. Principal reduction slows. A loan that should pay out in 48 months starts behaving like a much longer obligation.

The alternative is worse — skip the force-placement, absorb the risk, and hope the car doesn't total while uninsured. Some lenders are making exactly that bet because the borrower can barely make the base payment as-is.

And here's the kicker: many subprime borrowers can't even qualify for standard insurance policies. Credit history is now a factor in insurance underwriting. If your credit profile is thin or damaged, you're getting pushed to second- and third-tier carriers with blanket rates that don't factor in loyalty or driving history. You're not getting the Allstate rate. You're getting the General.

Mechanical Breakdowns: The New #1

We're flagging this for the first time publicly: mechanical breakdowns have overtaken job loss as the primary driver of voluntary surrender in the portfolios we track. That's a significant shift. It tells you something important about the vintage of vehicles circulating in the subprime ecosystem.

As we work through 2020–2023 originations, a lot of these assets are aging into the breakdown zone. And when the car breaks, the math breaks with it. A 2017 Malibu that needs front-end shocks and struts is a \$1,500 job no matter where you go. The borrower weighs the cost and walks. They hand the keys back and head down BHPH row to the next dealer who'll put them in something for \$1,500 down.

“Voluntary repos are up significantly. Borrowers are telling us two things: come and get it — it's breaking down. Or come and get it — I just can't afford it.”

That desperate dealer — the one who's had a car on his lot for 31 days with a floor plan ticking — takes the deal. He takes \$1,500 down on a car he's maybe 60–70% confident will last the life of the loan. The first time anything goes wrong, the keys come back. The cycle repeats. Everyone's so hungry for performing deals that they're ripping each other's faces off, working their way down BHPH row.

The Parts Problem: A Subaru in Texas

A dealer near Dallas told us a story recently that captures this problem in a single image.

He's got a Subaru Forester sitting on his lot. It's been there for 13 months. The car has 90,000 miles. It runs, mostly. But it needs one part he cannot get. He's tried junkyards, salvage yards, Subaru direct — nothing. The vehicle is older than 12 years, which puts it outside the window where OEM parts flow reliably.

Now layer on tariff pressures. Foreign-made components are either more expensive or simply unavailable. Some manufacturers have stopped producing certain parts entirely — they can't pass through the costs, so they just don't make them. This dealer told us he's far from alone. Dealers across the country have cars parked on lots, waiting on a single part, while the asset depreciates and floor plan fees accrue.

“A car that could sell for \$6,995 with \$750 down is just dead inventory. Do you junk it and salvage, or wait indefinitely for a part that may never come?”

This is happening at exactly the moment when affordable used inventory is already scarce. People are keeping their cars longer because they can't afford 7–9% financing on new vehicles. The natural cascade — where trade-ins flow from new-car lots down to BHPH — has slowed to a trickle. So dealers are acquiring assets they never would have touched before, marking them up further, and the cycle compounds.

The Bottom Line

This market is defined by convergence. No single pressure would be unmanageable on its own. But the combination of inflated asset values, deteriorating borrower capacity, parts scarcity, insurance cost shocks, immigration-driven portfolio contraction, and an overleveraged dealer base creates an environment where margins are razor-thin and mistakes are expensive.

The operators who survive this cycle will be the ones who underwrite thoughtfully, maintain affordable inventory, keep their borrowers in cars when things break, and resist the temptation to lever up chasing volume. The rest will hand the keys back too — just like their borrowers.

Coming in Issue 2: We go deeper on credit unions — solar loan defaults, credit disputes up 400% driven by social media coaching, and why institutions are cutting costs from sponsorships to break room coffee to survive the margin squeeze.

The Paper Trail is a monthly market brief from the desk of Tribute Capital Partners. We buy, value, and trade subprime debt. These are our observations from the front lines.

For inquiries, deal flow, or to subscribe, contact us at louis@tributecap.com

Data Appendix

Federal Reserve Economic Data (FRED) — as of March 06, 2026

Indicator	Latest	Prior Period	2 Periods Ago
Delinquency & Charge-Offs			
Delinquency Rate on Credit Card Loans (All Banks)	2.94% Oct 2025	2.98% Jul 2025	3.04% Apr 2025
Mortgage Delinquency Rate (Single-Family)	1.78% Oct 2025	1.78% Jul 2025	1.79% Apr 2025
Delinquency Rate on Consumer Loans (All Banks)	2.62% Oct 2025	2.71% Jul 2025	2.76% Apr 2025
Charge-Off Rate on Credit Card Loans	4.11% Oct 2025	4.18% Jul 2025	4.18% Apr 2025
Charge-Off Rate on Other Consumer Loans	1.21% Oct 2025	1.24% Jul 2025	1.20% Apr 2025
Consumer Costs			
Consumer Price Index (All Urban Consumers)	326.6 Jan 2026	326.0 Dec 2025	325.1 Nov 2025
CPI: New Vehicles	179.2 Jan 2026	178.9 Dec 2025	178.9 Nov 2025
CPI: Used Cars and Trucks	181.3 Jan 2026	184.7 Dec 2025	186.3 Nov 2025
CPI: Electricity	300.2 Jan 2026	300.6 Dec 2025	300.1 Nov 2025
CPI: Shelter	422.0 Jan 2026	421.0 Dec 2025	419.4 Nov 2025
CPI: Food	345.3 Jan 2026	344.6 Dec 2025	342.4 Nov 2025
CPI: Gasoline (All Types)	274.5 Jan 2026	283.6 Dec 2025	284.6 Nov 2025
CPI: Medical Care Services	644.9 Jan 2026	642.8 Dec 2025	640.5 Nov 2025
Credit & Lending			
Total Consumer Credit Outstanding	\$5,114.7T Jan 2026	\$5,106.6T Dec 2025	\$5,081.4T Nov 2025
Nonrevolving Consumer Credit Outstanding	\$3,785.7T Jan 2026	\$3,782.4T Dec 2025	\$3,769.5T Nov 2025
Federal Funds Effective Rate	3.64% Feb 2026	3.64% Jan 2026	3.72% Dec 2025
Finance Rate on New Auto Loans (60-Month)	7.22% Nov 2025	7.64% Aug 2025	7.67% May 2025
Consumer Debt Service Payments (% of Income)	5.37% Jul 2025	5.30% Apr 2025	5.34% Jan 2025

Indicator	Latest	Prior Period	2 Periods Ago
Household Debt Service Payments (% of Income)	11.26% Jul 2025	11.12% Apr 2025	11.11% Jan 2025
Labor & Income			
Unemployment Rate	4.40% Feb 2026	4.30% Jan 2026	4.40% Dec 2025
Underemployment Rate	7.90% Feb 2026	8.10% Jan 2026	8.40% Dec 2025
Initial Jobless Claims (Weekly)	213,000 Feb 2026	213,000 Feb 2026	208,000 Feb 2026
Personal Saving Rate	3.60% Dec 2025	3.70% Nov 2025	3.70% Oct 2025
Borrower Balance Sheet			
Consumer Credit Held by Bottom 50%	\$2.60T Jul 2025	\$2.57T Apr 2025	\$2.56T Jan 2025
Net Worth Held by Bottom 50%	\$4.25T Jul 2025	\$4.15T Apr 2025	\$3.98T Jan 2025
Auto Lending (Finance Companies Only)			
Motor Vehicle Loans at Finance Companies	\$539.7T Dec 2025	\$538.4T Nov 2025	\$540.0T Oct 2025
Motor Vehicle Loans Owned & Securitized	\$539.7T Dec 2025	\$538.4T Nov 2025	\$540.0T Oct 2025
Motor Vehicle Loans Securitized	\$0.0B Dec 2025	\$0.0B Nov 2025	\$0.0B Oct 2025
Total Vehicle Sales	16.1M Feb 2026	15.2M Jan 2026	16.4M Dec 2025