



THE PAPER TRAIL

A Monthly Market Brief

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Two Turns and Out: How Disposable Cars Are Driving the Voluntary Surrender Wave

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Mechanical Breakdown Is the New Job Loss

Subprime auto delinquency just printed a record. Per Fitch Ratings, sixty-plus-day delinquency on subprime auto ABS hit 6.6% in January 2025 — the highest since the series began in 1994. VantageScore CreditGauge has the all-auto 60+ rate at 1.38% in Q1 2025. The average new car payment cleared \$767 last quarter, per Experian. And the CFPB's January 2025 repossession report shows only 27% of repo assignments are completed — meaning roughly 73% never bring the vehicle back. None of that is news inside our network.

What is news is that the trigger for voluntary surrender has flipped. Mechanical breakdown has overtaken job loss as the number-one reason borrowers hand back the keys — for the first time in at least a decade. A meaningful share of the roughly 800 rooftops in our network use the same phrase this quarter — we're getting volleyed to death — and the calls coming in say it plainly: "It's smoking, it's overheating, come and get it." That shift is structural. The car is breaking faster than the loan. Borrower psychology flips the moment the engine smokes, forcing a workout matrix — good customer or bad, good car or bad. And dealers are writing the wrong deals anyway because the indirect-credit box is tightening. This issue walks through all of it.

The Car Is Disposable Now

Here's the answer nobody in lending wants to write down: the cars are built to fail. Some operators are running clean books and reporting volleys at historical lows. Many are taking it on the chin. The dividing line isn't underwriting discipline or collection technology — it's the asset itself. Cars from the 2015 build forward are visibly cheaper. Plastic bumpers. Quarter-inch-thinner sheet metal in the engine bay. Trim and clips that used to flex now buckle. The cost to acquire has gone up. The quality has gone down.

The proof is in the parking lot. A neighbor backed into a 2015 model SUV at four miles an hour and the bumper just flexed a clip — push it back in, done. The same neighbor backed into a 2018 model and the bumper buckled like the impact was double the speed. That's three model years of difference, and the engineering tolerance is gone. Multiply that across every Malibu, Altima, Impala, and Cruze on a BHPH lot — the cars that are the BHPH inventory because they're cheap, gas-friendly, and any shade-tree mechanic can work on them — and you have a fleet that was never engineered to survive its second or third owner.

“Cost has gone up. Quality has gone down. The asset itself has become the risk we're underwriting against.”

Nissan, Chevy, and Buick now occupy the slot Kia used to hold — the brand you bought knowing it wouldn't last. Kia got better. The bottom of the market just slid down a tier. The rental-car operators figured this out a decade ago: a major rental company knows within two thousand miles when to dump a unit at auction. Their 2023 Altima with 43,000 miles isn't a 43,000-mile car. It's a hard 43,000 — Mississippi to Arkansas and back, no maintenance, abused. We're putting that exact car on a BHPH lot, financing it for 48 months, and pretending it has another four years in it. It doesn't.

Two Turns and Out

Old BHPH wisdom — the kind you used to hear from operators who'd been on the desk for thirty years — was simple: turn the car until the wheels fall off. Sell it, run the loan to default, repossess, recondition, sell it again, and repeat for as long as the asset would tolerate it. The car was supposed to outlast its loans, not the other way around. That model is finished. The new ceiling is two clean turns. Not three. Not four. Two. Sell it once, collect the down, run the loan to default, repossess, recondition, sell it twice, charge off, and liquidate. After the second turn you stop pretending and let the wholesale market take it.

That math is breaking. The shorter useful life of the asset means a lot of the cars on subprime lots today are already on their final clean turn — and the dealer doesn't know it. Our network data shows roughly 50% of voluntarily-returned vehicles can be remarketed retail. The other half go straight to wholesale at meaningful loss. And on a true BHPH unit — 11 to 13 years old, 150,000-plus miles — the net recovery at auction is running about 18% of the outstanding principal balance after the sale fee, repo fee, and basic remarketing. A \$10,000 balance returns roughly \$1,800. That's before you charge a dollar of internal labor for title work, transport, or storage.

“All I'm doing is keeping the call queue inflated with loans I already know aren't going to perform — and putting lipstick on a pig.”

The math gets uglier when you account for the offset. A profitable BHPH copy throws off \$6,000 to \$10,000 in lifetime interest income. A total-loss event — wreck with no insurance, mechanical write-off, abandoned vehicle — costs three times that or more once you net out repo expense, storage, auction discount, and the lender's CPI exposure. One bad copy torpedoes three good ones. Operators sitting on portfolios full of one-turn assets cannot interest-income their way out of the asset's own decay.

Good Customer, Bad Car

Once you accept that the asset is breaking down faster than the loan, the second-order question follows immediately: how do you triage the workout? The answer isn't a credit-score model. It's a two-by-two that the best operators run intuitively, and the rest of the industry needs to formalize: good customer or bad customer, good car or bad car. Where the borrower lands in that matrix should dictate exactly how much workout effort gets spent.

Borrower psychology is the part most servicers underestimate. While the car runs, the customer is paying to keep the wheels on the road — to keep the job, the daycare run, the routine intact. The minute the car starts smoking on the highway, the math flips. Now the customer is sitting at home staring at a \$1,400 repair on a vehicle they owe \$14,000 on, and the dealer next door is telling them to hand the keys back to their current lender and come finance something fresh for \$500 down now and another \$500 on a pickup note. Willingness to pay collapses overnight — and it has nothing to do with the customer's character. It's the asset turning the borrower into a rational defaulter.

“Don't put a great customer in a bad car. You'll lose the customer and the asset.”

That's why the matrix matters. Good customer in a bad car is the most important quadrant — and the one most operators miss. These are the borrowers you fight to keep. Take the write-down on the existing loan, structure them into a better unit, eat the negative equity if you have to. The customer's payment history is the most valuable asset on your books — more valuable than the car. Lose them to the dealer next door because you tried to make the bad car their problem, and you've handed your competitor a proven payer for free.

Bad customer in a bad car is the opposite call. Stop spending workout dollars. Stop modifying. Take the medicine, recover what you can, charge it off, and move on. Every collection minute spent here is a minute not spent retaining a good payer in the first quadrant. The remaining quadrants — good customer in a sound asset, bad customer in a sound asset — are increasingly rare in the deep subprime book and don't need a separate playbook. The discipline is allocating workout effort by quadrant, not by aging bucket.

Chasing the Deal Anyway

If the asset is breaking and the matrix is clear, why are operators still writing loans to known-risk borrowers in known-bad cars? Because the alternative is worse. Charge-offs and write-downs are running ahead of new originations. If you don't replace the runoff with new paper, you eat your own equity, and your borrowing-base advance starts to compress. So you reach. We've all been the dealer who looked at a marginal file, did the math one more time, and convinced ourselves that this one would be different. It rarely is — but the alternative is no origination at all, and that's the worse outcome on the P&L this month.

The other reason this keeps happening is that the BHPH market hasn't fragmented the way prime credit has. If you default on Chase, Wells Fargo isn't financing your next car. In BHPH, the dealer next door is. We buy a lot of bankruptcies in Mobile, Alabama, and 90% of those borrowers had been financed with at least two different BHPH dealers within a 15-mile radius. Same customers. Same defaults. Different lots. The "graduation" myth — that BHPH is a stepping stone to institutional credit — is dead. Once a BHPH customer, always a BHPH customer. They just rotate up and down BHPH Avenue.

“They're chasing yield with the same customer who already defaulted on the dealer next door – and quietly believing the next outcome will be different.”

The squeeze that punishes this behavior is real and tightening. The big indirect-auto lenders have hardened the credit box. Dealers who used to source a \$14,000 vehicle and flip the paper to a finance company at 85% to par within 48 hours are finding that pipeline narrower every month. Some are surviving by sourcing 15 to 20 financeable deals; the rest are taking the deep subprime paper onto their own balance sheet because the indirect channel won't buy it — except now the assets are worse and the borrowers more strained. The cycle compresses on both sides at once. The customer slides down the credit ladder while the dealer is forced to underwrite cars that physically cannot perform.

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 May 06, 2026

Indicator	Latest	Prior Period	2 Periods Ago
Delinquency & Charge-Offs			
Delinquency Rate on Credit Card Loans (All Banks)	N/A	—	—
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)	330.3 Mar 2026	327.5 Feb 2026	326.6 Jan 2026
CPI: New Vehicles	179.5 Mar 2026	179.3 Feb 2026	179.2 Jan 2026
CPI: Used Cars and Trucks	179.8 Mar 2026	180.6 Feb 2026	181.3 Jan 2026
CPI: Electricity	300.5 Mar 2026	298.1 Feb 2026	300.2 Jan 2026
CPI: Shelter	424.1 Mar 2026	422.9 Feb 2026	422.0 Jan 2026
CPI: Food	346.6 Mar 2026	346.6 Feb 2026	345.3 Jan 2026
CPI: Gasoline (All Types)	335.5 Mar 2026	276.8 Feb 2026	274.5 Jan 2026
CPI: Medical Care Services	648.9 Mar 2026	648.9 Feb 2026	644.9 Jan 2026
Credit & Lending			
Total Consumer Credit Outstanding	\$5,116.8T Feb 2026	\$5,107.3T Jan 2026	\$5,099.6T Dec 2025
Nonrevolving Consumer Credit Outstanding	\$3,789.2T Feb 2026	\$3,780.4T Jan 2026	\$3,775.3T Dec 2025
Federal Funds Effective Rate	3.64% Apr 2026	3.64% Mar 2026	3.64% Feb 2026
Finance Rate on New Auto Loans (60-Month)	7.52% Feb 2026	7.22% Nov 2025	7.64% Aug 2025
Consumer Debt Service Payments (% of Income)	5.40% Oct 2025	5.37% Jul 2025	5.30% Apr 2025
Household Debt Service Payments (% of Income)	11.32% Oct 2025	11.26% Jul 2025	11.12% Apr 2025

Indicator	Latest	Prior Period	2 Periods Ago
Labor & Income			
Unemployment Rate	4.30% Mar 2026	4.40% Feb 2026	4.30% Jan 2026
Underemployment Rate	N/A	—	—
Initial Jobless Claims (Weekly)	189,000 Apr 2026	215,000 Apr 2026	208,000 Apr 2026
Personal Saving Rate	N/A	—	—
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	\$532.9T Feb 2026	\$536.6T Jan 2026	\$539.7T Dec 2025
Motor Vehicle Loans Owned & Securitized	\$532.9T Feb 2026	\$536.6T Jan 2026	\$539.7T Dec 2025
Motor Vehicle Loans Securitized	\$0.0B Feb 2026	\$0.0B Jan 2026	\$0.0B Dec 2025
Total Vehicle Sales	16.7M Mar 2026	16.1M Feb 2026	15.2M Jan 2026