

## Car Loans

I read in the weekend press there are new fears about the volume and size of car loans or lease arrangements for new vehicles. There are concerns about "mis selling" and efforts to dampen down the current volume of these advances.

Of course people should not be pressured into taking out a loan that is too big for them and could end in tears. That is why there are cooling off periods, procedures to explain the terms, and a general duty on regulated personnel to sell responsibly.

There are two important risks in car loans that need managing. One is the risk that the person taking it out is unable to continue to meet the payments. Proper assessment of a person's income and prospects should keep this risk down a small proportion of the total, occurring when someone unexpectedly loses their job, has a serious accident or some other life changing event. Were the authorities to induce a job destroying recession as in 2008-9 then there is more risk of this happening.

The second is the risk to the lending institution if the second hand value of the car handed back when someone can no longer meet the payments is below the amount of the debt outstanding. This can be managed by requiring a sensible level of initial payment or deposit and of subsequent payments, so the lending institution experiences little or no capital loss were the borrower to default.

It is difficult to see that there is a major systemic problem over car loans in the way some suggest, short of the authorities triggering a large general downturn which would hit second hand car prices and cost many people with car loans their jobs. As surely it is the purpose of monetary and fiscal policy to avoid such an eventuality attention should be more directed to that.

As I have forecast for some time, various policies have greatly slowed car sales and led to a big fall in especially in diesel sales. Given the high propensity of UK car buyers to import this is particularly a problem for the German car industry that has sold a lot of cars into the UK and is now in recession. It also has an impact on our domestic industry. Allowing people to renew their vehicles from time to time and choose cars they like is not some kind of crime, and does require a common sense approach to car lending.

I point out that I have no financial interests myself in car lending. I own just one car bought with savings out of income.