The Auto Repossession Industry: Tough Challenges in the Current Economic Landscape

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ABSTRACT

In the United States, more than 2.2 million vehicles are repossessed each year. It sums to 5,418 repossessions each day. For every 2.4 vehicles sold, one will be repossessed. The number of repossession agents throughout the country declining rapidly. Companies are leaving the industry due to low profits. Repossession companies are not experiencing a rise in income that reflects that of their banking clients in post-Covid times. Without intervention, the number of repossession companies will continue to fall and without suitable financial support from banks, the future holds a disturbing lack of repossession services.

Keywords: Repossession, Car Loan, Covid-19 disruptions, Car market, Financial risk

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1. INTRODUCTION

1.1. What is Repossession?

The seizure of property as a result of a debt not being paid can happen rapidly and without notice. Although certain lenders may legally be allowed to seize collateral immediately after a missed payment, the majority of repossessions occur when accounts are 10 days or more overdue.

If a loan or line of credit has defaulted, any object used to secure the loan or line of credit may be repossessed. This can include a house, car, or any other credit-purchased property, such as furniture, gadgets, appliances, and motorbikes.

Involuntary and voluntary repossessions are the two types of repossessions. When a lender sends a debt collector to take a defaulted property to secure the loan, it is known as involuntary repossession. Voluntary repossession, on the other hand, happens when the borrower chooses to give the collateral to avoid the extra expenses associated with involuntary repossession.

1.1.2. What is a Repossession Company?

Auto repossession companies reclaim a lender or lienholder's property when contract holders fail to make payments as promised. Once a loan is officially in default, the lender depends on a repossession agency to reclaim its collateral. They provide the repossession agency with basic information, such as defaulting borrowers' home and work addresses.

Without intervention, the number of auto repossession businesses will continue to decline, making it impossible for lenders and auto sales centers offering in-house financing to reclaim their collateral when customers fail to make their car payments as promised.

In the United States, more than 2.2 million (TitleLoanser, 2021) vehicles are repossessed each year. It amounts to 5,418 repossessions each day. For every 2.4 vehicles sold in this country, one will be repossessed.

In general, a borrower must be 90 days behind on payments for losing the car, however, each state and bank has its own rules about exactly when a car can be repossessed (Scirri, 2020) and returned to the lender. In some states, the lender must give a notice of default indicating a grace period during which a borrower can make their account current. In some others, a lender can legally repossess a car even when the borrower is just one day late with their payment

It may take some time for the repossession agency to locate the car. Once the agency locates the car, they either can legally drive it with a duplicate key or tow it back to their storage facility. Even though it is a crime (Reiter, 2020) in some states if a borrower hid their car from a repossession agency, finding and removing vehicles with defaulted loans that rightfully belong to the bank or lender could be complicated, and sometimes dangerous. Between 2003 and 2009 (Resolvion, 2019) there were more than a dozen arrests and injuries, and six fatalities during auto repossession attempts. To minimize friction, the agent may attempt to reclaim the car while the defaulting borrower is at work or asleep.

1.2. Financing

"We have not seen a slowdown in loan demand. In fact, volume for new and used loans is up from previous years." -Melinda Zabritski, Senior Director Automotive Financial Solutions, Experian

Americans love to spend money on cars. 20% of all purchases (TitleLoanser, 2021) made in the United States are automotive-related. 90% of all new car purchases and 50% of used car purchases are financed through a lender. Americans are borrowing record amounts of money to spend on cars.

To a borrower, a monthly car payment is just a number in their budget. For a lender, an auto loan represents multiple income streams. This means that, while interest rates remain historically low across the board, that does not translate to losses for the banking industry.

Ally Financial, a large auto lender, declared a major windfall in the second quarter of 2019, with a profit increase of 67% (Rabouin, 2019). Ally's yield on retail auto loans went from 6.08% in 2018 to 6.58% in 2019. JPMorgan Chase increased their auto loan originations by 61% year over year.

2. Repossession Agencies

A large percentage of vehicles sold each day in the United States will eventually be repossessed due to a defaulted loan. Lenders require help from repossession agencies that have the licenses, insurance, equipment, expertise, and manpower to reclaim their property.

However, repossession agencies are under an extreme amount of financial stress as they grapple with rising fuel prices, a profound worker shortage, strict compliance mandates, rising equipment costs, and declining revenue streams. Agents are under-compensated, which leads to increased risks in the field and reduces the total number of agents available to repossess valuable collateral for lenders. Many repossession agencies now provide unrelated auxiliary services to stay afloat in the face of an increasingly uncertain future.

1.1.Dependency on Repossession Agencies

The boom in lending, coupled with the rise in financial insecurity for borrowers, means that lenders are more dependent than ever on the repossession industry. Without the help of repossession agencies, how will lenders recover their assets? How will they recoup the money they have spent setting up and servicing loans?

Each year, over 2.2 million vehicles are repossessed. Industry-wide, repossession agencies recover 5,418 vehicles on behalf of lenders every day. According to Statista.com, there were 3.4 million new cars sold in the U.S. during 2020. That same year, 2.2 million vehicles were repossessed.

1.2.Auto Repossession Fees

Even if a car is repossessed for only a few days, the fees imposed on defaulting borrowers by the lender could total several hundred dollars. In most states, a borrower has 15 days to reinstate the loan after their car is repossessed for non-payment.

Reinstatement allows the borrower to bring their loan payments up to date and pay late fees and repossession charges. If the borrower can't come up with the money within two weeks, the car goes to auction, where it may be sold for much less than its Blue Book value.

Any money that comes from the sale of the vehicle goes to the bank and is applied to the outstanding balance on the car loan, which now includes repossession fees and auction fees. If it takes a while for the lender to sell the car at auction, borrowers could end up with storage fees and additional charges associated with getting the car ready for auction tacked on to their already defaulted auto loan.

There are four main charges borrowers face when their car is repossessed:

- **Lender fees:** These include late payment fees, costs related to preparing a repossessed vehicle for sale, and charges related to the repossession action.
- **Repossession agency fees:** These include fees for recovery, towing, locksmithing, and storage.
- **Local municipality fees:** These include city or county fees (for example, Los Angeles County requires owners of a repossessed car to file a report of repossession and charges a $15 fee to do so.
- **Legal fees:** These include court costs, and attorney fees vary by contract(Eaton, 2020).

After a car is sold at auction, the bank sends a letter with details about the total fees plus the deficiency balance owed by the borrower.

In addition to adding this debt to a borrower's credit report (making it nearly impossible to get another car loan without paying 25% interest or more, plus astronomical fees), the lender can ask for a court-ordered judgment against the borrower by suing them. Such a judgment may include a court order to include attorney's fees and the cost of the legal action in the borrower's total amount due.

After a lender successfully gets a judgment for the total amount due after an auto repossession, they can ask the court to garnish the borrower's wages, put a lien on their property, or even freeze and seize the money in the borrower's bank account, depending on state laws.

Although the fees paid to repossession agencies over the past ten years have remained flat, banks and lenders offering auto loans continue to make a profit financing both new and used vehicles. This situation is unsustainable; unprecedented and emerging challenges in the auto repossession industry will soon make the recovery of valuable collateral much more difficult for banks.

3. Increasing Car Prices due to the Pandemic-related disruptions

Wholesale prices of used vehicles rose 5.5% in February 2021 compared to January 2021, and 22.9% between February 2019 and February 2021(Kommentary, 2021). Using factual data, in the following sections, we will explore pandemic-related disruptions including average new car prices, and used car sales.

While new car lots in the United States used to be packed from end to end with hundreds of models from major automobile manufacturers and prices were almost steady (Figure 1), the scene today is much different. New car lots struggle to fulfill orders from customers due to a shortage of new cars in 2021. Where there were once multiple cars of every model in all available colors and trim levels, there may now be just one or two.

Supply chain disruptions combined with a global semiconductor shortage means economists don't expect to see the new car market recover until fall of 2022, at the earliest. As automakers revise their production schedules to work around a profound shortage of computer chips, there are fewer brand-new cars for sale across America.

Industry analysts say that new car inventories will continue to remain well below pre-pandemic levels throughout 2022. For example, General Motors has halted production of full-size trucks due to the semiconductor shortage and may not revive the factories making them for months. Toyota and Honda have shut down production in Asia due to chip shortages, as well. Six Ford plants in the U.S. and two more overseas expect similar shutdowns soon.

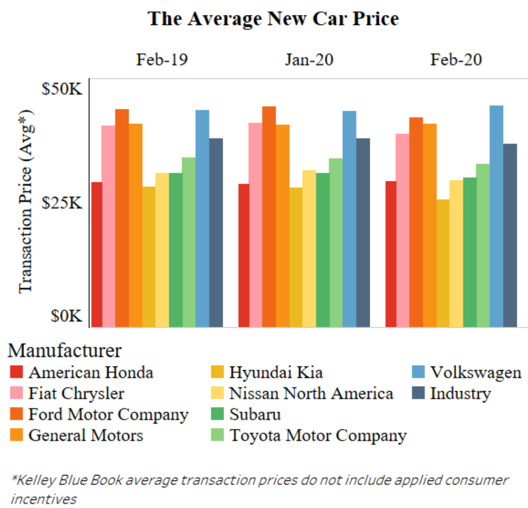

Figure 1. The Average New Car Prices were almost Steady Before the Pandemic

Before the pandemic, we can see from Figure 1 the average prices for new cars of different manufacturers were nearly stable. According to Edmunds, one result is that auto prices have risen 5.4% over the past year, bringing them up to record levels(Ritter, 2021). Americans shopping for a new car now pay an average of $41,000 per vehicle.

A recent shortage of new vehicles has pushed up used vehicle prices, making them even more of a profit center for lenders, who make money by charging interest and financing fees on larger consumer auto loans. Used car prices were 45.2% higher in June 2021 than they were just 12 months earlier(Payne, 2021), even in the absence of the recent spike, car prices were on the rise (Samurai, 2021).

Ten years ago, the average new car price was $28,800. Twenty years ago, it was $20,000. Today, our dollar goes as far as $1.15 did ten years ago when buying a car. In 1997, our dollar would have been worth $1.50.

Cars today are much more complicated than they were 20 years ago, and that explains some of the overall price increases. Air conditioning, automatic transmission, and power windows, once reserved for higher trim levels (and higher price tags), are now standard on every new vehicle. Even ten years ago, standard safety features like rearview cameras, multiple airbags, and lane-keep assist were reserved for luxury vehicles. Today, those features are part of the complex and standard safety packages you will find with most new cars.

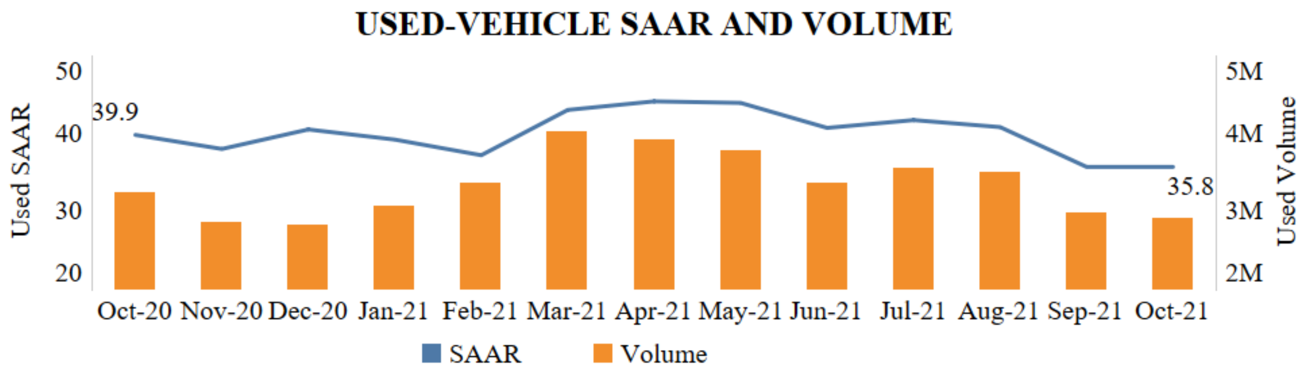

Figure 2. Used Vehicle SAAR and Volume

A seasonally adjusted annual rate (SAAR) is a rate that aims to eliminate seasonal fluctuations in economic or commercial statistics, such as sales numbers. Because most data is influenced by the time of year, controlling for seasonality allows for more precise relative comparisons between various periods.

According to Cox Automotive estimates, total used-vehicle sales were down 10% over the year in October. This resulted in a seasonally adjusted annual rate (SAAR) of 35.8 million, down from 39.9 million last October and unchanged from September's SAAR of 35.8 million. Last month, total used-vehicle sales were expected at 2.9 million, down from 3.0 million in September.

“Despite a slowing of pace, the used-vehicle market has been playing a key role in the recovery of the automotive industry”

4. Average Car Loan Term

Institutions that finance car purchases have ample opportunity to make large profits, especially among sub-prime borrowers with a high rate of default. According to Experian, the average car loan term in 2019 was 72 months. The average borrower made a down payment of just 11.7% (Adamczyk, 2019). Borrowers can cope with higher car prices by extending the term of their car loan (Akin, 2020).

According to the Federal Reserve, car payment amounts have been increasing over the past few years. In 2018, the average monthly payment for an auto loan was $531; an all-time high. Borrowers pay even more (on average) each month to keep up with their car loans. In different states, drivers need to pay $300 to $600 monthly to stay current on their car loans (Adamczyk, 2019).

In 2020, the average borrower with a car loan made a $569 monthly payment to stay current on their obligation and the average loan term in March of 2020 was 70.6 months (Montoya, 2020). That is nearly a six-year loan term.

Most commonly, borrowers choose a 72-month loan, but for many, the only way to afford the monthly payment on a new car is to choose an 84-month (seven-year) loan. Almost 70% of all new cars financed in the first quarter of 2020 had a loan term of more than 60 months (five years).

During the first quarter of 2020, most used car loans had a term of 72 months. At the time, people paid about $11,000 less for a used car than they would have for a new car. However, they financed those vehicles for about the same amount of time.

For many car shoppers, a five-year loan payment just doesn't fit into their budget. So, even if it costs them a bit more in fees and interest over time, a smaller monthly payment is worth the extra money they will pay during the entire loan term. While a longer loan term represents a lower monthly payment for borrowers, it also means the lender can charge more interest and higher fees, depending on the borrower's state of residence and credit status (Montoya, 2020).

It is in the lenders' best interests to facilitate loans with longer terms, even if there is a higher risk of default. Loans with a shorter term generate less money in the form of interest. Two identical buyers one who chooses a 60-month loan and one who chooses a 72-month loan--represent two very different profit levels for the financing institution.

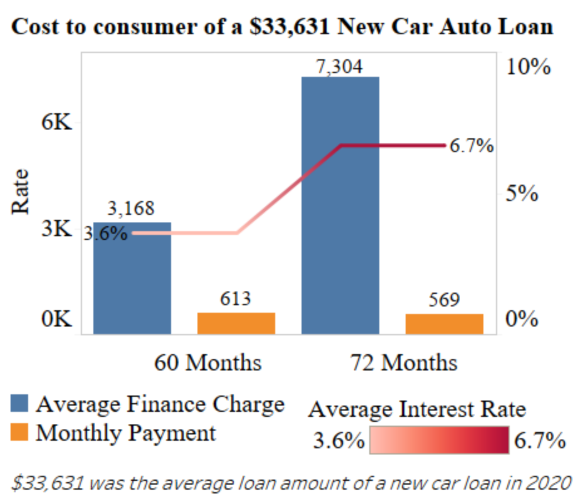

Figure 3. Cost to Consumer of $33,631 New Car Auto Loan

Figure 2 shows that the average loan amount for a new car in 2020 was $33,631. Borrowers paid an average of 3.6% interest for a 60-month loan. Finance charges over the life of the loan amounted to $3,168. The monthly payment was $613.

A 72-month loan at that time had an average interest rate of 6.7%. Finance charges over the life of the loan amounted to $7,304 (Figure 2). The monthly payment would drop to $569. For consumers chiefly concerned with their monthly payment, making payments that included double the interest and finance charges was less problematic.

The global COVID-19 crisis brought many unexpected routine changes for the American people. Those who once depended on public transportation found themselves immobile as buses and trains shut down for months during the most devastating months of the pandemic. Many workers in the United States began a new work-from-home lifestyle and cut their commute times down to zero. Food delivery and shopping online became part of the new normal, as well. It would have made sense if Americans stopped driving, but even with these (and other) huge, forced changes, Americans kept car shopping.

5. Auto Repossessions Show No Sign of Slowing Down

Repossessions in the auto industry have climbed steadily since 2012. In 2017 alone, 1.8 million cars were repossessed due to non-payment of a loan or lease (Resolvion, 2019). TransUnion reported in April 2021 that 10.9% of subprime borrowers were at least 60 days behind on their car loan payments. That's an 8.7% jump in the delinquency rate since 2020. It's the highest quarterly auto loan delinquency rate since 2005. Even With Economy-Supporting Stimulus Plans in Place, Consumers are Falling Behind on Auto Loan Obligations.

While supplemental unemployment payments, stimulus checks, and rising wages contribute to American consumers' ability to make on-time car payments, these efforts don't seem to be enough to keep borrowers afloat. While the government froze evictions and student loan interest rates and payments, there has been no specific pandemic-related relief for borrowers making monthly auto loan payments. As of April 2021, there were 14.3 million Americans out of a job (Winck, 2021).

The repossession industry is braced for an uptick in the number of cars that must be returned to lienholders, but there's no promise of an increase in the fees banks pay to regain access to those vehicles.

6. Auto Repossession Companies are Failing

The number of repossession agents in many areas is declining quickly (Zulovich, 2019). Few new auto repossession agencies are joining the business due to startup costs and ongoing constraints. Small companies are leaving the industry due to low earnings.

California lost 67 licensed repossession agents between 2016 and 2019. Florida lost 23% of its licensed repossession agents during that same time frame. The result is that banks are in danger of declining success rates when it comes to mitigating losses as they attempt to repossess cars with defaulted loans.

Nationwide, there were 8,557 businesses offering repossession services in 2021(IBIS-World, 2021). Industry-wide business growth is -2.9% and Annualized business growth between 2016 and 2021 is -1.9%.

Figure 3 shows that there were 9,726 repossession agents in 2017 in the United States. We can see from the trendline that the number of repossession agents is gradually decreasing till 2021 with 8,557 agents.

As the number of agents continues to decline, lenders won’t be able to access the repossession services they need to reclaim the collateral securing their auto loans. Even so, lenders continue to trim repossession fees while leaning on the Consumer Financial Protection Bureau's limits about how much they can charge a defaulted borrower for repossession costs.

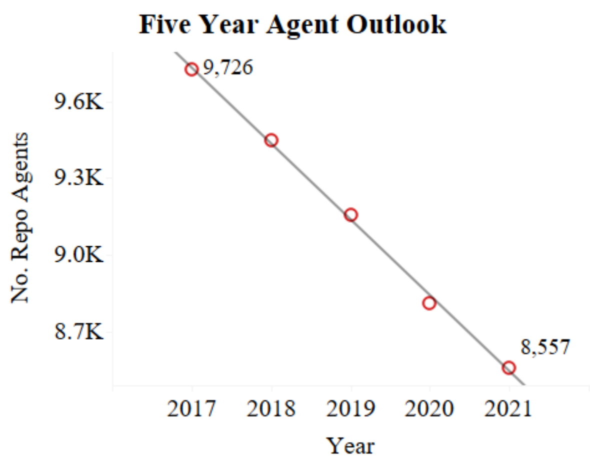

Figure 4. Auto Repossession Companies are Failing

7. AUTO LOANS IN TIMES OF PANDEMIC

The swollen demand for cars shows no signs of shrinking. For lenders, the future looks bright. Auto prices are on the rise (Isidore, 2021), subprime auto lending is at an all-time high (Alford, 2020), and a new car shortage (Thomas, 2021)combined with unprecedented inflation rates (Siegel, 2021) means consumers need larger loans (Albright, 2020) to afford the cars they want and need.

A portion of a bank’s profit is the spread between the interest they earn from loans and the interest they pay to deposit accounts. Loans are usually the largest asset (Wagner, 2021)on a bank’s balance sheet. Banks thirst for giving out loans even to borrowers who may be a default risk they balance possible risks by charging more interest, car buyers with poor credit scores, too, seem to be willing to pay higher interest rates to take out the loans they need to finance their purchases.

Unfortunately, repossession agencies are not benefiting from the same upswing in the marketplace that is currently adding to banks’ balance sheets.

7.1. Individual and Overall Auto Loan Debt

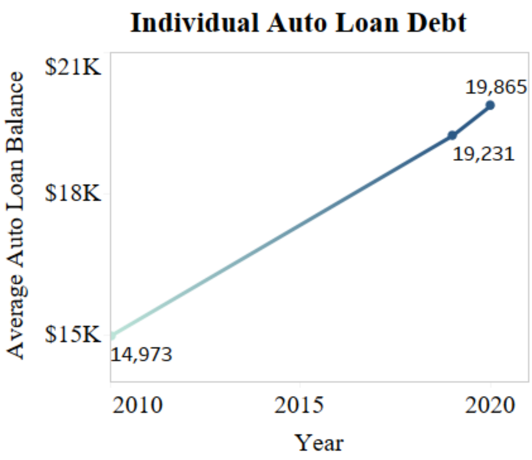

Figure 5a. Average Auto Loan

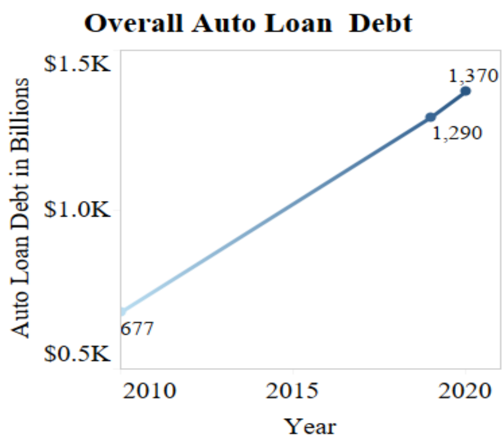

Figure 5b. Total Outstanding Auto Loan Debt

Figure 5a shows that Auto loan balances grew around 28% from 2010 to 2019 and 3% between 2019 and 2020 for an average change of +$634 per borrower.

Figure 5b displays that the balance of consumer auto loans grew to a record high of $1.37 trillion in 2020, according to Experian. Auto loan debt grew at the exact pace of the year before, adding $80 billion (a 6% increase) to 2019's total (Stolba, 2021).

7.2. Subprime Auto Loans

Lenders willing to extend credit to subprime borrowers stand to make even more money. Nearly 25% of all auto loans are classified as subprime. There's more subprime debt among auto loans now than there was when the economic crisis of 2008 began.

A large number of repossessions within the subprime loan industry involve loans with interest rates well over 20% (Resolvion, 2019).

Banks use a customer's credit score to decide how much of a risk they present. The assumption is that a lower credit score equates to a higher risk of defaulting on the loan. Instead of simply turning away borrowers who may be more likely to fail to make their payments as promised, lenders charge higher interest rates and add financing fees to offset the risk. People with lower credit scores pay a higher proportion of interest charges across the auto financing industry.

On average, prime borrowers (those with a credit score of 662 to 780) pay 6% interest on car loans. Nonprime borrowers (those with a credit score of 601 to 660) pay 10% interest on car loans (Glover & Bradley, 2018). Lenders also charge more interest if a borrower wants a longer loan term.

7.2.1. Subprime Lending

Borrowers with FICO credit scores below 620 rely on subprime lenders for access to car loans. Subprime financing makes up about 19% of all car loans (Andriotis & Eisen, 2021). For many borrowers with subprime credit, their car loan is their largest monthly expense.

With 60% of individuals in the United States living paycheck-to-paycheck, it's no surprise that many borrowers are delinquent on their car loans. It's easier than ever to get a car loan, but as of June 2019, 6.7 million car buyers in the U.S were over 90 days late on their payment.

7.3. How Banks Make Money on 0% Auto Loans

Lenders also make money when they offer loans to people with excellent credit. A car manufacturer may offer 0% financing to "well-qualified" buyers, but the bank facilitating the loan receives a payment from the manufacturer to buy down the interest rate (Miller, 2021).

Since zero-percent financing is offered instead of a rebate or cashback, those extras may go directly to the bank to cover financing fees and interest charges.

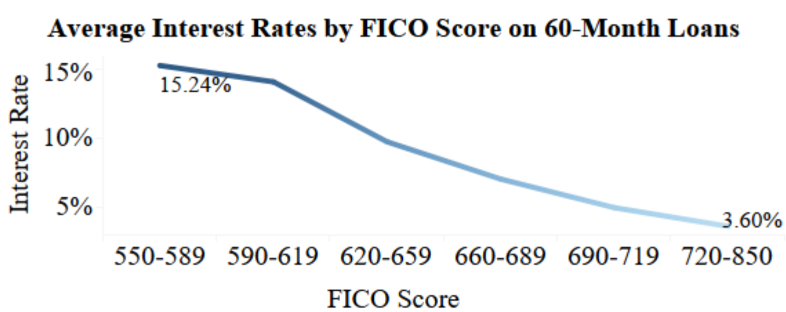

Figure 6. Average Interest Rates by FICO Score on 60-Month Loans

Figure 6 represents that the on average 60-Month Loans, we can observe that the higher the FICO score, the lesser the interest rates. The highest FICO score which is ranging from 720-850 has an average interest rate of 3.60% and the lowest FICO score 550-589 has an interest rate of 15.24%.

Banks typically offer terms from 24 to 84 months. Loans with long terms are more likely to result in a borrower being "upside-down" on their loan, meaning it would cost them more to pay off the loan than they could get by selling or trading in their car.

Even borrowers with great credit represent a money-making opportunity for lenders.

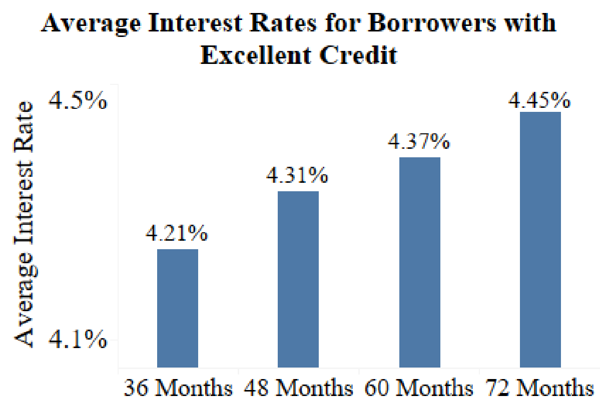

Figure 7. Average Interest Rates for Borrowers with Excellent Credit

From Figure 7, we can observe that the larger the offer term, the increase in interest rate. Shorter-term loans carry lower interest rates, depending on the borrower's credit status.

Some of the largest banks charge high-interest rates on auto loans. The following figure shows how the biggest lenders stack up with auto loan interest rate ranges:

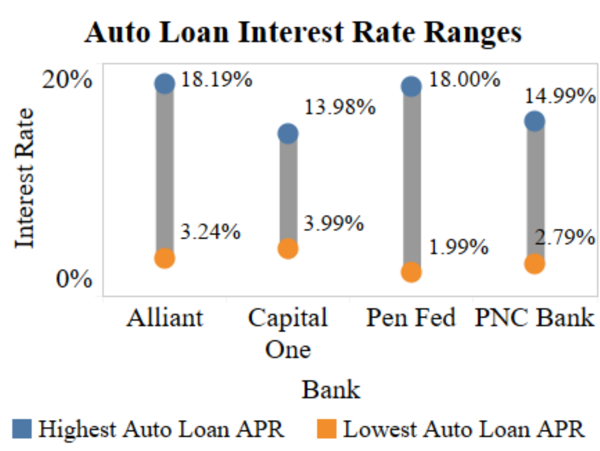

Figure 8. Auto Loan Interest Rate Ranges

Even though interest rates on auto loans, in general, have declined slightly over the past ten years, the revenue banks make from auto loans (both prime and subprime) is on the rise.

7.4. Auto Loan Fees

There are several additional fees that borrowers may have to pay to gain access to a car loan. A prepayment penalty ensures that the lender receives 100% of the interest on the loan, even if the borrower decides to pay off the loan early or refinance with another lender at a lower interest rate.

A lender may also charge origination fees upfront to process a loan. These may be called inception fees in a lease or acquisition fees in subprime lending. The origination fee is either a percentage of the total loan or a flat fee. For example, a lender may charge a 2% origination fee on a $30,000 car loan. The borrower would either pay the fee out-of-pocket or roll it into their loan and receive $29,400 instead of $30,000.

8. The Auto Repossession Industry is in Grave Danger

Several repossession companies shared their fee structure with us during the research phase of this study. While they asked not to be identified by name, these companies wanted to share proof that their fees have not risen to cover their increasing costs over the past ten years (Figure 9). These figures represent repossession fees only. They do not include ancillary or secondary fees such as storage, transporting, and keys.

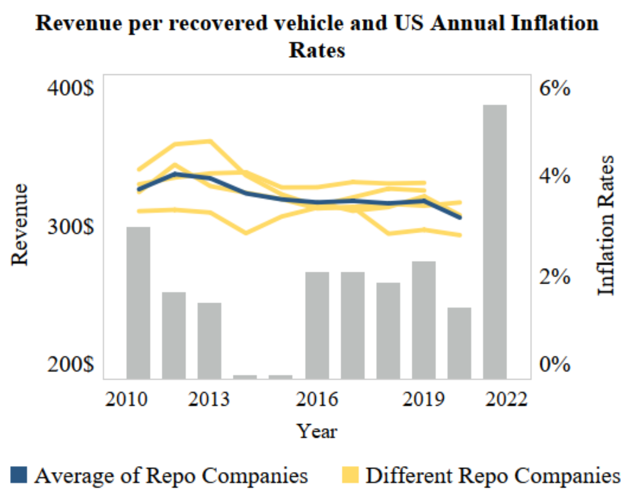

Figure 9. Revenue per Recovered Vehicle by Year and Inflation Rates

From Figure 9 we can see that the average revenue per recovery collected by these five sizable repossession companies hasn't even kept up with inflation (Calculator, 2021). The core business of repossession is stagnating or in decline for many companies, and that is not sustainable.

Repossession businesses are bracing for higher fuel costs, higher truck replacement costs, and inflated wages. The nationwide worker shortage means repossession companies have to pay higher wages to attract and retain qualified employees.

Economic experts predict that the higher inflation rates seen in 2021 are here to stay (Figure 9). Kiplinger notes that by the end of 2021, inflation will reach 5.5% (Payne, 2021). That's the highest rate of inflation we have experienced since 1990.

9. Barriers to Enter for New Repossession Businesses

Compliance costs, rising fuel costs, insurance costs, and new technology costs are the financial responsibility of the auto repossession business. Figure 10 represents that the repossession services industry is labor-intensive.

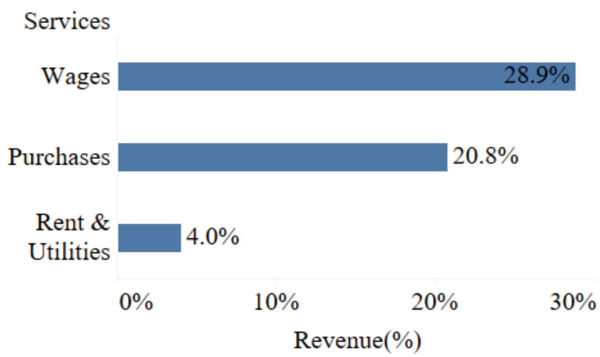

Figure 10. Cost distribution in the repossession services industry

Figure 10 represents that the highest costs for business in the repossession services industry in the US as a percentage of revenue are Wages (28.9%), Purchases (20.8%), and Rent & Utilities (4%). In the following sections, we will explore the barriers to entry for the new repossession industry in detail.

9.1. Require Specialized Equipment and Staff

Starting a new repossession business means buying trucks and advanced technology like license plate recognition cameras.

A single repossession truck costs about $90,000 (Evenbound, 2021). Loud and large wreckers make quick work of towing heavier vehicles, but in an industry where it's crucial to be quick and quiet, a tow truck that fits into tight spaces and can pull vehicles from nearly any location without causing damage to nearby parked cars are a must-have.

Property repossession software improves a repossession company's efficiency and allows banks to keep tabs on repossession progress (Boss, 2020). Tracking vehicles with a camera car helps keep tow truck drivers and lenders on the same page. Software from Clearplan and Recovery Database Network, Recovery Connect and other skip platforms streamline the entire repossession process, allowing repossession companies to safely recover a bank's property. However, this advanced technology comes with a hefty price tag.

9.2. Unsustainable Environment

Repo companies must comply with all local and state laws. Some states require a special repossession license. Business owners new to the industry may need to go through a training course and pass an exam before they can get a license to do business.

Finding and purchasing or leasing a location with a secured lot can also be challenging. It's crucial to have a central location in the area you serve.

Hiring qualified drivers who are able and willing to do the hard work associated with physically repossessing vehicles is another challenge for new and established repossession companies. Drivers need a commercial driver's license, a clean driving record, and must pass a background check to gain the proper insurance. A single compliance violation could cause financial distress for a repossession company.

9.3. Insurance Crisis

Remaining compliant with insurance regulations is also prohibitively expensive for repossession companies.

As of 2019, the commercial insurance industry had had nine consecutive years of underwriting losses (Zulovich, 2019). Several factors are contributing to an uptick in claims and an increase in the average claim amount:

- In a tight labor market, trucking companies must hire less experienced drivers who are more likely to be involved in commercial driving accidents
- In-vehicle technology leads to an increase in distracted-driving-related accidents
- The rising popularity of litigation financing creates an increase in claim severity, with higher settlement verdicts
- An improved economy (since 2008) has resulted in more vehicles on the road, resulting in a higher number of accidents

An increased number of claims and an increase in claim severity create financial devastation in the commercial insurance arena. Insurance companies drive rates up for businesses, but repossession companies must remain compliant with insurance rules by carrying the minimum required amount of commercial business liability coverage.

There isn't a one-size-fits-all insurance solution for repossession companies. Rates depend on the claims history, the number and age of the vehicles insured, and the geographical location of the company.

Repossession companies require specialized insurance due to risks and exposure. Repossession agents must act quickly when recovering vehicles. They may have to remove vehicles from parking lots, congested streets, or small driveways. The risk of accidental damage to a borrower's personal property is high.

The agents also face personal risk over a normal day as they reclaim a lienholder's property. Even with procedures in place to prevent and de-escalate conflict, borrowers frequently threaten or even attempt to physically attack repossession agents.

After a successful repossession, the repossession company is legally responsible for protecting a borrower's personal property inside the vehicle.

Depending on their geographical location, repossession companies may be legally required to carry the following types of insurance:

Commercial Property: This type of insurance shields a repossession company from financial losses caused by damage to or loss of commercial property because of acts of nature, vandalism, and theft. It covers the company's building and the surrounding area. It also covers assets on the property like computers, dispatching equipment, and other important tools.

Commercial General Liability: If an employee accidentally causes damage to third-party property (such as rented equipment), this type of repossession insurance covers the legal costs. It also protects the company in the event of a bodily injury claim resulting from an incident taking place on the premises during the business.

Bailee's Liability: Automobile repossession companies temporarily take custody of vehicles and return them to their legal owners. If a vehicle is damaged or lost while in custody, this type of insurance helps to manage the costs.

Workers' Compensation: Car repossession employees face a range of hazards. This type of insurance covers any medical expenses and loss of income if an employee is injured on the job (GeneralLiability, 2021).

Repossession: The act of the repossession must be insured and very few carriers offer this product for repossession agents. Repossession insurances can include drive away as well as garage keepers insurance. In ceertain instances, banks require certain coverage limits, which also impacts the policy cost for the repossession agent.

9.4. Multiple Ancillary Services

A typical repossession business may find that it can't operate if it only handles repossessions. Many repossession companies, therefore, add services to make up for financial losses in the repossession arena (Bradmin, 2018).

They may include:

- Lock-out services
- Technology
- Dispatching
- Storage fees
- Field visits
- 24/7 flatbed towing
- Police towing

While the entry costs associated with adding ancillary services to a repossession company are prohibitive, especially for smaller operations, when these services pay more than the small fee offered to repossession companies by lenders, repossession businesses prioritize ancillary services, making it even more difficult for lenders to retrieve their collateral.

10. Lenders Will Soon Be Left Without Access to Valuable Collateral When They Can't Repossess Cars After a Loan Default

Michael Levison, chief executive of the repossession management firm ALS Resolvion, sounded the warning in 2018. He told lenders that their repossession success rates were at risk three years ago.

> *"The most important key to your loss-mitigation effort is a healthy repo agent community. Without that, our success rates are going to fall. Prices are probably going to go up."*

Without an overhaul of how banks pay for repossession services, lenders will soon have to fend for themselves when it's time to reclaim their collateral from defaulted borrowers. They'll face a myriad of challenges as they attempt to maintain portability while inventing new ways to reclaim valuable collateral without help from repossession agents.

Revenue growth at repossession companies slowed to 1.2% in 2015 (Belles, 2018). Now, it's officially flatlined.

"If you want to keep the viability of the business model that we're in today, someone has to stop and pay attention to what's happening on the other side of the fence, that what hardship are you putting on them, what burden you are putting on them that they cannot have a sustainable relationship with your company long term (Zulovich,2019)".

-2019, Les McCook; Executive Director, American Recovery Association

Banks must pay more for repossession services or face a lack of services. Repossession companies are experiencing rising costs in an already risky business and are simply not being compensated accordingly.

11. Conclusion

When borrowers default on an auto loan, lenders depend on the repossession industry to reclaim their collateral safely and legally. However, auto repossession agencies are at an impasse. Barriers to entry for new businesses are overwhelming, repo companies face a commercial insurance crisis, and even repossession companies working for big banks are turning to multiple ancillary services to sustain their repo businesses.

The repossession community should explore various types of solutions to continue a viable repossession agent. Such solutions can include an industry standard for insurance requirements and accepting various types of compliance for repossession agents. Additionally, term contracts that allows both parties to come together to discuss the needs and wants of each others business models, or to even close a cost of living increase on an annual basis.

Without intervention, the number of repossession companies will continue to decline. Repossession companies aren't experiencing an upswing in revenue that reflects that of their banking clients. Fees paid to repossession agencies during the past decade are flat and repossession companies can't solve this problem alone. Without appropriate financial support from lenders, the future holds an alarming lack of repossession services.

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