CarEdge | BLACK BOOK

Q4 2024

Negative Equity Report

NEGATIVE EQUITY CAR LOANS RISE IN Q4 2024: NEARLY 40% OF DRIVERS ARE UNDERWATER

CarEdge, in partnership with Black Book, surveyed hundreds of drivers to reveal a concerning surge in negative equity.

EXECUTIVE SUMMARY

Negative equity in car ownership continues to rise as car buyers grapple with inflated vehicle prices, high interest rates, and longer loan terms. In Q4 2024, 39% of drivers with financed vehicles are underwater—up from 31% in Q3 2024. Drivers who purchased cars since 2022 are disproportionately impacted, with nearly half in negative equity.

In partnership with **Black Book**, CarEdge surveyed nearly 500 drivers to understand the current state of vehicle equity. Findings reveal worsening trends across electric vehicles, long loan terms, and specific brands. Meanwhile, car owners continue to overestimate their vehicles' worth, often by thousands of dollars.

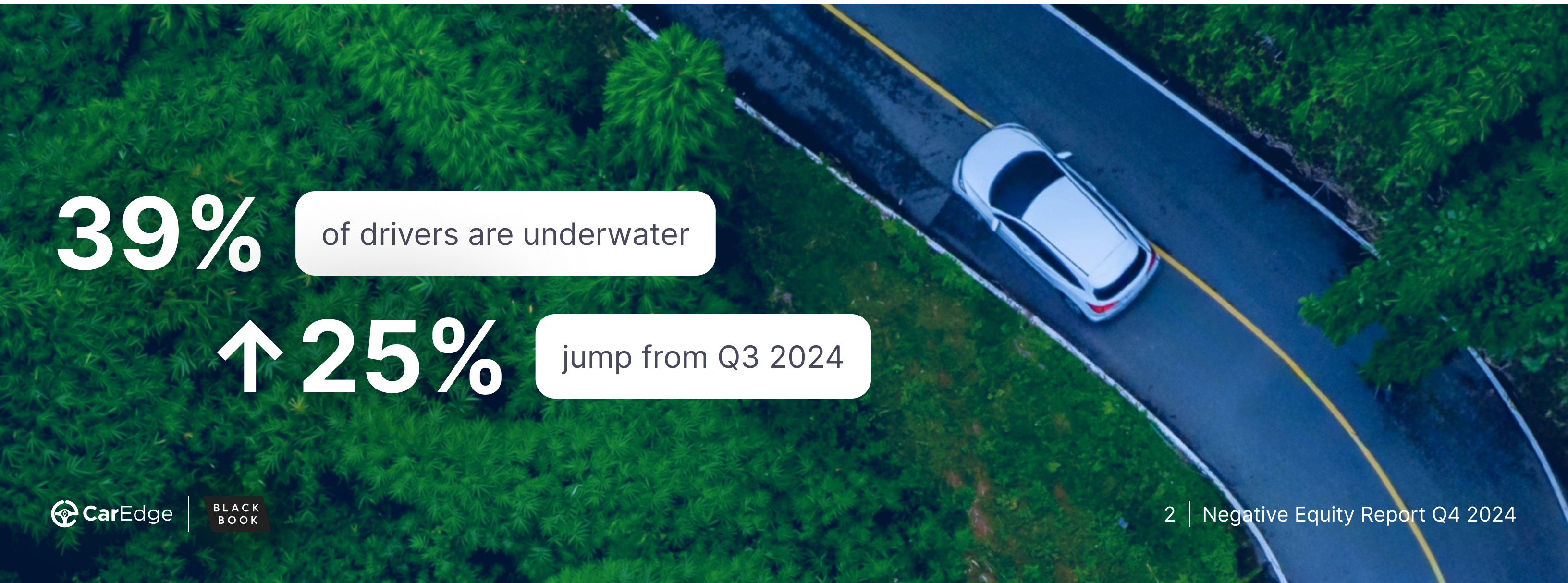
Key Findings

- **39%** of drivers with financed vehicles have negative equity, up from 31% in Q3 2024.
- **Electric vehicles** are the hardest hit: **54%** of EV owners are underwater, up from **46% in Q3 2024**.
- **60%** of drivers overestimate their car's value; **18%** overestimate by **$5,000+**, and **7%** overestimate by **$10,000+**.
- **84-month loan terms** leave borrowers with a **median negative equity of -$8,485**, while shorter 36-month loans have positive equity of **$7,783**.
- **Tesla, Kia, and Jeep** owners face the highest negative equity, while **Toyota, Subaru, and Ford** owners are in better financial positions.

INTRODUCTION

Negative equity—when a car's loan balance exceeds its market value—has surged in the final quarter of 2024. This financial challenge leaves many drivers trapped, unable to trade in or sell without rolling debt into their next car loan.

A combination of inflated vehicle prices since 2022, rising depreciation, and lengthy loan terms has led to the current situation. In partnership with **Black Book**, CarEdge's Q4 survey provides critical insights into this growing issue, including how it impacts car buyers, automakers, and the broader market as we enter 2025.



SURVEY METHODOLOGY

CarEdge, in partnership with Black Book, surveyed 474 drivers in Q4 2024. Respondents provided details about their vehicles, including purchase price, loan terms, interest rates, current mileage, and loan balances. **Black Book trade-in values** were used to evaluate each car's equity position.

To quantify equity, we calculated the difference between the self-reported loan balance and the trade-in value from Black Book. In addition, the loan-to-value ratio (LTV) was calculated. A LTV ratio of 1 or higher means the loan balance exceeds the vehicle's value, indicating negative equity.

Of those surveyed, 83% financed their vehicles at the time of purchase. Median figures were used to account for outliers, ensuring accurate insights into the typical driver's experience with equity in 2024.

Noteworthy Trends

→ Negative Equity Trends Worsen

The data shows a sharp increase in negative equity:

- **39%** of financed car owners are underwater, a 25% jump from Q3.
- For vehicles purchased since **2022**, **44%** of drivers are in negative equity (up from 38% in Q3).
- **40%** of drivers currently in the market to buy or lease a car have negative equity on their current auto loans.
- **Median equity** for all vehicles: **$3,383** (down 45% from Q3).
- **Median equity for financed vehicles: $2,795**, a significant drop in just one quarter.

These figures highlight how recent buyers are especially vulnerable, as their vehicles have depreciated rapidly while loan balances remain high.

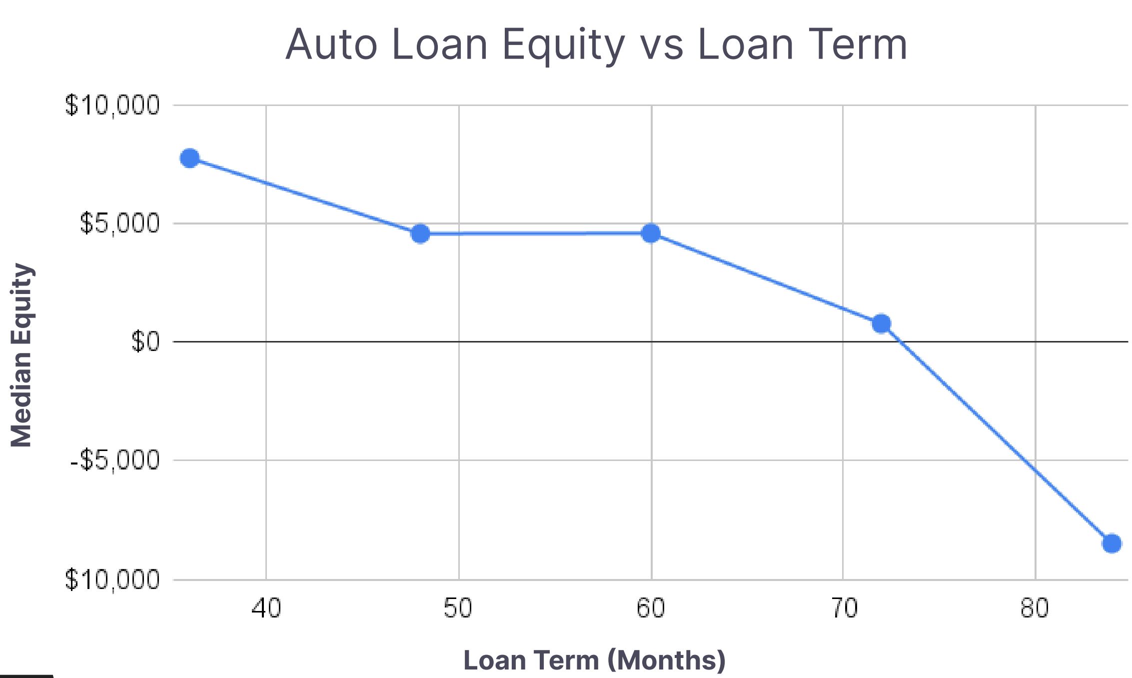
→ Overestimating Vehicle Value: Perception vs. Reality

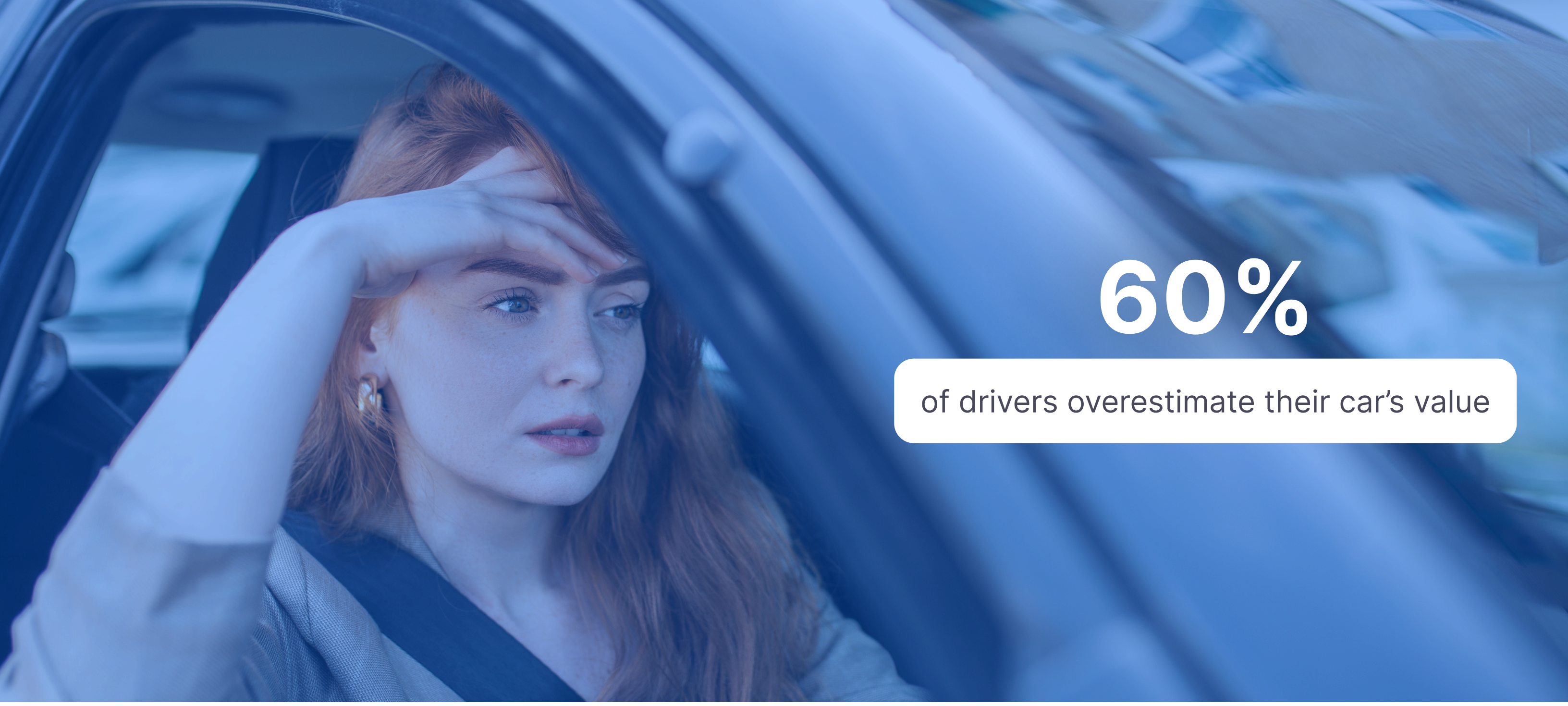
A major factor fueling this cycle is drivers' misperception of their car's worth:

- **60%** of respondents overestimate their car's value.
- **18%** overestimate by **$5,000+**, and **7%** by **$10,000+**.

This disconnect leads many to unknowingly carry negative equity into trade-ins, perpetuating financial strain. Car buyers only discover this gap at the dealership when trade-in offers fall short of expectations.

→ The Impact of Loan Terms



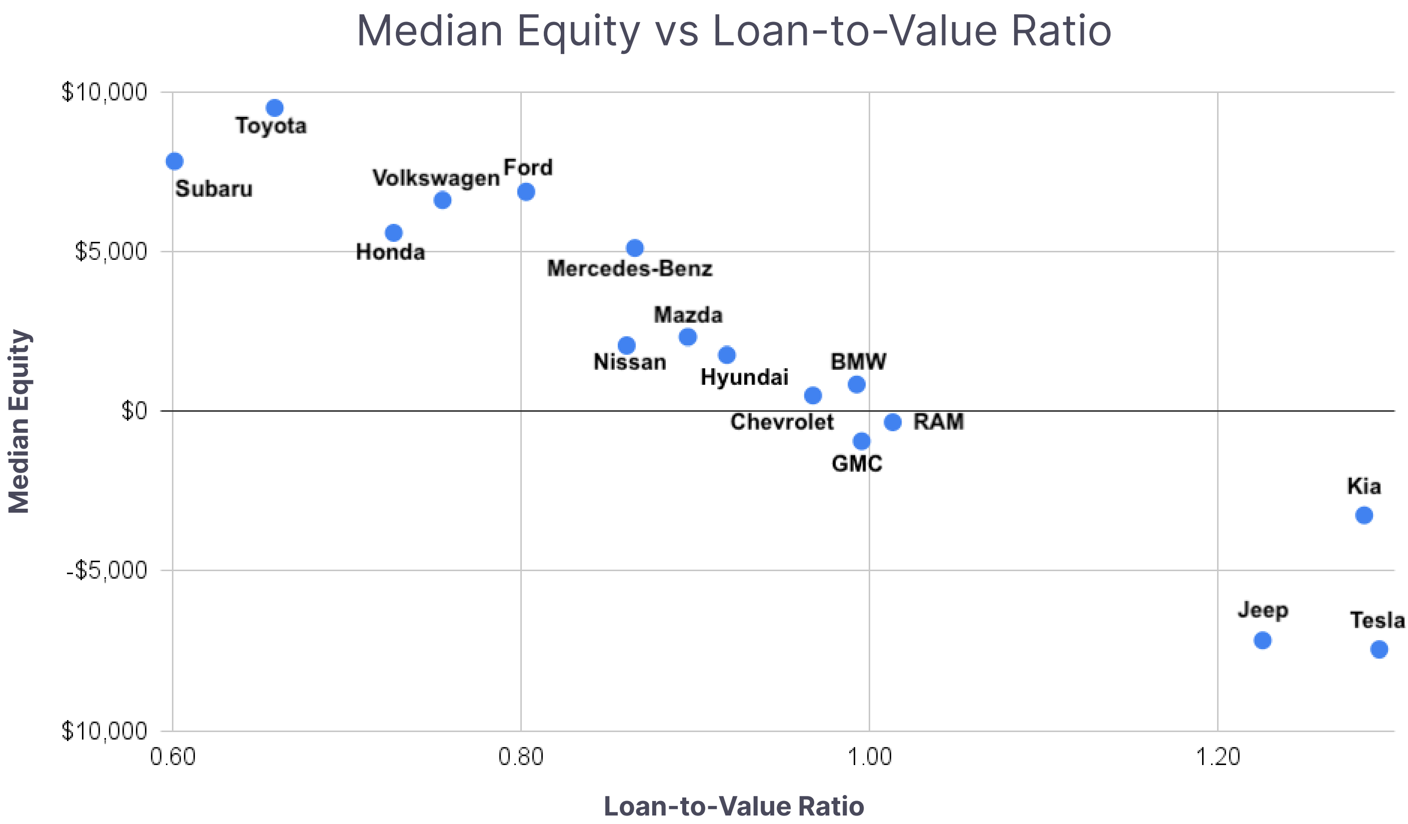


Longer loan terms increase the likelihood of negative equity:

- **84-month loans** (7% of financed vehicles) have a median equity of **-$8,485**.
- **36-month loans** (8% of financed vehicles) have a median equity of **$7,783**.

The **median loan term** for surveyed drivers is **60 months**, but trends toward longer terms continue to drive equity losses for many borrowers.

→ Negative Equity by Vehicle Make and Powertrain



- **Top brands for negative equity: Tesla, Kia,** and **Jeep**.
  - Tesla owners report the highest negative equity, with an **average equity of -$7,463**. As new Tesla prices have fallen 15% or more since early 2023, early adopters of the brand have been left with mounting negative equity.
- **Toyota, Subaru, and Ford** owners have consistently healthier equity positions. These brands are known for their value and reliability, and therefore command higher resale values on the used car market.

Electric vehicles are at the center of the negative equity problem:

- **54%** of EV owners are underwater, with a median equity of **-$2,345**.
- EVs have a **median LTV ratio of 1.09**, far worse than gas and hybrid vehicles at **0.86**. Many EV shoppers continue to show a preference for new EVs due to concerns about the condition and possible repair costs of batteries in pre-owned electric vehicles.

The rapid depreciation of EVs combined with their higher upfront costs leaves owners financially vulnerable compared to drivers of gas-powered and hybrid cars.

CAUSES AND IMPLICATIONS OF RISING NEGATIVE EQUITY

→ What's Causing the Negative Equity Spike?

The current spike in negative equity is driven by three main factors. First, depreciation has returned to historical norms following a few years of elevated resale values. Electric and luxury vehicles have been hit especially hard in 2024, with depreciation exceeding levels seen among ICE cars. Rapid depreciation causes vehicles to lose value faster than loan balances can be paid down.

Second, long loan terms—often 72 to 84 months—lower monthly payments but trap buyers in negative equity for extended periods, as equity builds more slowly.

→ The Broader Implications

For consumers, negative equity makes trading in for a new car financially risky, as rolled-over debt drives up loan costs. This can lead to long-term financial strain for buyers and reduced purchasing power.

For the auto industry, high levels of negative equity reduce purchasing power, leading to slower trade-in activity and impacting new car sales. In the long term, this could cause challenges for automakers, dealerships and lenders as sales dynamics change.

CONCLUSION: WHAT'S NEXT FOR CAR BUYERS?

The latest data paints a clear picture: negative equity is rising, especially for buyers of electric vehicles, luxury models, and buyers with longer loan terms. As we look ahead to 2025, car buyers must take proactive steps to avoid falling into the negative equity trap.

Shorter loan terms, larger down payments, and realistic expectations of trade-in values can help buyers minimize risks from day one. With an abundance of tools available today, such as **free research**, **depreciation calculators**, and **next-level car searches**, car shoppers have resources at their fingertips to make smart buying decisions as an empowered consumer.

For more in-depth insights and expert analysis, visit **CarEdge** and **Black Book**. Stay tuned as we continue to track trends in vehicle equity and help you stay one step ahead.

APPENDIX

A.

Loan Term	Median Equity	Median Loan-to-Value Ratio
36	7,783	0.48
48	4,590	0.71
60	4,607	0.82
72	795	0.97
84	-8,485	1.33