



# **Auto Lending Abuses: Why Buying a Car Is Trickier Than You Think**

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# Auto Industry #1 in Complaints

## Auto Industry: Tops List of Consumer Complaints

Lemons

Faulty repairs

Leasing & towing disputes

False advertising

### **Problems with sale of new & used cars**

*We are going to highlight problems most consumers are not even aware of...*

Source: Consumer Federation of America

<http://www.consumerfed.org/pdfs/2010-Consumer-Complaint-Survey-PR.pdf>

# Family Car, Family Asset

- Second largest family asset after a home
- For many families, the largest asset
- Not a luxury, a requirement
- Needs to be reliable and affordable

# Tricky Business

But buying a family car is a tricky business

- Sales price
- Trade-in value
- Financing

None are transparent.

# Overview

- What are the tricks & traps....
  - When you buy from a dealer?
  - When you buy from Buy Here - Pay Here lot?
- How can you protect yourself?
- What's happening to rein in these abuses?
- Your experience?

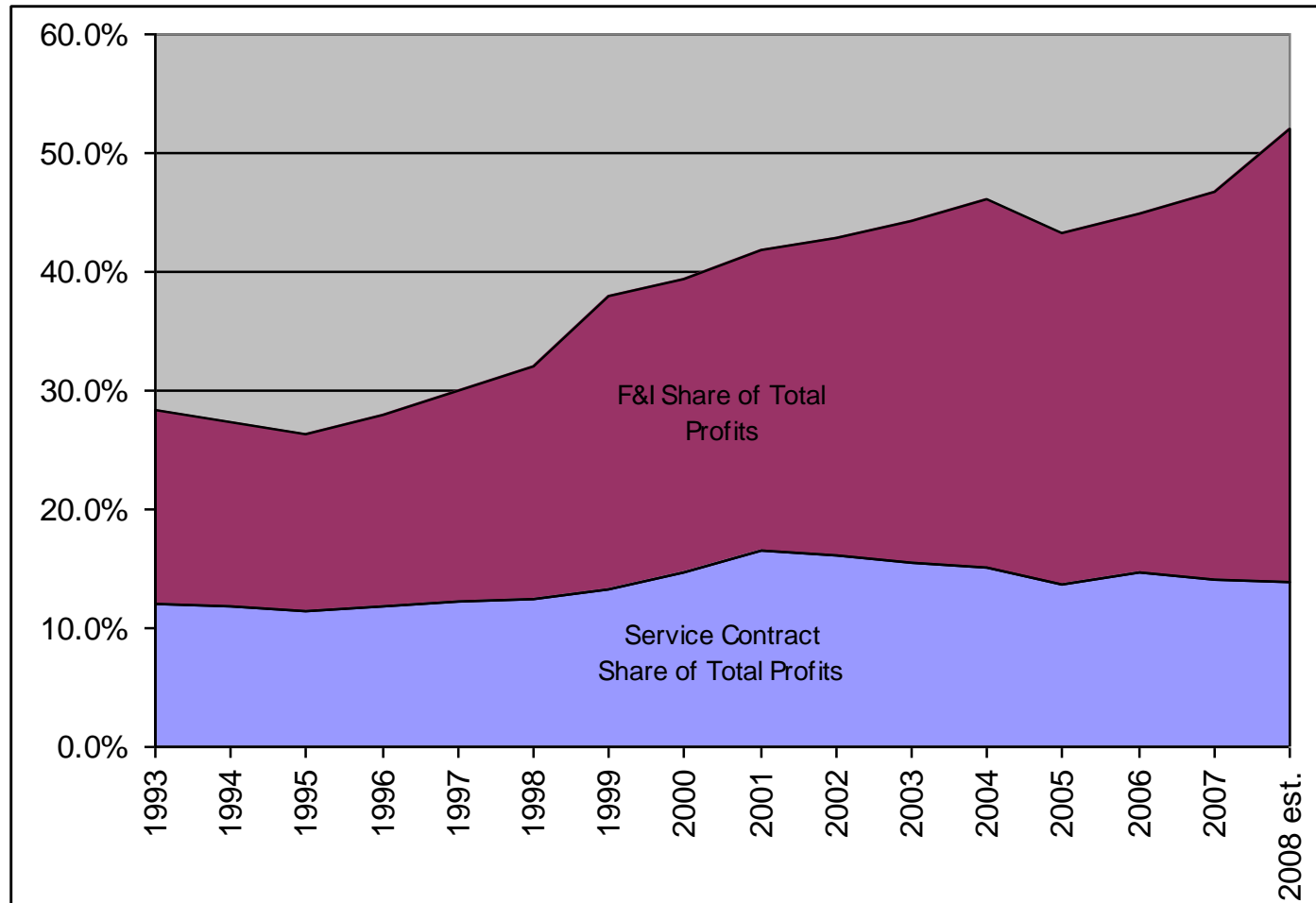
# Auto Financing: Your Questions & Concerns

What abuses are you seeing?

Your clients?

What questions do you have?

# Share of Dealership Profits



Source: F&I Magazine ([www.fi-magazine.com/Statistics](http://www.fi-magazine.com/Statistics))

# Dealer Kickbacks

- Dealer markup/kickback:
  - Dealer increases interest rate over “buy rate”
  - Then pockets part or all of the extra profits.
- Perfectly legal
- In NC- dealer has no obligation to disclose markup.



# Dealer Kickbacks in US and NC, 2009

**Table 1: 2009 Dealer Reserve Kickback Volume in the US and NC**

	New Vehicles	Used Vehicles	All Vehicles
US Dealer Financed Sales	8,355,600	27,775,440	<b>36,131,040</b>
US Kickback Volume (\$B)	\$4.1B	\$21.7B	<b>\$25.8B</b>
NC Dealer Financed Sales	235,628	783,267	<b>1,018,895</b>
NC Kickback Volume (\$ mm)			<b>\$728</b>
Average Kickback per Sale	\$494	\$780	<b>\$714</b>

Sources: Center for Responsible Lending, Under the Hood (April 2011)  
National Auto Finance Assoc, *2010 Automotive Finance Study* (dealer reserve data);  
and CNW Market Research (new & used car sales by state)

# Dealer Kickbacks: Way up since 2007

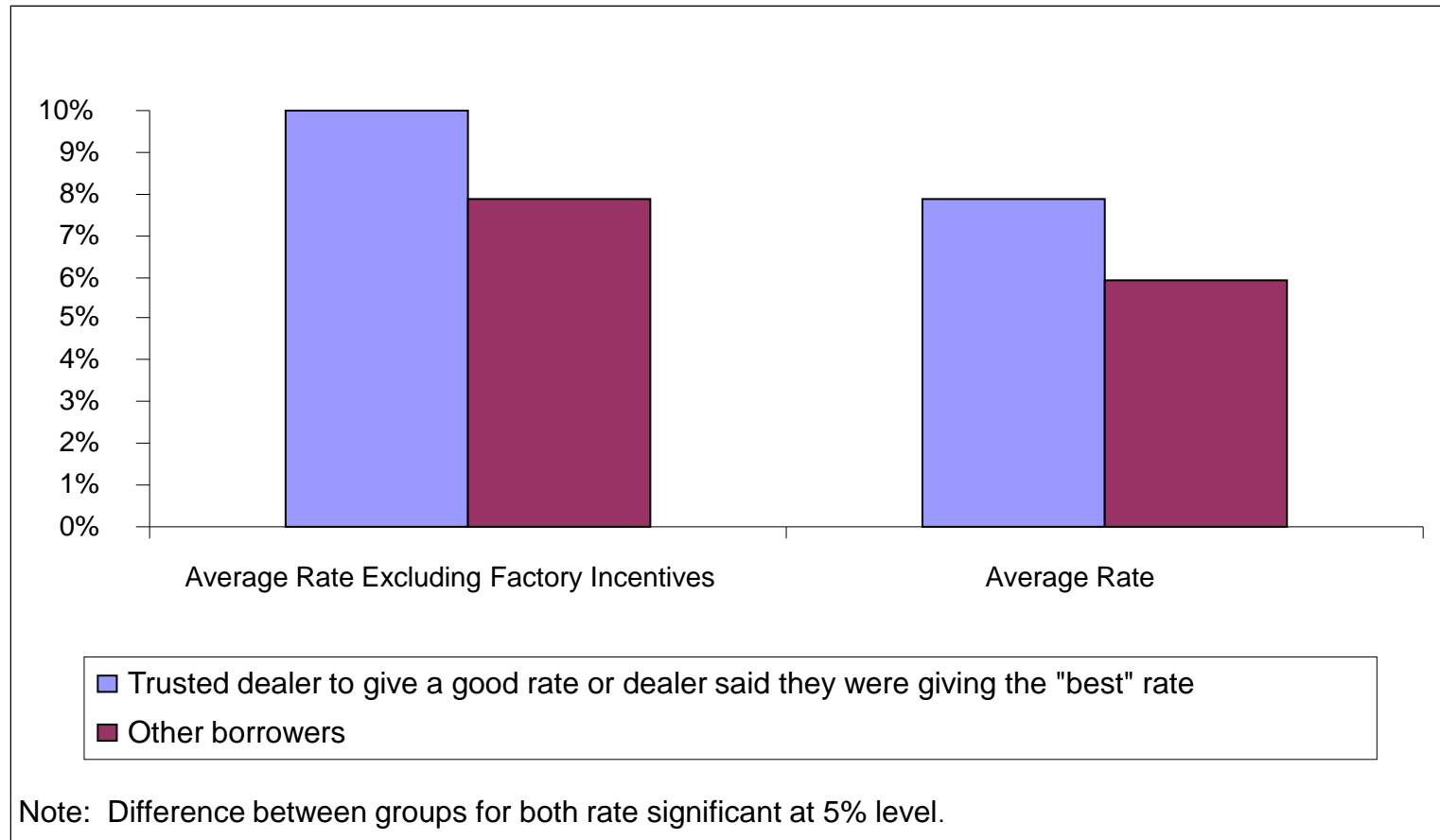
US kickbacks **increased by \$5 billion** from 2007 to 2009,  
from \$20.8 B in 2007 to \$25.8 B in 2009

NC kickbacks **increased by \$63 million** from 2007 to 2009,  
from \$665 M in 2007 to \$728 M in 2009

Average kickback per sale in NC **increased from \$642 in  
2007 to \$714 in 2009**

- \$642 (\$764 new & \$583 used) in 2007
- \$714 (\$494 new & \$780 used) in 2009

# The “Trust Tax”

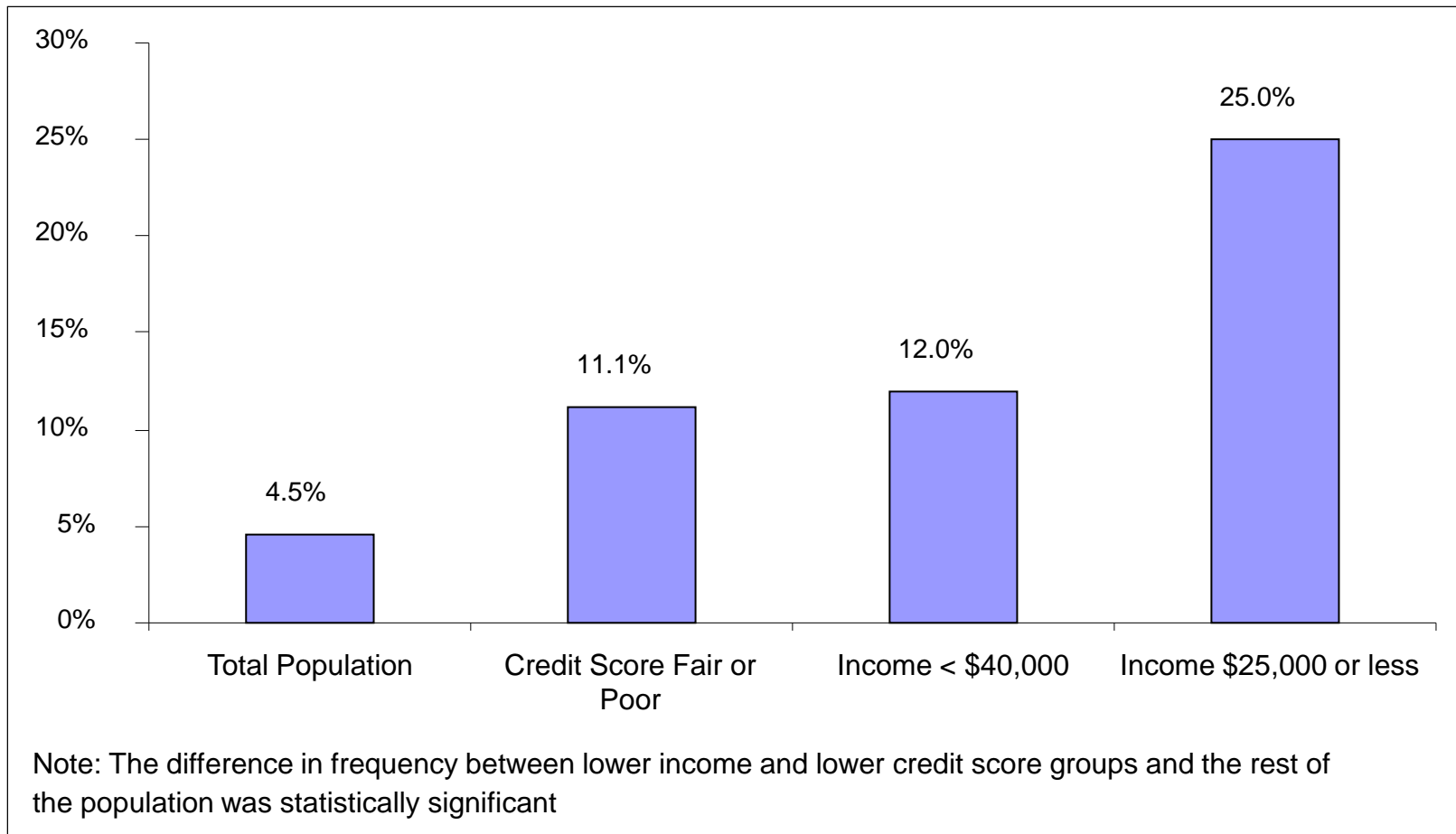


Source: CRL-sponsored survey through Macro International’s CARAVAN phone interviews

# Yo-Yo Scams

- Dealer entices consumer to sign conditional sales agreement.
- Brings consumer back with car.
- Consumer told:
  - Interest rate much higher
  - They cannot back out of deal:
    - Trade-in sold
    - Down payment not refundable.
- Consumer threatened with repossession and/or criminal charges (theft).

# Prevalence of Yo-Yo Scams (interest rate up 5% points, on average)



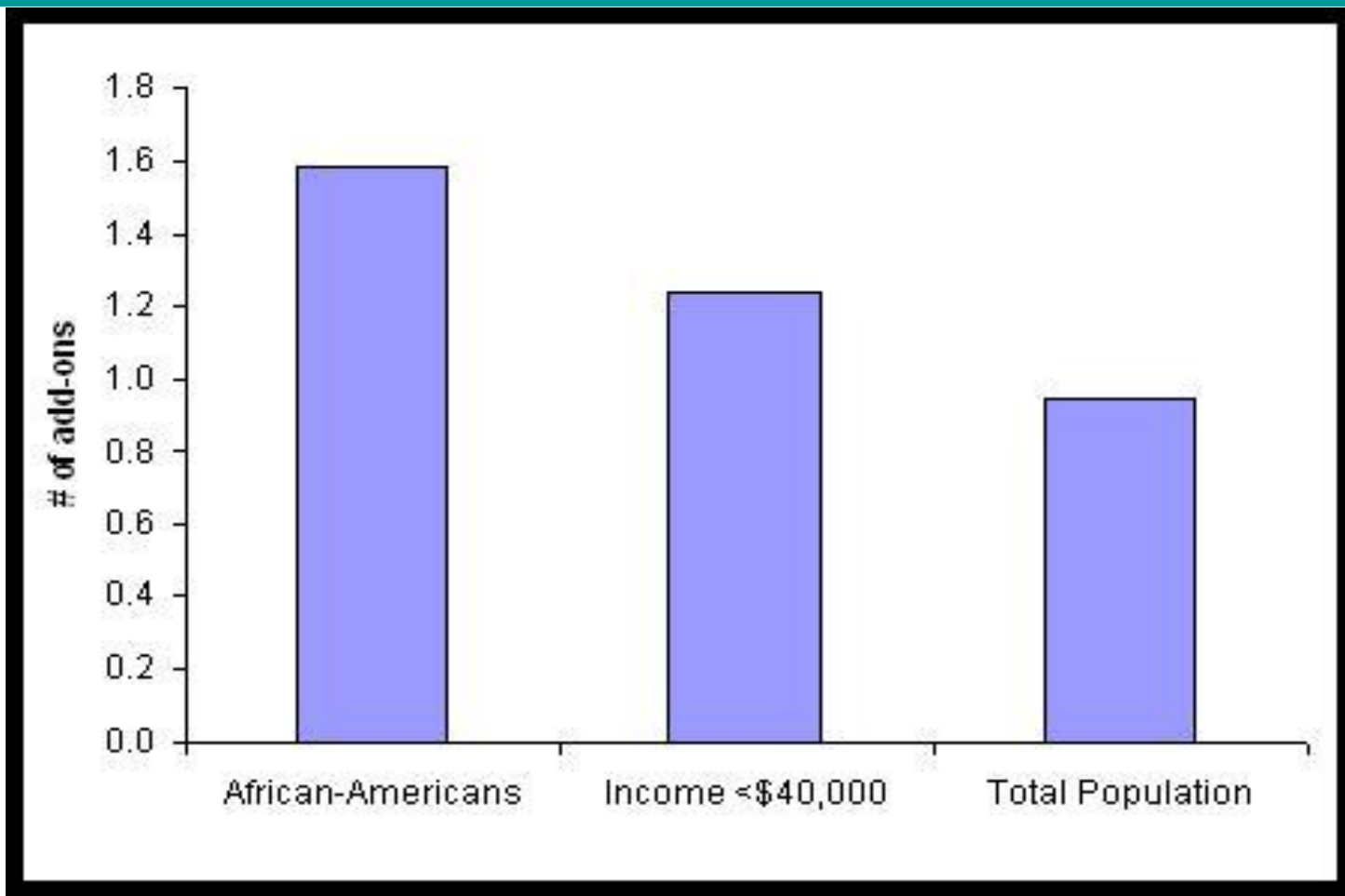
Source: CRL-sponsored CARAVAN phone survey

# Loan Packing

- Finance & Insurance Department sells a vast array of products:
  - Extended warranties, vehicle service contracts, GAP protection, wheel and tire protection, security/anti-theft devices, credit insurance, rustproofing, paint protection, roadside assistance....
- True cost hidden - sold as small increase in monthly payment.
- Profit margins extraordinarily high.

# Who Gets Add-ons

(sometimes sold as mandatory or without customer knowledge)



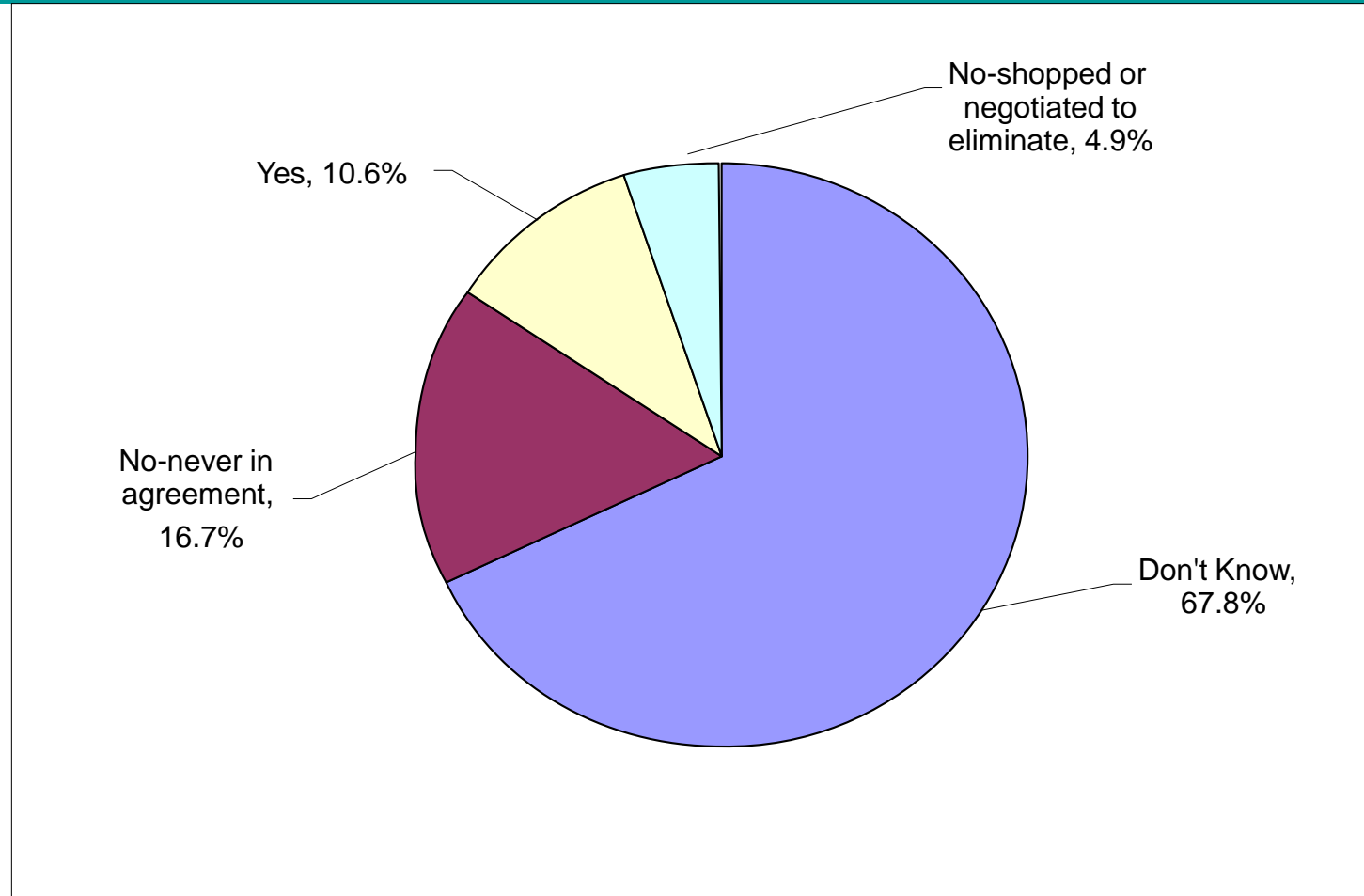
Source: CRL-sponsored CARAVAN phone survey

# Other Dealer Abuses

- Mandatory Arbitration
- Rolling negative equity into new loan
- Failure to pay off lien on trade-in
- Powerbooking – use monthly payment target to set price of car and/or number of add-ons
- Claims that ancillary products are required by lender



# Most Consumers Unaware of Mandatory Arbitration



Source: CRL-sponsored CARAVAN phone survey

# Buy Here - Pay Here Dealers

- Finance car deals themselves
- Large price markup
- Require significant downpayment
- Aggressive in repossessions and collections
  - “Collections is the focus of our business -- selling cars is not”
- Default rates between 25 to 30%
- Rely on churning cars to multiple buyers

# Good Programs & Lenders

- Car ownership programs
  - Wheels for Hope, Raleigh
    - <http://www.wheels4hope.org/>
  - Ways to Work, Winston-Salem
    - <http://www.fsifamily.org/waystowork.cfm>
- Lending to LMI families
- What do you know about?

# Who regulates car dealers & lenders?

*Dodd/Frank Wall Street Financial Reform Act*

## **CFPB - Consumer Financial Protection Bureau**

- Huge battle to exempt car dealers
- Covers car dealers that primarily engage in the sale or lease of vehicles to consumers AND service of vehicles AND routinely assign finance contracts to unaffiliated third parties are exempt. Which means:
  - Independent dealers (without service departments) **are** covered
  - Buy Here-Pay Here lots **are** covered
  - Franchise dealers (with service departments) **are not** covered
- Has authority over lenders who purchase auto loans contracts

# More on regulation

FTC and CFPB will both have a hand in car lending reform:

Dealer markups, yo-yo scams, loan packing, powerbooking, warranty issues, mandatory arbitration all within purview.

- Fight over dealer exemption gave greater exposure to abuses. Military also engaged.
- FTC - expanded rulemaking & enforcement authority over dealers.
- CFPB - authority over lenders who purchase auto loan contracts from dealers.
- State AGs and regulators -- can enforce FTC/CFPB rules.

# Buyer Tips

- Remember the sale, trade-in and financing are separate transactions
- Shop around – you do not have to finance with the dealer.
  - Beware of low or zero interest loan promotions
- Don't use monthly payment as your guide.
- Take your time – don't buy or sign that day.
  - Take finance documents home
  - Never buy that day
- Add-on products are not required for financing.
  - Know what you are buying and how much it costs.
- Beware of “pay off your trade in no matter what” promotions.

# Additional Resources

Brochures & research on CRL website

<http://www.responsiblelending.org/other-consumer-loans/auto-financing/>

Check out our Tools & Resources section

- [Car Loan Tips](#)
- [Signs of a Bad Car Loan](#)
- [Use Our Auto Dealer Mark-up Calculator](#)
- [How to Avoid Auto Fraud](#) (English version)
- [How to Avoid Auto Fraud](#) (Spanish version)
- [Tell Us About Your Predatory Car Loan](#)

Check out our Research

- [Under the Hood: Auto Loan Interest Rate Hikes Inflate Consumer Costs and Loan Losses](#)

Check out other sites

- [www.edmunds.com](http://www.edmunds.com)
- [www.vehiclehistory.gov](http://www.vehiclehistory.gov)

# On the street

What are you seeing? Your clients seeing?

What questions do you have?

What do you need to help your clients/ members?

How can you help?



# Ways to Get Involved

- **You tell us..**
- **Spread the word** about these abuses – hidden problems
- Help us find **borrowers willing to share their story**
- Help us **pressure legislators & regulators** to rein in lending abuses:
  - Join the NC **Coalition** for Responsible Lending.  
<http://www.responsiblelending.org/north-carolina/about-us/>
  - Help us protect:
    - NC usury caps on consumer loans
    - Mortgage lending protections + foreclosure rescue scams
    - Wage garnishment protections
    - 350% payday loans– mainstream banks making payday loans
    - Fully implement Dodd/Frank law and CFPB

# Wrap-up

- Buying a family car is a tricky business
- Beware
  - Dealer mark-ups
  - Yo-yo scams
  - Add-on products
  - Buy Here-Pay Here lots
- Do your homework—take your time & shop around
- Get involved in fighting for reforms

# Contact Information

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