



The Road to Economic Mobility: Removing Transportation Barriers for Working Families

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www.responsiblelending.org

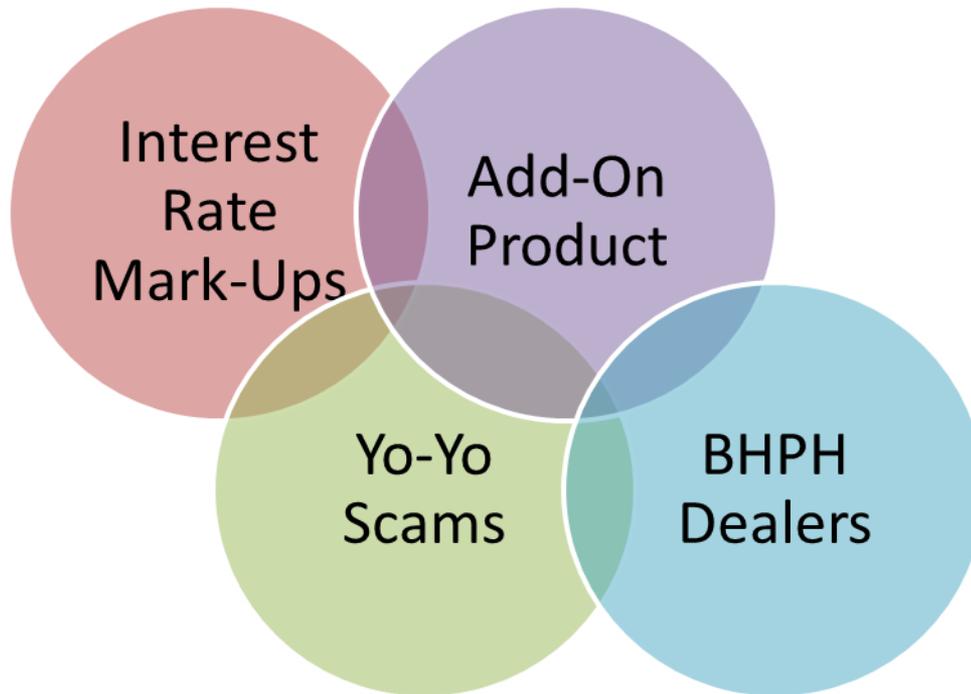
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Three Types of Auto Financing

- A. **INDIRECT FINANCING:** Dealers finance through their Finance and Insurance (F&I) office – **80% of car buyers who use financing to purchase the car go this route**
- B. **BUY HERE, PAY HERE: “BHPH”** dealers finance and service loans in-house
- C. **DIRECT FINANCING:** Car buyers obtain financing directly from a bank or credit union



Most Common Predatory Practices



Indirect Financing: Auto Dealer Discretionary Rate Pricing

Buy Rate:

After evaluating a consumer's credit and financial profile, an outside financial institution will quote this interest rate to the dealership in order to purchase the loan contract.



Dealer Rate Markup:

Financial institutions allow the dealer to increase the buy rate before presenting the contract to the consumer. The markup serves as compensation for the dealer.



Contract Rate:

After adding the rate markup, the dealer then presents the final interest rate on the car loan contract. Consumers are largely unaware their contract rate includes any dealer markup.



Research on Problems with Discretionary Rate Pricing and General Discrimination

“Non-Negotiable: Negotiation Doesn’t Help African Americans and Latinos on Dealer-Financed Car Loans” (2014) and “Discrimination when Buying A Car: How the Color of your Skin Can Affect your Shopping Experience” (2018)

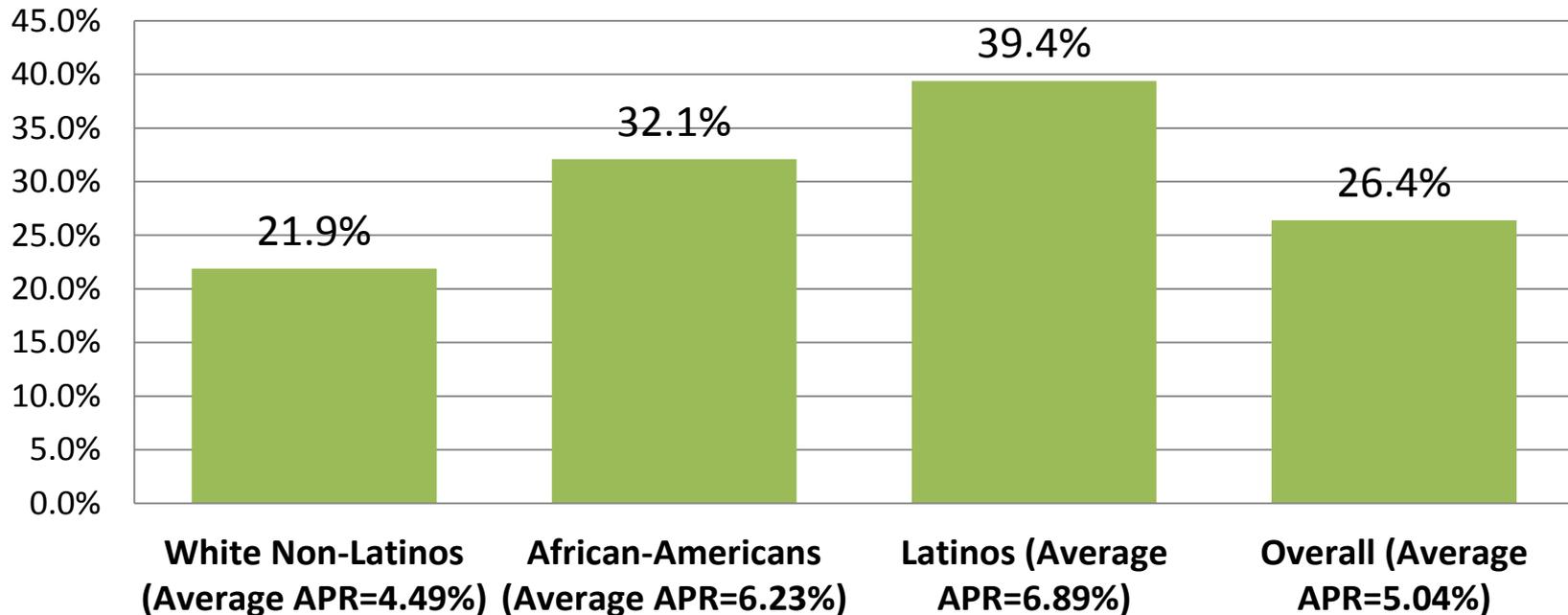
Main Findings:

- African-Americans and Latinos negotiate and comparison shop as much as whites for their car loans, if not more, and even with same or better credit profile - still get higher interest rate markups.
- Consumers of color are more likely to receive misleading information from their car dealer (graph next slide).

Disparate Impact of Discretionary Rate Pricing

African-Americans and Latinos that negotiate and comparison shop as much as whites for their car loans still get higher interest rates.

Percentage Trying to Negotiate Their Interest Rate





Low-Income Borrowers and Borrowers of Color are More likely to be Deceived into often Unnecessary Add-on Products

- Overpriced, often valueless add-on products that quickly inflate overall cost:
 - Vehicle service contracts
 - Guaranteed Auto Protection (GAP) insurance
 - Credit life and disability insurance
 - Theft deterrent systems
 - Custom upgrades and accessories

Yo-Yo Scams

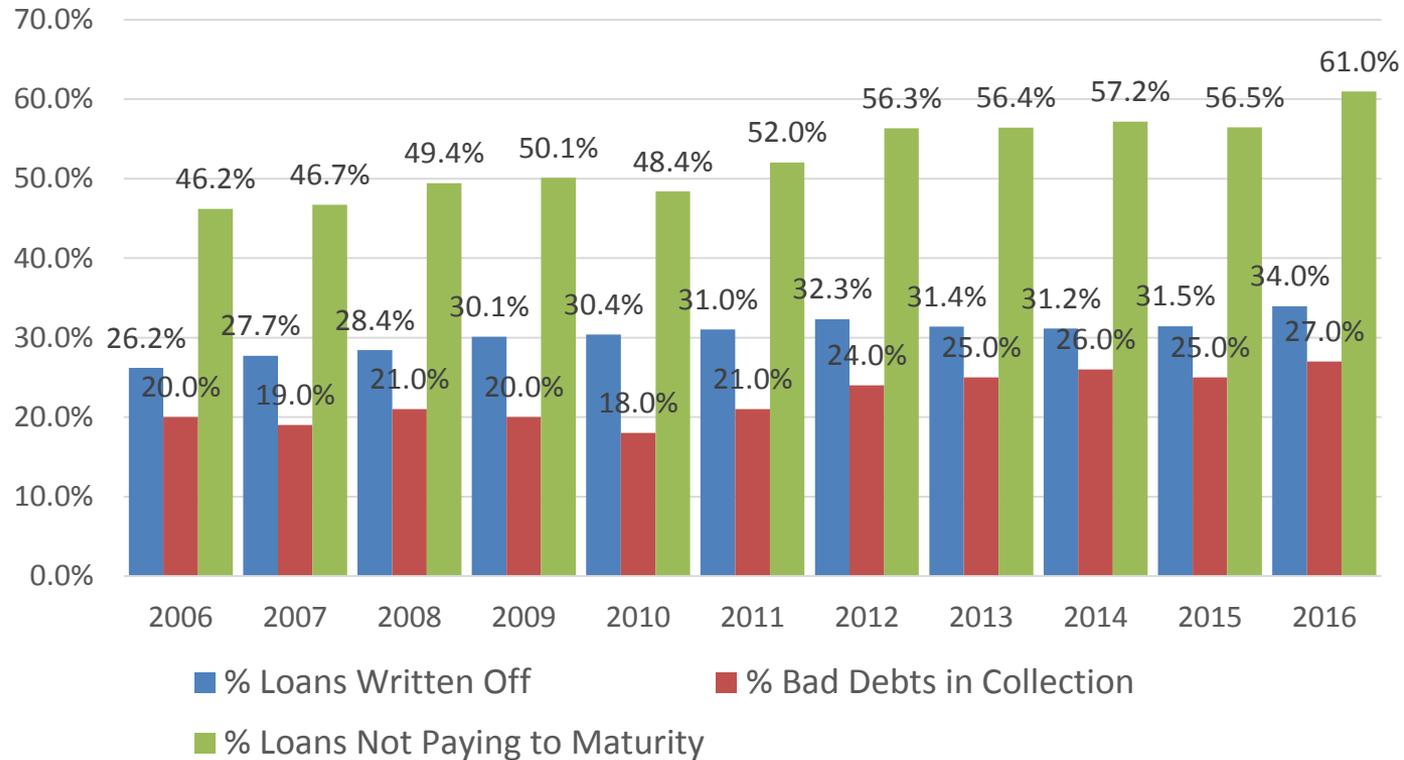
- How it works:
 - Dealer allows buyer to leave with a car “on the spot” even though financing is not finalized,
 - Dealer later requires buyer to return and negotiate a new (and more expensive) deal,
 - Buyers who trade-in vehicles for car cannot back out of deal, because their trade-in has already been sold,
- Consumers in a “yo-yo” pay rates 5 percentage points higher than otherwise.
- Low-income and poor credit borrowers are more subject to yo-yo’s.

Buy Here, Pay Here (BHPH) Dealerships

- BHPH dealerships cater to the subprime borrower that cannot secure financing from traditional lending sources.
- BHPH dealers typically sell older used cars with APRs around 25%.
- In 2017, 61% of BHPH loans went into default. (graph next slide)



Research on Abuses in BHPH Financing



Car Title Lending

- Typical Car Title Loans are refinanced over 8 times
- Drain over \$4.3 billion in fees each year
- Strips away twice as much in fees than credit provided
- Often results in debt trap cycle and many consumers lose their vehicles



Policy Recommendations to Protect Consumers and Increase Fair Access:

- Discretionary Auto markup rates- change to flat fee
- Federal (CFPB, FTC) and state regulators and/or legislatures should legally deem yo-yo scams unfair and deceptive acts
- Prohibit dealers from misleading consumers about the cost and value of add-on products and insurance
- Support CFPB Rule regulating predatory payday and car-title lending
- Support state ballot and legislative initiatives that address items above

Resources

See all CRL research on Auto Lending:

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

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