Auto Dealers' Lending Abuses Cost Billions

Car Loans Are Too Important To Be Excused From CFPA

CRL Issue Brief – November 2009 Contact Kathleen Keest (919) 417-1624

The most common type of large loan held by Americans is the loan that finances their car—yet a recent mark-up of the Consumer Financial Protection Agency (CFPA) bill would allow auto dealers to be exempt from basic oversight that could save American families billions of dollars.

Many dealers are like loan brokers: They typically write the car loans, then sell the loan to a third party lender. Common financial abuses among auto dealers are analogous to those that wreaked havoc in the mortgage market: confusing loan terms, hidden costs, and inflated sales commissions. As with mortgages, the financial incentives on car loans encourage tricks and traps and unnecessary added costs, particularly for families who can least afford them. Yet dealers won an exemption from CFPA rules, despite common abuses like these:

- Dealer overcharges on interest rates. It is all too easy for auto dealers to charge high interest rates on car loans, even when the buyer qualifies for a lower rate from the lender who buys the loan. These overcharges (i.e., kickbacks) cost Americans $20 billion each year. The attached chart shows the cost of auto dealers overcharges in each state (See Pages 2-3).

- "Yo-yo" sales use classic bait-and-switch scams. Car dealers change the financing terms after the buyer has already taken possession of the car. After hearing that "the financing fell through," the buyer is forced to return the car and renegotiate the contract. Buyers who return to the dealership pay on average 5% more for their car loans.

- Abusive lending by dealers is targeted. Even when they have the same or better credit than white consumers, borrowers of color and lower-income borrowers are more likely to be charged higher dealer markups. Consider these statistics:

    - More than 54% of African Americans were charged kickbacks vs. 31% of Whites.
    - Among low- and moderate-income buyers who used dealer financing for their last auto purchase: 1 in 8 with an income less than $40,000 experienced a yo-yo or bait and switch scam; and 1 in 4 with an income less than $25,000 did.

Other dealers are lenders themselves: Buy Here, Pay Here (BHPH) used car lots may charge rates between 12 and 25 percent. The BHPH industry—which occupies a $30 billion segment of the market—is geared toward borrowers with no credit or marred credit. Customers wind up making payments that vastly exceed the car's actual value. Auto industry analysts cite these lots as a finance business, as BHBP dealers gain more from loans than from car sales.

In the current marketplace, finding decent auto financing is no longer based on car quality or customer creditworthiness, but rather a potential car buyer’s ability to survive a financial shell game. Including the auto dealers under CFPA would rein in abusive practices and give consumers a better chance at a fair deal on a car.

DEALER KICKBACK VOLUME BY STATE 2007[i]

Rank	State	New Vehicle Market Share	New Vehicle Kickback Volume	Used Vehicle Market Share	Used Vehicle Kickback Volume	Total Dealer Kickback Volume
26	Alabama	1.26%	$110,476,064	1.65%	$199,560,418	$310,036,482
50	Alaska	0.11%	$9,914,978	0.21%	$26,035,577	$35,950,555
13	Arizona	2.61%	$228,410,644	2.11%	$256,264,673	$484,675,317
35	Arkansas	0.85%	$74,402,532	0.90%	$109,059,142	$183,461,674
1	California	12.11%	$1,057,992,630	11.95%	$1,448,752,786	$2,506,745,416
22	Colorado	1.61%	$140,493,995	1.47%	$178,025,775	$318,519,771
30	Connecticut	1.17%	$102,079,879	1.10%	$132,847,890	$234,927,769
49	DC	0.26%	$22,468,182	0.15%	$18,663,357	$41,131,539
46	Delaware	0.31%	$26,820,950	0.21%	$25,634,228	$52,455,178
4	Florida	5.77%	$504,151,195	5.56%	$674,680,597	$1,178,831,792
8	Georgia	3.70%	$323,065,213	3.36%	$407,671,641	$730,736,855
42	Hawaii	0.33%	$28,538,113	0.30%	$36,936,277	$65,474,390
39	Idaho	0.55%	$48,427,492	0.49%	$58,969,272	$107,396,765
6	Illinois	4.52%	$394,937,006	4.02%	$487,602,027	$882,539,032
16	Indiana	2.18%	$190,226,706	2.02%	$245,349,422	$435,576,129
27	Iowa	1.35%	$118,358,410	1.20%	$145,118,756	$263,477,166
32	Kansas	0.99%	$86,458,502	0.96%	$116,945,478	$203,403,980
20	Kentucky	1.59%	$138,588,600	1.62%	$197,001,967	$335,590,567
25	Louisiana	1.31%	$114,836,696	1.63%	$197,071,081	$311,907,778
41	Maine	0.31%	$27,066,509	0.34%	$41,375,372	$68,441,881
18	Maryland	1.99%	$173,845,933	1.93%	$233,483,543	$407,329,476
17	Massachusetts	2.16%	$189,055,715	1.80%	$218,817,918	$407,873,633
10	Michigan	3.42%	$298,616,832	2.79%	$337,914,435	$636,531,267
24	Minnesota	1.43%	$124,807,602	1.56%	$189,653,997	$314,461,600
33	Mississippi	0.94%	$82,106,608	0.91%	$110,868,246	$192,974,854
19	Missouri	1.67%	$145,547,261	1.88%	$228,497,594	$374,044,855
43	Montana	0.29%	$25,054,850	0.27%	$33,335,045	$58,389,895
38	Nebraska	0.46%	$40,522,425	0.55%	$67,216,943	$107,739,369
31	Nevada	1.12%	$98,264,544	0.91%	$109,960,057	$208,224,601
40	New Hampshire	0.38%	$33,358,404	0.41%	$50,043,793	$83,402,197
11	New Jersey	3.01%	$263,222,301	3.05%	$370,352,203	$633,574,504
36	New Mexico	0.73%	$63,723,788	0.86%	$104,451,505	$168,175,293
3	New York	6.23%	$544,292,611	6.61%	$801,815,017	$1,346,107,627
9	North Carolina	2.97%	$259,900,705	3.34%	$405,176,242	$665,076,947
48	North Dakota	0.20%	$17,265,135	0.21%	$26,004,051	$43,269,186
7	Ohio	3.48%	$303,940,474	3.86%	$467,821,924	$771,762,398

29	Oklahoma	1.09%	$95,642,921	1.20%	$145,106,631	$240,749,552
28	Oregon	1.09%	$94,914,110	1.23%	$149,702,143	$244,616,253
5	Pennsylvania	4.11%	$358,910,664	4.47%	$541,872,721	$900,783,385
45	Rhode Island	0.27%	$23,919,687	0.28%	$33,479,337	$57,399,024
23	South Carolina	1.34%	$117,471,427	1.62%	$197,001,967	$314,473,394
47	South Dakota	0.21%	$18,698,289	0.27%	$32,424,430	$51,122,719
15	Tennessee	2.07%	$180,501,359	2.33%	$282,904,093	$463,405,452
2	Texas	7.85%	$685,630,944	7.90%	$957,842,960	$1,643,473,904
34	Utah	0.87%	$76,438,659	0.88%	$107,201,537	$183,640,196
44	Vermont	0.26%	$22,817,732	0.29%	$34,694,298	$57,512,030
12	Virginia	2.85%	$248,819,979	2.84%	$343,969,840	$592,789,819
14	Washington	2.31%	$202,267,821	2.24%	$271,233,432	$473,501,253
37	West Virginia	0.67%	$58,205,272	0.51%	$62,381,349	$120,586,621
21	Wisconsin	1.52%	$133,240,489	1.57%	$190,286,941	$323,527,431
51	Wyoming	0.11%	$10,024,212	0.13%	$16,281,936	$26,306,148
	TOTAL U.S.	**100.00%**	**$8,738,743,050**	**100.00%**	**$12,125,361,864**	**$20,864,104,914**

[i] Figures derived from kickback data in the 2008 Consumer Bankers Association Automotive Finance Study (2007 full-year data), and 2007 sales data for dealer-financed vehicles from CNW Market Research (excluding leases). State market shares also from 2007 CNW Market Research data.

About the Center for Responsible Lending

The Center for Responsible Lending is dedicated to protecting home ownership and family wealth by working to eliminate abusive financial practices. CRL is a national nonprofit, nonpartisan research and policy organization that promotes responsible lending practices and access to fair terms of credit for low-wealth families.

For additional information, please visit our website at **www.responsiblelending.org**.