Don't Endorse Discrimination in Auto Lending
Oppose H. R. 1737

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Dealer mark ups are discriminatory.
When a consumer finances a car through an auto dealer, the dealer typically arranges to sell the loan for the car to a bank or other lender. The dealer can receive a bonus payment for increasing the interest rate on the car loan above the rate the borrower qualifies for. The bonus can be $1,000 or more, and the borrower pays for that through higher interest rates over the life of the loan.

African-American and Latino car buyers are hit hard by this practice and end up paying more than other borrowers who have the same credit. This has been a problem for years and has triggered many enforcement actions and lawsuits over the last two decades.[i]

CFPB is enforcing long-standing anti-discrimination laws in ensuring fairness in auto lending.
The CFPB has the authority and responsibility to supervise the lenders who buy auto loans – only the dealers themselves are exempted.[ii] The Equal Credit Opportunity Act (ECOA), passed in 1974, prohibits discrimination in lending and is the basis for past and recent enforcement actions related to discriminatory auto financing dealer mark ups. ECOA covers lenders who purchase auto lending contracts from auto dealers.

CFPB's auto lending guidance simply gives dealers and lenders fair notice of the application of ECOA.
In March of 2013, the CFPB issued guidance to alert auto lenders that allowing dealers to mark up the interest rate on loans could expose them to fair lending risks, that there was reason to believe discrimination was occurring in the market, and that other compensation systems do not have the same fair lending risk as dealer markup. The CFPB reminded lenders who buy auto loan contracts that, under ECOA, they are liable for discrimination.

The largest auto dealer in the country endorsed the recent CFPB solution.
The CFPB recently entered into a settlement with American Honda Finance Corporation, the captive lending arm of Honda, to settle claims of discrimination in its car loan portfolio. The settlement, while not everything consumer groups would want, provides lenders and dealers with flexibility in their operations while reducing or preventing discrimination.

Mike Jackson, the CEO of Autonation, the largest auto dealer in the US, when asked about the settlement, told Auto News: "I think this is a very enlightened solution. This is a win-win-win."

Americans strongly support CFPB enforcement against auto lending discrimination.
A 2015 poll conducted jointly by Republican and Democratic firms found that the public strongly supports CFPB action to crack down on discriminatory auto lending practices by a 3 to 1 margin. Support crosses demographic and political lines.

H.R 1737 singles out auto lending guidance, potentially making it harder to prevent discrimination. Why would Congress intervene to change the rules to make it easier to discriminate? The bill requires the CFPB to go through a convoluted process before issuing guidance related to discriminatory auto lending – a process that is not required for any other type of lending.

Support fair lending, oppose H.R 1737

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[i] In the mid-1990s, a series of lawsuits were brought against the largest auto finance companies for alleged discrimination. The data from those cases showed that African-American and Latino car buyers were more likely to have their interest rates marked up than similarly-situated white borrowers, and those who did had their interest rates marked up more than white borrowers. The Department of Justice intervened in one of those cases.

In 2007, the DOJ entered into settlements with Pacifico Ford and Springfield Ford to settle allegations of discrimination due to dealer interest rate markups.

In December 2013, the CFPB and the Department of Justice (DOJ) entered into a settlement agreement with Ally Bank on a case alleging violations of the Equal Credit Opportunity Act. Ally agreed to pay $98 million in fines and restitution. The data in that case showed that borrowers of color paid more in interest than white borrowers.

In September, 2014, the CFPB disclosed that it had entered into settlements with several lenders, in which those lenders agreed to pay more than $150 million in fines and restitution and, in some cases, change their compensation systems due to discrimination in their auto loan portfolios.

In May 2015, Evergreen Bank agreed to change to a fixed compensation model in a settlement with DOJ due to settle claims that borrowers of color paid more in interest for motorcycle loans than similarly situated white borrowers.

And, earlier this month, Honda Financial settled with CFPB and DOJ, agreed to pay $24 million in restitution and significantly reduce the amount dealers are allowed to mark up the interest rate.

[ii] 12 U.S.C. 5519.