Non-Negotiable:

Negotiation Doesn't Help African Americans and Latinos on Dealer-Financed Car Loans

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CENTER FOR RESPONSIBLE LENDING

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INTRODUCTION

Previous research shows that, on average, people of color pay more for their car loans than whites when financing a loan through a car dealer. African Americans receive higher interest rates on car loans obtained from car dealers than similarly-situated white borrowers, even after controlling for several credit measures, while those who receive loans directly from banks or credit unions do not.[1] In addition, African Americans pay higher purchase prices for their cars, even after actively negotiating with the seller.[2]

Theoretically, we would expect better rate pricing outcomes for consumers who both try to negotiate their interest rates and comparison shop for a loan in advance of their car purchase. Differences in levels of negotiating and comparison shopping could explain the disparities we see in rate pricing for dealer-financed loans. However, if consumers of color negotiate and shop around just as much as their white counterparts and still experience pricing disparities, it raises the possibility that other factors at the dealership prevent the car financing process from working the same for all consumers.

This report seeks to add to previous research on car loan pricing by examining differences in the car financing experience for borrowers receiving loans through car dealers. Specifically, we investigate whether racial disparities occur, considering the consumers' attempt to negotiate their interest rates and comparison-shop at other institutions. We also examine other aspects of car buying by race and ethnicity, including the purchase of ancillary "add-on" products[3] and the accuracy of information provided by the dealer to the customer during the buying experience.

With racial disparities in dealer interest rate pricing found in several reports, our research shows the possibility of outside factors preventing a level playing field for all consumers. This new research supports the likelihood that dealer practices, such as interest rate markups, have a discriminatory impact on borrowers of color. In brief, these are our main findings:

1. African-American and Latino consumers attempt to negotiate pricing on car dealer loans just as much as white consumers, if not more, and their levels of comparison shopping are similar to those of white buyers. Previous analyses have found racial and ethnic disparities in car loans obtained through car dealers even after controlling for credit risk factors. Here we find, in spite of attempting to negotiate pricing more than their white counterparts, people of color received higher interest rates on loans financed through dealers. Thirty-nine percent of Latinos and 32% of African Americans report negotiating their interest rate, compared to only 22% of white car buyers—yet people of color received worse pricing. In fact, we found that people of color received higher interest rates compared to white buyers who did not attempt to negotiate at all. People of color did report slightly lower levels of comparison-shopping than white car buyers, but the very small differences would not account for the disparities in interest rates received.

2. More borrowers of color reported receiving misleading information about their loans from car dealers. Misrepresentations serve to negate the impact of negotiations or comparison shopping. People of color are more likely to have the dealer indicate they are getting the "best rate available," and be told that add-ons are mandatory purchases. In addition, people of color are more likely to be unaware of dealer interest rate markups. These three factors are also associated with higher delinquency rates, and therefore a greater chance of losing the car through repossession.

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3. African Americans and Latinos are nearly twice as likely to be sold multiple add-on products as white consumers. Add-on products such as various kinds of warranty and insurance coverage are sold at the dealership's financing office, often with significant price markups. Dealers sell African Americans and Latinos multiple add-ons approximately 30% and 27% of the time, respectively, compared with 16% of the time for whites. Multiple add-ons are also associated with greater chances of delinquency and therefore create a greater risk of repossession.

BACKGROUND

Auto Dealer Interest Rate Markups

When dealers sell a car and finance the transaction, they are able to earn revenue in several ways: through the car's sales price, the sale of add-on products and by adding a markup to the loan's interest rate for compensation.[4] Most consumers are unaware that the dealer has discretion to increase the consumer's interest rate beyond what outside financial institutions require to purchase the loan at face value.[5] Dealers will then keep some or the entire rate markup as compensation. We have estimated that in 2009 dealer interest rate markups—also known as "dealer reserve" or "dealer participation"—cost car buyers $25.8 billion in additional interest over the life of their loans.[6] Rather than providing loans with interest rates based on purely objective risk measures, dealer interest rate markups increase interest rates based on the dealer's own discretion and ability to convince borrowers to pay a higher rate.

On car loans financed through the dealer, the loan's interest rate has two components. The first is the "buy rate" that the financial institution buying the finance contract offers the dealer. This rate is calculated based on the borrower's credit and financial information that the dealer collects and provides to the financial institution. The second component of the interest rate is the dealer mark-up, which is added to the buy rate, with the extra funds going to the dealer. The dealer markup is based solely on the additional interest the dealer is able to convince the consumer to accept.

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.

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.

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.

In the mortgage field, we do see some precedent in regulating discretionary pricing. Mortgage yield spread premiums, a practice between mortgage lenders and brokers that functioned very similarly to dealer interest rate markups on car loans, produced both racial and ethnic disparities in how much consumers were charged in broker compensation. Mortgage brokers received an upfront payment in exchange for selling the borrower a loan with less advantageous terms, like a higher interest rate than that for which the borrower qualified or a prepayment penalty. At a statistically significant level, African-American borrowers paid between $482 and $733 more in broker compensation through yield spread premiums than white borrowers, while Latinos paid between $351 and $398 more than whites.[7] These disparities appeared even after controlling for risk factors such as credit score and loan-to-value ratio, as well as loan characteristics, neighborhood demographics and geography.

Due to the lack of transparency and additional costs created by yield spread premiums, the Federal Reserve Board and Congress acted to prohibit mortgage lenders from paying broker compensation based on discretionary interest rate pricing.[8] Similarly, the Consumer Financial Protection Bureau (CFPB) issued a rule under the Dodd-Frank Act prohibiting mortgage loan originators from being compensated based on the terms of the loan.[9]

Prior Disparate Impact Research on Car Loan Interest Rate Pricing

Similar to the disparities found in mortgage yield spread premiums, previous research has also found racial and ethnic disparities when borrowers finance their car loans at the dealership rather than directly from a bank or credit union.

Using data provided through class action litigation, Mark Cohen of Vanderbilt University (2006) found that borrowers of color are more likely to receive an interest rate markup when financing a car through the dealer, and that the rate is typically increased at larger amounts, than for similarly-situated white borrowers.[10] His loan-level analysis of five major auto finance companies indicated that 54.6% of African Americans received an interest rate markup, compared to 30.6% of whites. Moreover, African Americans on average paid over twice the amount of rate markup ($742) compared with the average markup paid by whites ($315). Latinos also paid higher rate markups than whites, although not as high as those paid by African Americans.[11]

Lenders involved in the class action lawsuits settled out of court, and instituted temporary interest rate markup caps of between two and three percentage points, the first of which started in 2003. Even with the last of the markup caps expiring in early 2010, auto industry representatives claim that the caps have been generally accepted as a best practice with most lenders, which should limit discriminatory conduct. However, even since the rate markup caps were put into practice, recent investigations from the Consumer Financial Protection Bureau (CFPB) and the U.S. Department of Justice (DOJ) have found racial disparities in car loan interest rate pricing among dealer-originated loans. This implies that rate markup caps by themselves are insufficient in erasing disparate impact, and that further regulatory measures may be necessary.

Recently, the CFPB announced findings from their review of data acquired from several large financial institutions that purchase car loans from dealers. These reviews are in light of CFPB guidance issued March 2013 to financial institutions that purchase car loans financed at dealerships, indicating that they can be held accountable for purchased loans violating the Equal Credit Opportunity Act (ECOA).[12] In some instances, CFPB found rate disparities where African Americans, Latinos and Asian Americans paid rates of 10 to 30 basis points (0.10% to 0.30% percentage points) higher than whites with similar credit backgrounds.[13] On a typical new car loan of $26,500 with a 4.5% interest rate and loan term of 60 months, a 30 basis point increase would result in an additional $216 for a minority consumer. Cumulatively over the course of many purchases within a minority group, this amount can have a negative impact on minority communities as a whole.

According to Patrice Ficklin, CFPB Fair Lending Director, "What we've already seen amounts to tens of millions of dollars in overpayments each year in total. Across the entire indirect auto market, the total could be much greater than that."[14]

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CFPB Fair Lending Director

Even with caps on rate markups, the CFPB and DOJ still found statistical evidence of disparate impact, already prompting a settlement to recompense minority consumers that were harmed. In December 2013, the CFPB and DOJ ordered Ally Bank to pay $98 million in damages and penalties for discriminatory rate pricing against over 235,000 African-American, Latino, Asian and Pacific Islander consumers.[15] According to the consent order, loans purchased by Ally Bank showed disparities of 29, 20, and 22 basis points for African-American, Latino, and Asian/Pacific Islander consumers over similarly-situated white borrowers, respectively. The investigation also determined that Ally Bank had insufficient measures to monitor discriminatory practices. Additionally in September 2013, the DOJ settled a lawsuit against a Los Angeles dealership after finding that loans they generated disproportionately gave non-Asians, many of whom were Latino, higher rate markups than similarly-situated Asians.[16]

Other research also found disparate impact in car loan interest rates. Using data from the Survey of Consumer Finances, researchers Charles, Hurst, and Stephens (2008) find that for car loans with higher interest rates (at the 75th percentile), African Americans paid 168 basis points more than whites with similar credit profiles financing through a finance company. In contrast, the rates African Americans paid on car loans originated directly by a bank or credit union did not have a statistically significant difference from whites.[17]

Likewise, Edelberg (2007) found that interest rate data prior to 1995 showed racially disparate impact for several types of loan products, including car loans, even after controlling for the financial costs of issuing debt. For car loans specifically, minorities paid rates 80 basis points higher than whites on a statistically significant level.[18]

Impact of Negotiation and Comparison Shopping on Interest Rate Pricing

Some reasonable explanations for a consumer receiving a higher interest rate on a loan include having poor credit, failing to negotiate for a good interest rate if the originator has discretion on what rate they can charge, or failing to compare competing loan offers. However, if data reveals that these factors are all reported at comparable levels among racial and ethnic groups and disparities persist, other factors—including the borrower's race or ethnicity—are at play. To determine whether these borrower characteristics and activities are significant factors in interest rate pricing, we conducted a comparative analysis that looks at race/ethnicity, interest rate negotiation, and comparison shopping. Including rate negotiation and comparison shopping in the discussion of how interest rates are priced allows us to gauge the influence consumers have over the price of their interest rates, and whether consumers can prevent racial disparities on their own. It also provides a new angle of research on discretionary interest rate pricing that adds to a growing foundation of analysis already on the issue.

Negotiation and comparison shopping could be important factors in obtaining a good interest rate from a dealer. Negotiation should in theory reduce a discretionary price, and receiving multiple finance quotes before buying a car can empower consumers to negotiate knowing the best interest rate for which they qualify.

However, staff in a dealer's finance and insurance (F&I) office, where financing is finalized and add-on products are sold, may provide misleading information that discourages negotiation and comparison shopping. Dealer compensation, with its ability to mark up interest rates, creates an incentive for a dealer's staff to discourage the consumer's ability to negotiate well. For example, a dealer representative could tell consumers that he or she has found the "best rate available" when that is not the case. In this case, if consumers trust their dealer representative, they may forego any rate negotiation or not be able to negotiate effectively.

Likewise, a dealer representative may falsely assert that certain add-on products are mandatory in order for the loan to be approved. This puts pressure on the consumer to accept add-on purchases without argument. These problems are compounded for consumers with credit scores that are considered subprime, since there are far fewer options for those consumers outside of dealer financing. Thus, subprime consumers often accept whatever deal is offered because they are not confident that other choices exist for them.

Research by Ian Ayres of Yale Law School (1995), which evaluated mystery shoppers' attempts to negotiate a car's sales price at the dealership, showed statistically significant racial disparities for the prices dealers offered. After negotiating the sales price, African-American male shoppers had final sale offers $1,132 higher than similarly-situated white males for their car purchases. Likewise, African-American women had offers $446 higher than white males at a statistically significant level.[19]

Unlike a car's sales price, where information is freely accessible online, information on the interest rate for which a consumer should qualify is much less transparent.

Since this study was completed, the growth of information on the internet has added more transparency on car prices, allowing people of color more opportunity to comparison-shop for better prices. In fact, analysis by Morton, Zettelmeyer, and Silva-Risso (2002) found a statistically significant sales price disparity where African Americans and Latinos paid more than whites after controlling for income, wealth, education, occupation and search costs.[20] However, when using an internet search tool to shop for a car, these racial disparities do not appear.

Both the studies by Ayres and Morton et al determine disparities by the impact on sales price instead of interest rate. This is an important distinction considering the differences in how the sales price and interest rate are established. Unlike a car's sales price, where information is freely accessible online, information on the interest rate for which a consumer should qualify is much less transparent. Thus, we build on this prior research to examine the impact of negotiation and comparison shopping on interest rates when originated by car dealers.

METHODOLOGY AND FINDINGS

Data and Research Questions

To collect information on factors influencing car finance costs, we conducted a telephone survey of 946 consumers who had purchased a car at a dealership in the prior six years.[21] The survey captured several characteristics about the loan (interest rate, select add-on purchases,[22] loan amount, whether the car purchased was new or used, and whether any payments on the loan had been made late) and the consumer (race and ethnicity, credit grade, income, and whether they financed through their dealer). Additionally, the survey captured information about the buying experience that might influence rates, such as whether the borrower negotiated on the interest rate, the number of places shopped for a car loan, and what the dealer told the consumer during the buying process.

Using this survey data, we explored the following:

1. Are consumers of color as likely as white borrowers to attempt to negotiate and comparison-shop for a dealer-financed car loan?

2. Do consumers of color have different buying experiences at the dealership, particularly awareness of dealer interest rate markups and information they are told by their dealer? Additionally, is there any correlation between these instances and loan performance?

3. Are consumers of color more or less likely to finance add-on purchases into their loan, and do add-on purchases also have an impact on loan performance?

Using self-reported survey data has limitations compared to loan-level data derived from the records of individual transactions, in that survey data relies on the ability of the consumer to recall their loan and buying experience accurately. However, there is certain information that is obtained much more easily using surveys. For example, the best way to determine whether the consumer attempted to negotiate the interest rate or compare credit offers is to ask the consumer directly. Likewise, no industry data exists on consumer awareness of interest rate markups or dealer conduct in the loan process.

Descriptive Analysis and Findings

From a purely descriptive standpoint, African Americans and Latinos self-reported receiving interest rates higher than their white counterparts, and financing larger loans that represent a higher percentage of their household income. They also reported having poorer credit than whites. These findings are consistent with previously documented racial and ethnic disparities in credit scoring,[23] employment, and wealth.[24] Consumers of color were also more likely to purchase used vehicles, which usually carry higher interest rates.[25] We also found that people of color were somewhat more likely to use dealer financing for their loan, rather than obtaining financing from a bank or credit union.

Figure 1: Descriptive Statistics of Key Variables by Race and Ethnicity for Dealer and Retail Loans[26]

	White Non-Latino	African America Non-Latino	Latino	Overall
Loan Characteristics				
Overall Average APR	4.49%	6.23%	6.89%	5.04%
Average APR: New Vehicles	3.68%	4.95%	5.36%	4.03%
Average APR: Used Vehicles	5.71%	7.51%	8.71%	6.44%
Overall Average Loan Amount[27]	$19,306	$19,966	$19,646	$19,493
Average Loan Amount: New Vehicles	$22,990	$25,274	$24,600	$23,495
Average Loan Amount: Used Vehicles	$14,182	$15,351	$15,022	$14,568
% Purchasing a Used Vehicle	42.4%	53.8%	49.4%	45.0%
Consumer Demographics				
Average Annual Household Income	$79,865	$76,525	$61,927	$77,340
% Credit Grade "Below or Well Below Average"	6.4%	14.3%	14.0%	10.0%
% Financing Loan Through Their Dealer	54.9%	60.1%	57.8%	56.2%

These descriptive results do not necessarily demonstrate discrimination, because they do not hold all factors that may influence interest rate pricing as constant. Because the creditworthiness variable in the survey corresponds to the time of the survey, which may have been six years after the car purchase, we do not run regressions to determine the statistical significance of the different factors, including race and ethnicity. However, given the findings from aforementioned investigations, research and litigation, we can have confidence that correlations between rate pricing and race/ethnicity can still exist in today's market.

FINDING 1: African-American and Latino consumers attempt to negotiate pricing on car dealer loans just as much as white consumers, if not more, and their levels of comparison shopping are similar to those of white buyers. The implication that comparable credit, attempting to negotiate, and shopping around would not mitigate disparate impact suggests that outside factors at the dealership work against people of color receiving a comparably priced loan rate as white consumers.

With research finding racial and ethnic pricing disparities even after controlling for credit risk factors, the fact that people of color negotiate and comparison-shop at comparable levels is concerning. Encouraging racial and ethnic minorities to negotiate and shop more is unlikely to yield better results. Further, expecting people of color to negotiate and shop significantly harder to get the same loans as similarly situated whites can create an unfair environment where a different level of effort is required from certain groups, solely because of race or ethnicity.

In our data, a higher overall share of African Americans and Latinos reported having negotiated the interest rate than did their white counterparts. The amount of car loan comparison shopping—the number of financial institutions and car dealers offering car loans the consumer visited prior to the purchase—was at similar rates (slightly lower for buyers of color, though the differences were not very large). These figures are consistent for consumers who ultimately financed their auto loans at a dealership or directly with a financial institution.

Figure 2: Negotiation and Comparison Shopping by Race and Ethnicity

	White Non-Latino	African America Non-Latino	Latino	Overall
% Who Tried to Negotiate Interest Rate with Dealer	21.9%	32.1%	39.4%	26.4%
Average Number of Places Shopped for a Loan: Overall	2.67	2.37	2.47	2.62
Average Number of Places Shopped for a Loan: Financed at Dealership	2.58	2.30	2.56	2.56
Average Number of Places Shopped for a Loan: Financed Outside Dealership	2.77	2.47	2.35	2.71

Considering that African-American and Latino consumers in our data also saw higher interest rates (see Figure 1), the fact that they would be more likely to negotiate their rate could be troublesome. One valid explanation for the disparity would be that African Americans and Latinos were also more likely to report having "below" or "well below" average credit. However, previous studies found disparate impact even after controlling for credit risk profiles.

Another explanation could be that the amount of effort, skill, or information available used to negotiate and comparison shop may differ by race and ethnicity. However, when comparing people of color in our data that tried to negotiate and comparison-shop to whites that did not attempt either, we see that African Americans and Latinos still paid higher interest rates on average. This discounts the notion that the effort put forth by different groups is a factor when certain groups achieve better results than others with no effort at all.

Figure 3: Interest Rate Comparisons by Race and Ethnicity

Rate Negotiation Attempts	Average APR
White Non-Latinos that did not attempt to negotiate interest rate	4.33%
African American Non-Latinos attempting to negotiate interest rate	4.95%
Latinos attempting to negotiate interest rate	6.25%
Level of Comparison Shopping	
White Non-Latinos that did not comparison shop	4.56%
African American Non-Latinos that comparison-shopped at least three places	5.46%
Latinos that comparison-shopped at least three places	7.92%

In combination with other studies that held credit and other factors constant and still found disparities, these findings imply that negotiation and comparison shopping do not work in all circumstances or for all consumers. If consumers cannot reasonably avoid disparate impact on their own, then reforms may be necessary to create a level playing field.

FINDING 2: More borrowers of color reported receiving misleading information about their loans from car dealers. Misrepresentations serve to negate the impact of negotiations or comparison shopping. People of color are more likely to have the dealer indicate they are getting the "best rate available," and be told that add-ons are mandatory purchases. People of color are also more likely to be unaware of dealer rate markups. These three factors are also associated with higher delinquency rates, and therefore a greater chance of losing the car through repossession.

Car dealer representatives have asserted that dealer interest rate markups cannot be unfair to consumers, since consumers have the ability to control rate pricing by using negotiation and market competition to their benefit:

> "Price negotiability provides consumers with the ability to drive down the cost of credit for vehicle purchases. The way in which they do this is quite simple and occurs in the marketplace every day. There is an array of creditors that compete intensely to provide financing to consumers. This competition exists across the credit spectrum and includes the subprime market."[28]

The concept of using negotiation to force market competition to work in one's favor implies that the market is operating fairly without any distortions working against the consumer. The fact that both African Americans and Latinos were just as likely to attempt to negotiate their interest rates in our data, while other research is finding disparate impact in rate pricing, indicates that such a distortion may exist in this market. It also implies that more consumer education to promote active negotiation on interest rates would not solve the rate disparity problem systematically.

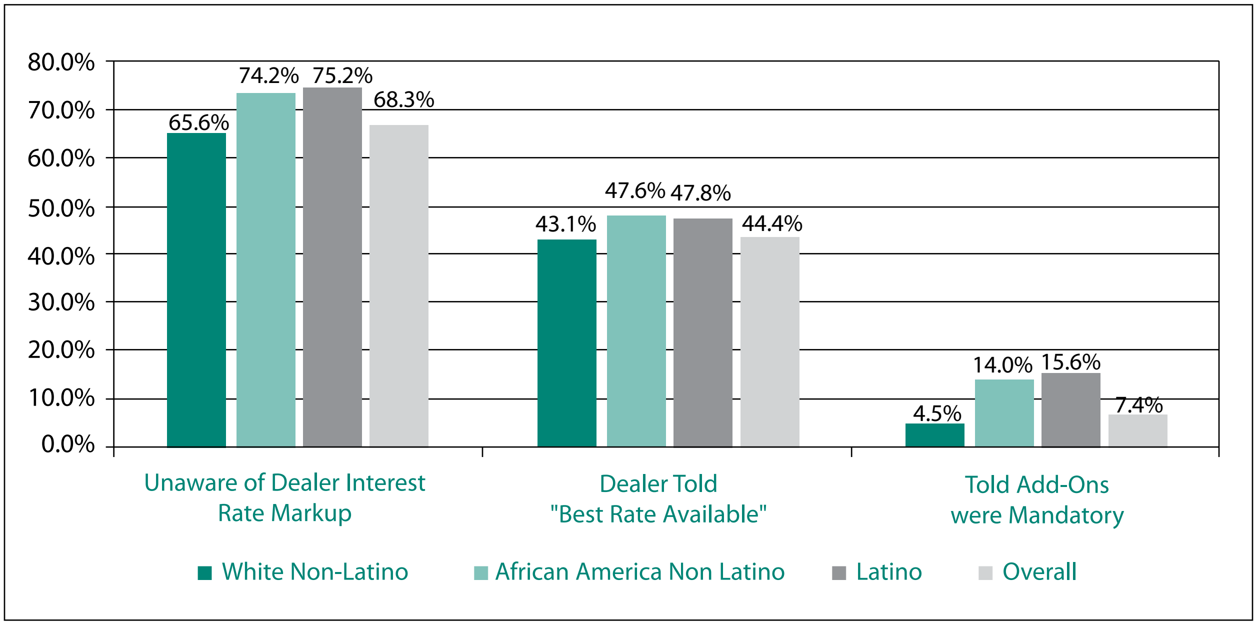
Various forms of dealer conduct have a minimizing effect of any benefits from negotiation. People of color were more likely to have their dealer indicate they were getting the "best rate available." Additionally, people of color were more likely to be told that optional add-on purchases were mandatory. This type of misleading information could act as a strong counter-weight to the benefits of negotiating, adding to the cost of the car.

Our survey indicates that the practice of dealer interest rate markups goes largely undetected by the consumer.

People of color were also more likely to be unaware of dealer interest rate markups. As shown in Figure 4 below, our survey indicates that the practice of dealer interest rate markups goes largely undetected by the consumer. Over two-thirds of respondents (68.3%) were not aware that this practice exists, making it highly improbable that they would use knowledge of the rate markup in negotiations. The likelihood of being unaware of interest rate markups is greater for African Americans (74.2%) and Latinos (75.2%) than for whites (65.6%). Disclosure of dealer interest rate markups is often not made until after the financing, including the interest rate, has been negotiated. This lack of transparency in the rate pricing process hinders negotiation. However, even if there were better disclosures, dealer misrepresentations about what rates the consumer can qualify for can still minimize the consumers' ability to effectively negotiate.

Likewise, being told that certain add-ons are mandatory purchases is a manipulative practice designed to produce more revenue for the dealership. As we will discuss further in Finding 3, financing several add-ons greatly adds to the loan's overall cost. Being pressed to buy optional add-on products can increase a consumer's debt burden, which can have a significant and negative impact on people of color who may already be financially vulnerable.

Figure 4: Likelihood of Consumer Experiences at the Dealership by Race and Ethnicity

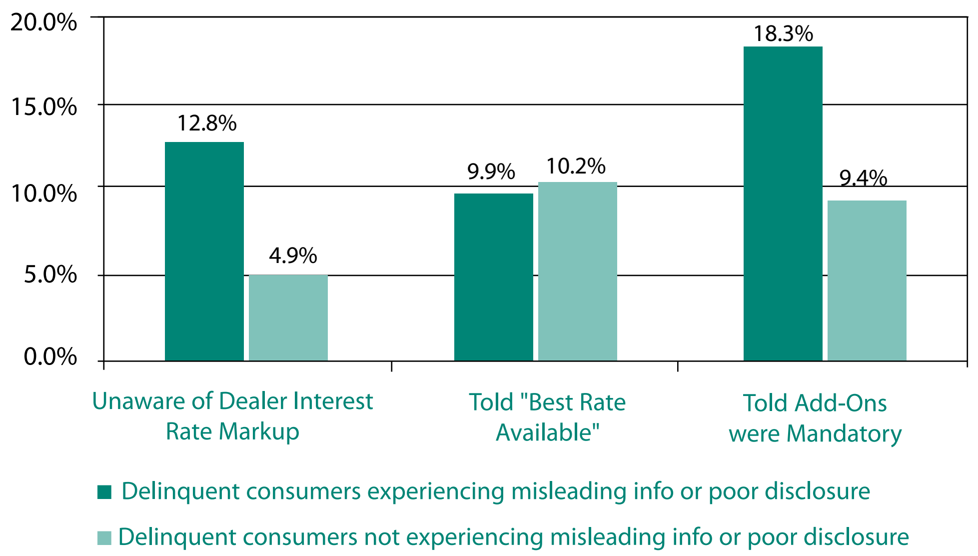


Each of these three situations could potentially impact a consumer's ability to negotiate and shop, and therefore affect the characteristics of their car loan. Consumers in our data reporting that they were unaware of dealer interest rate markups paid higher average interest rates of 1.64 percentage points. Those told that they had the best rate available had lower average rates than those that were not told they had the best rate by 0.61 percentage points. This may be influenced by the dealer's ability to offer promotional rates to well-qualified consumers. However, for those reporting they had below or well below average credit—people least likely to qualify for promotional rates—African Americans and Latinos told they had the best rate available had an average interest rate of 0.78 percentage points higher than those not told they had the best rate.[29] Also, consumers told that add-ons were mandatory purchases averaged more add-on purchases (1.38 purchases) compared to those that were not told that information (0.79 purchases). Altogether, the higher interest rates and additional add-on purchases create a more expensive loan.

Impacts of Dealer Practices on Delinquency Rates

At a statistically significant level, 12.8% of people unaware of interest rate markups in our survey were delinquent at some point with their car loan compared with 4.9% of those aware of the practice.[30] Likewise, 18.3% of people told that add-on purchases were mandatory were also behind on their car loan payment—nearly double the rate of people not having received this information. This is an important correlation, considering that both dealer interest rate markups and purchasing multiple add-ons can make for a more expensive, and possibly less sustainable, car loan.

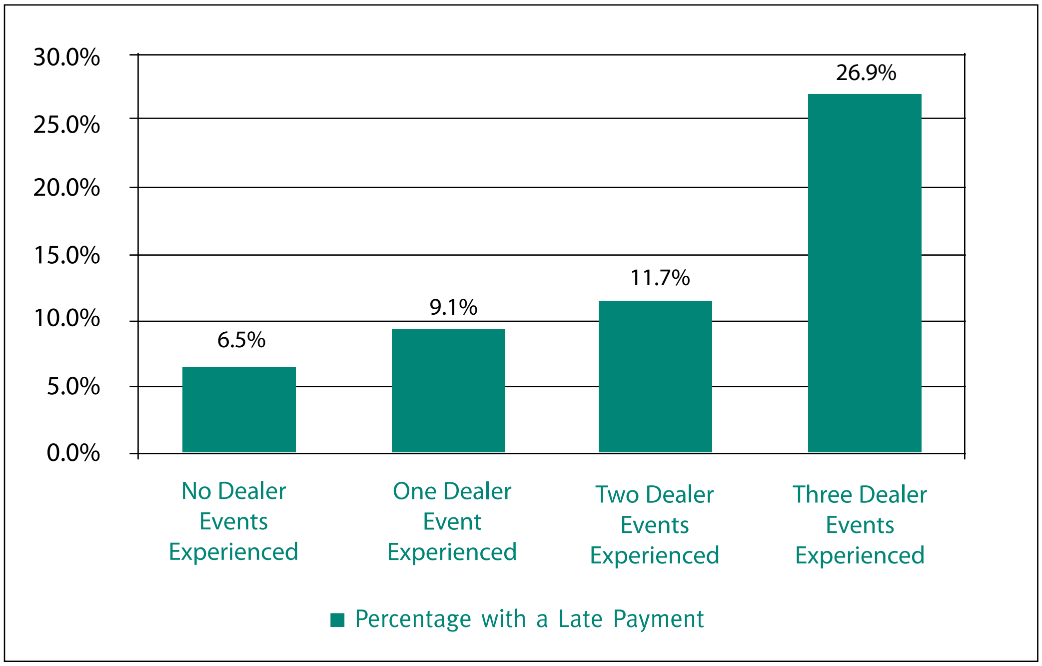
Figure 5: Likelihood of Late Payments Based on Dealership Events



The relationship we find between dealer conduct—i.e., raising interest rates arbitrarily and/or providing erroneous or misleading information—and car loan payment delinquency is consistent with prior CRL research, which has found a similar correlation between dealer interest rate markups and higher odds of delinquency and repossession for subprime borrowers.[31] Thus, market distortions at the dealership not only have the potential of creating pricing disparities between different groups of consumers, they can also create differences in loan performance.

Not being aware of rate markups and being told misleading information from the dealer can compound one another to have a greater impact on the loan's affordability. As the loan becomes more expensive with higher interest rates than borrowers qualified for and the extra cost of add-ons, we would also expect to see a higher rate of loan delinquency resulting from dealer conduct. In our data, over one in four consumers (26.9%) experiencing all three events at the dealership also had a late payment, compared with just 6.5% for those that did not experience any of these events. This is a statistically significant difference.[32]

Figure 6: Likelihood of Late Payments if Experiencing Multiple Dealer Events[33]



Since repossession due to default only occurs on delinquent loans, losing a car through repossession is more likely when a borrower experiences all three dealer events.

FINDING 3: African Americans and Latinos were nearly twice as likely to be sold multiple add-on products as white consumers. Add-on products such as various kinds of warranty and insurance coverage are sold at the dealership's financing office, often with significant price markups. Dealers sell African Americans and Latinos multiple add-ons approximately 30% and 27% of the time, respectively, compared with 16% of the time for whites. Multiple add-ons are also associated with greater chances of delinquency, and therefore create a greater risk of repossession.

Add-on products such as vehicle service contracts, "GAP" insurance, credit life insurance, and theft deterrent packages, are sold at the dealership's finance and insurance office with significant price markups. One dealer representative has stated that add-on price markups of 100% are "fairly common in the industry".[34] Another industry source reported that for vehicle service contracts—probably the most popular add-on product dealers sell—overall prices can range from $1,604 on a new compact car, to $2,458 on a used luxury SUV.[35]

Prior research has brought into question the actual usefulness and value of products like service contracts. According to complaint data from the Better Business Bureau (BBB) in St. Louis, consumers in their database spent $7.8 million on service contracts, and still had to spend an additional $2.7 million for car repairs.[36] The Missouri attorney general's office has reported that some plans are of "minimal value because the service contract actually contains numerous exclusions, limitations and conditions, and providers deny claims for the cost of repairs without reasonable investigation."[37]

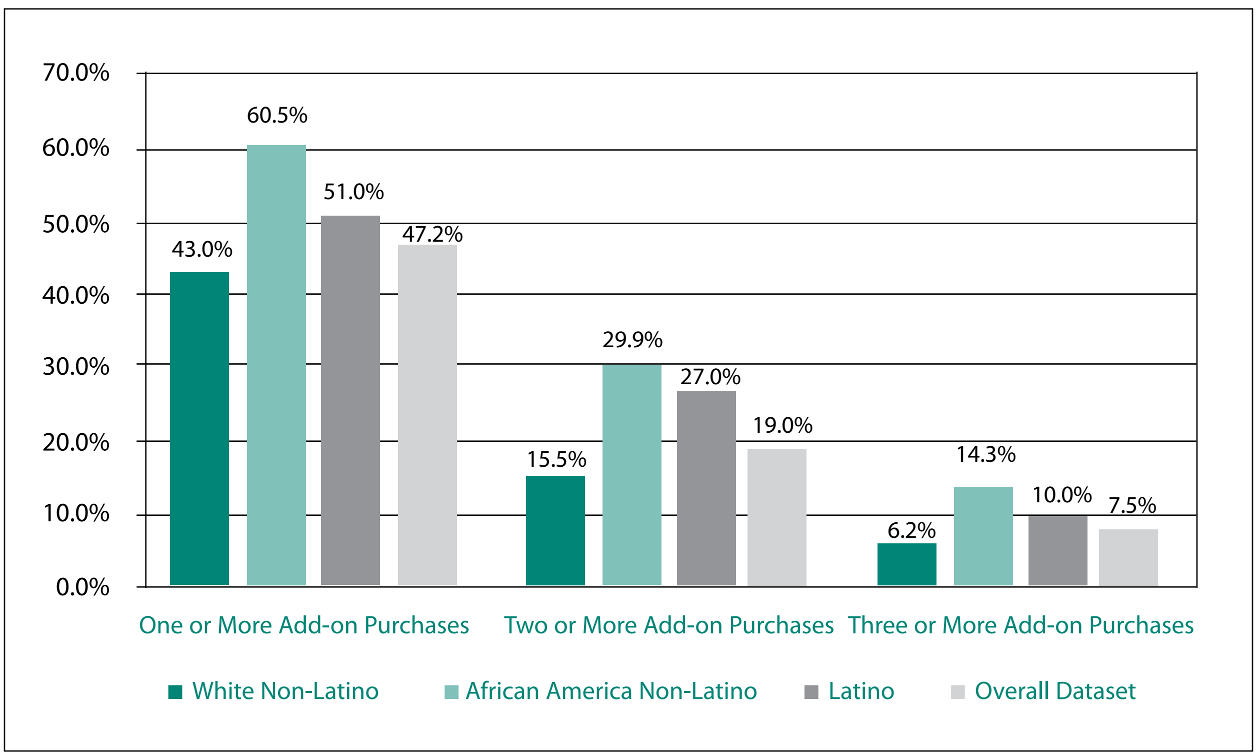
GAP and credit life insurance products both often duplicate benefits consumers would already have through their car insurance carrier. GAP insurance policies that cover negative equity become less useful with older used car purchases, financing with shorter loan terms, or deals with significant down payments, since these factors tend to minimize negative equity in the loan.[38] Credit life insurance loses value if its term expires before the loan is paid in full[39]—an occurrence that gains likelihood as loans financed 72 months and longer become more common.[40] Products like these can usually be purchased more cheaply from providers outside of the dealership.[41]

Dealers often obscure the true cost and value of add-on products during the sales process. The dealer typically presents the products in terms of the impact on monthly payment, not in terms of the overall cost of the product. Dealers often use sales presentations that bundle the costs of several products together. However, the presentation might not disclose the cost of each product individually, reveal the cost of the deal without the add-ons included, or easily allow for comparison shopping with other add-on providers outside the dealership. These problems are compounded if the dealer indicates that a certain add-on product is required to secure loan financing, which pressures consumers to buy an add-on they do not need or want. In the aforementioned BBB complaint data, 92% of survey respondents reported they felt the add-on sales tactics used by dealers were misleading or improper.[42]

Dealers often obscure the true cost and value of add-on products during the sales process.

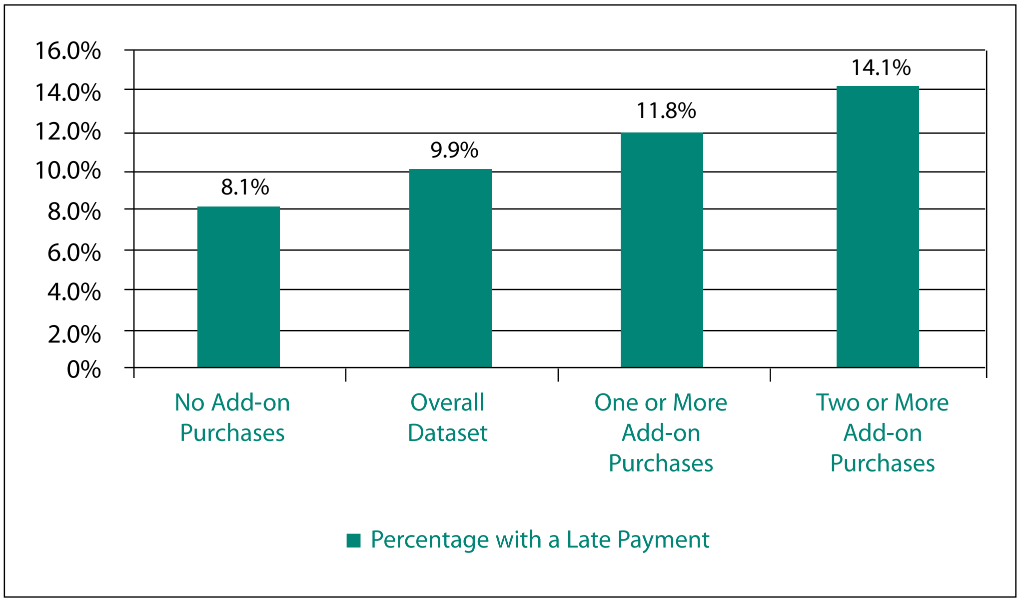
According to our survey data, the likelihood of an African-American (30%) or Latino (27%) customer being sold multiple (two or more) add-ons is nearly twice that of white consumers (16%). These differences are statistically significant.[43]

Figure 7: Likelihood of Add-on Purchases by Race and Ethnicity



Purchasing add-ons can increase the overall cost of a car loan, making it harder to pay on a monthly basis. In fact, our survey data also show a significantly greater likelihood of late payments for consumers purchasing multiple add-on products.[44] This makes the racial disparity in the likelihood of purchasing add-ons even more problematic.

Figure 8: Likelihood of Late Payment with Add-on Purchases



CONCLUSION

On car loans obtained from dealers, interest rates are determined by two primary factors: credit risk and dealer markups. However, previous research has found that racial and ethnic disparities exist with car loan interest rate pricing, even after controlling for credit risk. That leaves dealer markup as the most likely explanation for disparities.

In addition, we would expect interest rates to vary depending on buyers' attempts to negotiate their interest rate and prior comparison shopping. However, as shown here, for African-American and Latino buyers, negotiation and shopping don't necessarily produce better rates on car loans. They also report receiving misleading information more frequently than white buyers.

Taken together, dealer markups and misleading information appear to work hand-in-hand to create an unfair market for consumers of color, severely hobbling their ability to mitigate discriminatory pricing and avoid paying excessive interest on their car loans. Current business practices by car dealers need key reforms to ensure a standard of fairness for all races and ethnicities.

To address differential pricing by race for loans financed at the car dealership, CRL recommends rules prohibiting dealer compensation that varies based on the interest rate or other material terms of the loan, other than the loan's principal balance. Car dealers should be paid a flat fee by lenders for sourcing loans, not receive more for being able to convince unwary borrowers to pay a higher rate than they qualify for. Discretionary pricing allowed by outside financial institutions gives the dealer an incentive to steer the consumer into more expensive rates, rather than seeking lower rates that are in the consumer's best interest. Removing the incentive to link dealer compensation to interest rates would help protect all borrowers, particularly consumers of color that this and prior research have found are most vulnerable to the highest and most frequent markups.

Likewise, to address the findings that borrowers of color pay for more add-on products, we recommend rules that require dealers to disclose the actual costs of every add-on product sold during the financing process and to reveal the cost of the car with and without add-on products. Regulation should also prohibit dealers from representing that the buyer is required to purchase ancillary products in order to obtain financing. Sales tactics that mislead consumers about the true cost of the loan, especially regarding add-on purchases, impair the consumer's ability to make an optimal financial decision. We also call on regulators to collect data on the prevalence of add-on products in car loan transactions and to monitor whether certain groups of borrowers are disproportionately affected by these practices.

In the case of car finance, certain business practices—whether it is interest rate markups or misleading information—can create more expensive loans for one of the most valuable assets a household can own, increasing the monthly financial burden of repaying the loan and the chances of losing that car by repossession. Practices that needlessly take income from a household's budget and jeopardize car ownership are more than an inconvenience; they may result in significant harm to their economic security and advancement as well.

APPENDIX A: DESCRIPTIVE STATISTICS OF THE CAR CONSUMER SURVEY DATASET

CRL sponsored this survey of recent car loan consumers. The survey was administered through Social Science Research Solutions (SSRS) in October 2012 as part of its National Omnibus Survey. Administered through both mobile and landline phones, in English and Spanish, we gathered 946 responses from consumers that had purchased a car at a dealership within the prior six years. When fielding the survey, we requested that SSRS oversample for African Americans and Latinos to ensure we would have a representative sample of both groups, even in the event that African Americans and Latinos were underrepresented in having received a recent car loan.

Note that for the purposes of this research, 86 respondents who indicated that they had purchased their car from a buy-here, pay-here dealer were not included in the analysis since the loan pricing and business model is vastly different from the traditional dealerships we intended to analyze. The buy-here, pay-here model typically includes loans with APRs over 20%, weekly loan payments, and older used cars that are marketed to customers with seriously impaired credit.

	N	Minimum	Maximum	Mean	Median	Standard Deviation
Annual Household Income	798	$12,500	$275,000	$77,340	$62,500	$56,029
Loan Amount	733	$1,000	$200,000	$19,493	$18,000	$11,821
Loan APR	598	0%	25%	5.04%	4.00%	4.21%
Non-Promotional Loan APR (1% or greater)	532	1%	25%	5.66%	4.50%	4.05%
Non-Promotional Loan APR (2% or greater)	495	2%	25%	5.97%	5.00%	4.02%
Loan Term (in months)	784	30	78	51.8	54.0	12.2
Down Payment	742	$0	$35,000	$3,017	$1,200	$4,735
Trade-In Allowance	730	$0	$42,000	$2,679	$0	$5,027
Number of Places Shopped for a Loan	801	1	9	2.6	2.0	2.06
Number of Add-ons Purchased	860	0	6	0.78	0	1.08

	N	Percentage of Survey Respondents
% African American Non-Latino	147	17.1%
% Latino	100	11.6%
% White Non-Latino	582	67.7%
% Using "Indirect" Dealer Financing	461	53.6%
% Credit Grade "Below and Well Below Average"	76	8.8%
% Credit Grade "Well Above Average"	264	30.7%
% Unemployed at Time of Survey	27	3.1%
% Trying to Negotiate their Rate	215	25.0%
Total Sample Size	860	

APPENDIX B: CAR LOAN CONSUMER SURVEY INSTRUMENT

AU-1a Within the past six years have you bought a car from a dealer that you financed with a loan from either the dealer or a financial institution such as a bank, credit union, or finance company?

1 Yes

2 No

D (DO NOT READ) Don't know

R (DO NOT READ) Refused

(IF YES, CONTINUE. ALL OTHERS SKIP TO NEXT INSERT)

AU-1b For these next questions, please think only about your most recent car purchase from a dealer that you financed through either the dealer or a financial institution. To clarify, we are asking about cars that were purchased and not leased.

Did you get your loan… (READ LIST. ACCEPT ONLY ONE.)

1 Through the dealer

2 From a financial institution or

3 Were you preapproved for a loan from a financial institution, but went through the dealer anyway

4 (DO NOT READ) Only leased a car/did not purchase

D (DO NOT READ) Don't know

R (DO NOT READ) Refused

(IF AU-1b=1, 2, 3 CONTINUE OTHERWISE SKIP TO NEXT INSERT.)

AU-2 Was this most recent car purchase through a dealer that you financed a new or used vehicle?

1 New

2 Used

D (DO NOT READ) Don't know

R (DO NOT READ) Refused

AU-3 What was the interest rate on this car loan?

(INTERVIEWER MAKE SURE TO ENTER AS A TWO PLACE DECIMAL – EG. 4.25% IS ENTERED AS A 4.25; 3% IS ENTERED AS 3.00)

_____________ENTER PERCENTAGE (RANGE 0.00 TO 25.00)

DD (DO NOT READ) Don't know

RR (DO NOT READ) Refused

AU-4 How much was this car loan after subtracting the down payment, trade-in allowance, rebates, etc.? (IF DON'T KNOW, SAY: "Your best guess is fine.")

_______________ENTER DOLLAR AMOUNT (RANGE 1,000 TO 200,000)

DD (DO NOT READ) Don't know

RR (DO NOT READ) Refused

AU-5 How much was the monthly payment on this car loan? (IF DON'T KNOW, SAY: "Your best guess is fine.")

_______________ENTER DOLLAR AMOUNT (RANGE 50 TO 9,999)

DD (DO NOT READ) Don't know

RR (DO NOT READ) Refused

AU-6 For how many months was this car loan financed? (READ LIST IF NEEDED.)

1 Less than 36 months (3 years)

2 36-48 months (3 to 4 years)

3 49-60 months (4 to 5 years)

4 61-72 months (5 to 6 years)

5 Over 72 months (over 6 years)

DD (DO NOT READ) Don't know

RR (DO NOT READ) Refused

AU-7 How much did your dealer offer in trade-in value? (IF DON'T KNOW, SAY: "Your best guess is fine.")

_______________ENTER DOLLAR AMOUNT

NN Did not have a trade in

DD (DO NOT READ) Don't know

RR (DO NOT READ) Refused

AU-8 How much of a down payment did you have?
(IF DON'T KNOW, SAY: "Your best guess is fine.")

_______________ENTER DOLLAR AMOUNT

NN Did not have a down payment

DD (DO NOT READ) Don't know

RR (DO NOT READ) Refused

AU-9 Dealers will often sell additional products separate from the sale of the vehicle, and roll the cost in to the loan financing. Products may include extended warranties, vehicle service contracts, GAP insurance, theft deterrent systems, and custom upgrades and accessories.

Which of these additional products, if any, did you finance with this most recent deal? (INSERT ITEM)

1 Yes

2 No

D (DO NOT READ) Don't know

R (DO NOT READ) Refused

(SCRAMBLE ROTATE)

a. Vehicle service contracts or extended warranties that cover maintenance and mechanical breakdowns not covered by the manufacturers' warranty.

b. Guaranteed Automobile Protection or "GAP" insurance which pays the remaining loan balance your insurance carrier does not cover in the event the car is totaled.

c. Theft deterrent packages that pay the customer a lump sum payment if the car is stolen.

d. Credit life and disability insurance which makes car payments in the event of your death or inability to work.

e. Tire and wheel protection plans that replace tires and rims in case of damage.

f. Custom upgrades and accessories such as new stereo systems, navigation systems, and custom paint jobs.

AU-10 There are some dealers called "buy-here, pay-here" dealerships that do their entire loan financing and processing in-house. Customers of these dealers usually pay their monthly payments directly to the dealer that financed them, as opposed to an outside lender the dealer arranged for them.

Was this most recent purchase from a buy-here, pay-here dealership?

1 Yes

2 No

D (DO NOT READ) Don't know

R (DO NOT READ) Refused

AU-11 Did you try to negotiate on any of the following aspects of this car loan? (INSERT ITEM)

1 Yes

2 No

D (DO NOT READ) Don't know

R (DO NOT READ) Refused

(SCRAMBLE ROTATE)

a. Interest rate/APR

b. Monthly payment

c. Sticker price/MSRP

d. Trade-in value

e. Down payment amount

f. Loan term

g. Cost to purchase additional products such as extended warranties, service plans, and custom accessories

AU-12 Did your dealer tell you this deal had the best interest rate available?

1 Yes

2 No

D (DO NOT READ) Don't know

R (DO NOT READ) Refused

AU-13 Were you told that the purchase of additional products such as extended warranties, service contracts, or insurance protections were required for the deal to be approved?

1 Yes

2 No

D (DO NOT READ) Don't know

R (DO NOT READ) Refused

AU-14 Including both dealers and lenders, how many places did you visit while shopping around for this car loan?

_________ENTER NUMBER OF PLACES (RANGE 1-9)

D (DO NOT READ) Don't know

R (DO NOT READ) Refused

AU-15 Were you aware that you could negotiate the following aspects of your car loan? (INSERT ITEM)

1 Yes

2 No

D (DO NOT READ) Don't know

R (DO NOT READ) Refused

(SCRAMBLE ROTATE)

a. Interest rate/APR

b. Monthly payment

c. Sticker price/MSRP

d. Trade-in value

e. Down payment amount

f. Loan term

g. Cost to purchase additional products such as extended warranties, service plans, and custom accessories

AU-16 On car loans financed at the dealership, dealers receive an interest rate quote from an outside lender. After receiving a rate from the lender, the dealer will often add an additional markup to the interest rate before presenting the loan offer to the customer. The interest rate markup is used as commission to the dealer for arranging the loan.

Were you aware your dealer could raise your interest rate, and keep the difference as commission for arranging your loan?

1 Yes

2 No

D (DO NOT READ) Don't know

R (DO NOT READ) Refused

(IF AU-16=1)

.AU-17 How were you made aware of the dealer's ability to raise your interest rate? (READ LIST; ENTER ALL THAT APPLY)

(SCRAMBLE ROTATE)

1 I noticed a written disclosure

2 The dealer explained this to me verbally

3 I already knew this before negotiating my loan

0 (DO NOT READ) Some other way

D (DO NOT READ) Don't know

R (DO NOT READ) Refused

(IF AU-16=2, D, R)

AU-18 If you had known the dealer could raise your interest rate, what would have been your most likely response? (READ LIST. ACCEPT ONE.)

(SCRAMBLE ROTATE)

1 Try to negotiate the interest rate down

2 Try to find financing outside of the dealership instead

3 Walk away from the deal altogether

4 Still accept the interest rate the dealer offered

0 (DO NOT READ) Other

D (DO NOT READ) Don't know

R (DO NOT READ) Refused

(ASK AU-19 IF AU-1b= 1 OR 3- FINANCED THROUGH DEALER)

AU-19 Sometimes a dealer will allow a customer to drive home with a car before the loan is actually finalized. If the dealer is not satisfied with the available financing options, the dealer might ask the customer to return the car and renegotiate a new deal.

During the process of shopping around for this most recent car purchase, did any dealer give you the keys to a car before all financing was actually finalized?

1 Yes

2 No

D (DO NOT READ) Don't know

R (DO NOT READ) Refused

(IF AU-19=1)

AU-20 Did the dealer ask you to return the vehicle and ask you sign a different financing agreement?

1 Yes

2 No

D (DO NOT READ) Don't know

R (DO NOT READ) Refused

(IF AU-20=1)

AU-21 Upon returning the vehicle, did the dealer tell you that they could not return your:

(INSERT ITEM)?

1 Yes

2 No

D (DO NOT READ) Don't know

R (DO NOT READ) Refused

a. Trade-in vehicle
b. Down payment

(IF AU-20=1)

AU-22 What was the outcome after returning the vehicle to negotiate a new deal?
(READ LIST; ENTER ONE ONLY)

1 Negotiated on the new deal, and got a better deal than the original

2 Negotiated on the new deal, but got a worse deal than the original

3 Did not try to negotiate on the new deal, and got a better deal than the original

4 Did not try to negotiate on the new deal, and got a worse deal than the original

5 Ended up not purchasing a car from them at all

D (DO NOT READ) Don't know

R (DO NOT READ) Refused

AU-23 How much would you support a new rule that

(INSERT ITEM)? Would you…?

(READ LIST)

5 Strongly supportive

4 Somewhat supportive

3 Neutral

2 Somewhat oppose

1 Strongly oppose

D (DO NOT READ) Don't know

R (DO NOT READ) Refused

(SCATTER ROTATE)

a. prohibits a dealer's ability to compensate themselves by increasing a car loan's interest rate?

b. would prohibit the dealer from asking the consumer to renegotiate a deal after the consumer has taken the car home?

c. would require Buy-Here Pay-Here dealers to post the sticker price and resale value visibly on each car?

AU-24 Still thinking about your most recent car purchase from a dealer that you financed through either the dealer or a financial institution How satisfied were you with this car loan? Were you…? (READ LIST)

5 Very satisfied

4 Somewhat satisfied

3 Neither satisfied nor dissatisfied

2 Somewhat dissatisfied

1 Very dissatisfied

D (DO NOT READ) Don't know

R (DO NOT READ) Refused

AU-25 How confident did you feel when negotiating this car purchase? (READ LIST)

5 Very confident

4 Somewhat confident

3 Neither confident nor unconfident

2 Somewhat unconfident

1 Very unconfident

D (DO NOT READ) Don't know

R (DO NOT READ) Refused

AU-26 On this car purchase, how much did you trust your dealer to get you the best deal possible?

(READ LIST)

5 Strongly trusted

4 Somewhat trusted

3 Neither trusted nor distrusted

2 Somewhat distrusted

1 Strongly distrusted

D (DO NOT READ) Don’t know

R (DO NOT READ) Refused

AU-27 How would you grade your current credit score? Is it…? (READ LIST)

5 Well above average

4 Above average

3 Average

2 Below average

1 Well below average

D (DO NOT READ) Don’t know

R (DO NOT READ) Refused

AU-28 Have you ever been late on a payment for this most recent car loan?

1 Yes

2 No

D (DO NOT READ) Don’t know

R (DO NOT READ) Refused

AU-29 At any point in owning that vehicle did you consider refinancing the loan with another lender?

(PROBE YES FOR CORRECT RESPONSE)

1 Yes, You have already refinanced the loan

2 Yes, You have considered refinancing, and will pursue it in the future

3 Yes, You have considered refinancing, but will not pursue it

4 No, You have not considered refinancing

D (DO NOT READ) Don’t know

R (DO NOT READ) Refused

ENDNOTES

1 Charles, Kerwin Kofi, Erik Hurst and Melvin Stephens Jr., *Rates for Vehicle Loans: Race and Loan Source,* American Economic Review, Vol. 8, Issue 2, 2008.

2 Ayres, Ian, *Further Evidence of Discrimination in New Car Negotiations and Estimates of Its Cause,* 94 Michigan Law Review, 109 (1995).

3 Add-on products include extended warranties and various insurance and "protection" plans that are purchased through the dealership and rolled into the loan financing. Buying any combination of these products can add thousands to the bottom-line cost of the vehicle.

4 *Comments to the Federal Trade Commission Motor Vehicle Roundtables: Project Number P104811,* Center for Responsible Lending, Mar 30, 2012.

5 For example, Blueprint Public Policy Polling (2010) found in its survey that 79% of consumers are unaware of dealer interest rate markups. Similarly, our Center for Responsible Lending (2012) survey found that 68% of borrowers are unaware of this practice.

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7 Burlingame, Laurie and Jackson, Howell E., *Kickbacks or Compensation: The Case of Yield Spread Premiums* (February 19, 2009). Stanford Journal of Law, Business & Finance, Vol. 12, p. 289, 2007

8 Federal Reserve System Federal Register, Rules and Regulations, Vol. 75, No 185, Sept 24, 2010, pp 58509-58538, 15 U.S.C. § 1639b(c)(1).

9 Bureau of Consumer Financial Protection, *Loan Originator Compensation Requirements under the Truth in Lending Act (Regulation Z),* Docket No. CFPB-2012-0037, Jun 1, 2013.

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14 Prepared statement from Patrice Ficklin, CFPB Fair Lending Director, CFPB Auto Finance Forum, Nov 14, 2013. Video can be found at http://www.consumerfinance.gov/blog/live-from-the-cfpb/

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16 *Justice Department Settles Lawsuit Alleging Auto Lending Discrimination in Los Angeles,* U.S. Department of Justice, Press Release, Sept 6, 2013.

17 Charles, Kerwin Kofi, Erik Hurst and Melvin Stephens Jr., *Rates for Vehicle Loans: Race and Loan Source,* American Economic Review, Vol. 8, Issue 2, 2008.

18 Edelberg, Wendy, *Racial Dispersion in Consumer Credit Interest Rates,* Jun 2007. Federal Reserve Board, Finance and Economics Discussion Series Working Paper, No 2007-28.

19 Ayres, Ian, *Further Evidence of Discrimination in New Car Negotiations and Estimates of Its Cause,* 94 Michigan Law Review, 109 (1995).

20 Fiona M. Scott Morton, Zettelmeyer, Florian and Silva-Risso, Jorge, *Consumer Information and Price Discrimination: Does the Internet Affect the Pricing of New Cars to Women and Minorities?,* Jan 2002. After analyzing over 700,000 records the researchers find a sales price "race premium" of 2.3% and 2.0% for African Americans and Latinos, respectively, when not

controlling for any demographics, 1.5% and 1.1% when including controls for neighborhood characteristics, 0.8% and 0.6% after including search costs in the model. Search costs refer to costs associated with researching and comparison shopping for a car, including transportation costs and time spent. Using the internet to shop eliminates any variation associated with race or ethnicity.

21 CRL commissioned the national survey, which Social Science Research Solutions conducted in October 2012 in both English and Spanish and using both mobile and land-line phone numbers. The 946 respondents included an oversample of African Americans and Latinos to ensure diverse representation in the data.

22 Our survey asked whether respondents specifically purchased any of six different add-on products: vehicle service contracts; GAP insurance ("Guaranteed Auto Protection," which pays loan deficiencies that the insurance carrier does not cover in the case the vehicle is totaled); theft deterrent packages; credit life insurance; custom upgrades and accessories; and tire/wheel protection. This is not an exhaustive list of products, but includes several of the most common products sold.

23 Fellowes, Matt, *Credit Scores, Reports, and Getting Ahead in America,* The Brooking Institute, May 2006.

24 Shapiro, Thomas, Tatjana Meschede, and Sam Osoro, *The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide,* Institute on Assets and Social Policy, Feb 2013.

25 According to third quarter 2013 data from Experian Automotive, new and used car interest rates stood at 4.27% and 8.63%, respectively. Comparatively, our consumer survey data report interest rates for new and used car purchases of 4.03% and 6.44%, respectively.

26 Reported values for household income, unemployment, and credit grade were as of the day the survey was taken, not necessarily when the loan was originated. These statistics include data for both dealer-financed and direct loans from a bank or credit union.

27 Total car loan amount is net of down payments, trade-in allowances, and rebates. This metric may include the additional costs of add-on aftermarket purchases.

28 Koblenz, Andrew D. and Paul D. Metrey, *Comment Memo to Federal Trade Commission re: Motor Vehicle Roundtables,* National Automobile Dealers Association, March 30, 2012, pp 12-13.

29 African Americans and Latinos reporting below or well below average credit had average interest rates of 10.00% if told they had the best rate available, while African Americans and Latinos of the same credit range not told this information had an average rate of 9.22%. Likewise, non-Latino whites reporting below or well below average credit had average interest rates of 8.12% if told they had the best rate available, while non-Latino whites of the same credit range not told this information had an average rate of 9.75%.

30 Being unaware of dealer interest rate markups has a significant correlation with late payments at a 0.1% level, whereas being told add-ons were mandatory purchases were significant at a 5% level. We determined statistical significance of the correlation between late payments, dealer interest rate markup unawareness and being told add-ons are mandatory by using chi square tests. Chi square can tell us if there are significant correlations between delinquency and the incidence of certain information relayed from the dealer. However, unlike with regression, chi square analysis does not allow us to control for other factors and hold them constant. Here, we chose chi square instead of regression to determining statistical significance, since there are several outside factors (i.e. length of time in the loan at time of the interview, other debt obligations, adverse trigger events, etc.) that can impact the incidence of late payments, but are not captured in our survey data.

31 Davis, Delvin and Joshua M. Frank, *Under the Hood: Auto Loan Interest Rate Hikes Inflate Consumer Costs and Loan Losses,* Center for Responsible Lending, Apr 2011. This report found that interest rate markups by subprime finance companies had increased odds of 60-day delinquency and cumulative loss by 12.4% and 33.0%, respectively.

32 Using chi square, the correlation between late payment and number of experiences at the dealership was significant at a 1% level.

33 Dealer "events" refer to the consumer being unaware of interest rate markups, being told that they have the best rate available, and being told that add-on products are mandatory purchases.

34 Wilson, Amy, *Product Caps Grow Amid Ethics Concerns,* Automotive News, Dec 26, 2012.

35 Arroyo, Gregory, *Tracking F&I Performance,* F&I Management and Technology Magazine, Jan 2012.

36 Teuscher, Robert H., *Vehicle Service Contract Industry: How Consumers Lost Millions of Dollars,* St. Louis Better Business Bureau, May 2011.

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38 Gusner, Penny, *What gap insurance does—and does not—cover,* Carinsurance.com, Jun 24, 2011.

39 Landes, Luke, *Credit Life Insurance: You Don't Need It,* Forbes.com, Nov 16, 2012.

40 Overby, Joe, J.D. Power: *Long-Term Loans Hit Record Penetration,* Subprime Auto Finance News, Apr 13, 2012.

41 Reed, Philip, *Gap Insurance: How It Impacts Your Car Loan or Lease,* Edmunds.com, Apr 4, 2005 (Republished Nov 6, 2012).

42 Teuscher, Robert H., *Vehicle Service Contract Industry: How Consumers Lost Millions of Dollars,* St. Louis Better Business Bureau, May 2011.

43 Using chi square, people of color being sold 2 or more add-ons is statistically significant at a 0.1% level. Likewise, people of color being sold 3 or more add-ons is statistically significant at a 1% level.

44 Using chi square tests to determine relationships between add-on purchases and late payments, we find that the correlation between purchasing at two or more add-ons and having a late payment is significant at a 5% level.

About the Center for Responsible Lending

The Center for Responsible Lending is a nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, one of the nation's largest community development financial institutions.

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