

New Study Shows Stark Racial Discrimination in Auto Lending Continues

On January 11, 2018, the National Fair Housing Alliance (NFHA) released an investigative report detailing the ongoing racially discriminatory practices that exist in the auto lending market. In their findings, NFHA uncovered that more than half the time white borrowers with weaker credit profiles received less expensive financing options and more favorable treatment than their non-white counterparts who were more financially qualified.

NFHA Auto Testers

Through their investigation, NFHA sent eight pairs of testers, one white and one non-white, to car dealerships in the Commonwealth of Virginia to inquire about purchasing the same vehicle. Testers are like secret shoppers, instructed to inquire over the same product and then document what they are told and observe.

The individual tester pairs were similarly situated and matched in nearly every way, with the exception that the non-white tester was always more financially qualified than the white tester. While all customers received some level of undesirable treatment, non-white testers received considerably worse treatment and were significantly more likely to receive a higher quote for the financing of the exact same vehicle, despite being better qualified.

Key Report Findings

- **62.5%** of the time, Non-White borrowers who were more qualified than their White counterparts received more costly pricing options.
- On average, Non-White borrowers who were subject to discrimination would have paid an average of **\$2,351 more** over the life of the loan than less qualified White borrowers.
- **75%** of the time, White testers were offered more financing options than Non-White testers.
- Without negotiating, **less qualified White borrowers received extra coaching and additional incentives** more often than Non-White borrowers to ultimately get to a cheaper offer. White testers were given student/recent graduate and veteran discounts for which they did not qualify more frequently than their Non-White counterparts.

Example of How Auto Dealer Interest Rate Markups Work

When auto dealers have pricing elements at their discretion, there is an opportunity for discrimination to occur. Dealer markups are a key element of dealer discretion. For example, a bank informs a dealer that it approves a 5% interest rate loan for a consumer. The dealer uses its discretion to add 2%, offers the consumer a loan at 7%, and pockets much of the difference. The consumer potentially ends up paying thousands of dollars more in interest. Data has shown time and again that these mark-ups result in discrimination against people of color—their loans are more likely to be marked up, and their markups are likely to be higher, than for white borrowers. Research has found that on loans made in 2009, dealer mark-ups resulted in borrowers paying more than \$25 billion in additional interest over the life their loans.

Consumer Financial Protection Bureau's (CFPB) Auto Lending Guidance

In 2013, the CFPB issued guidance reminding auto lenders they are responsible under existing federal law for ensuring their lending practices are not discriminatory. The Bureau followed up with four enforcement actions that returned over \$140 million to wronged borrowers.