Hidden Abuses Continue To Plague Auto Financing Industry, Consumers

*FTC hosts second roundtable to gather information on auto financing abuses and possible consumer protections*

**Contacts:** Jan Kruse at (617) 542-8010, jkruse@nclc.org; Cesar Castro at (919) 313-8537 Delicia Reynolds at (202) 452-1989 ext 103; or Rosemary Shahan at (530) 759-9440.

**For Immediate Release: July 26, 2011** –The United States Federal Trade Commission (FTC) is set to launch its second round of discussions on auto financing abuses and consumer protections in the industry on August 2 - 3 in San Antonio, Texas. In particular, the FTC will examine the impact of hidden abusive auto lending practices on members of the military and the role of fair lending and financial literacy for all consumers.

A groundbreaking National Consumer Law Center report—*In Harm’s Way At Home: Consumer Scams and the Direct Targeting of America’s Military and Veterans*—found that clusters of consumer-abusing businesses exist near every military base in the United States and military servicemembers are frequent victims of auto abuses. Two major auto-financing scams aimed at military personnel (as well as other consumers) are:

1. Buy Here, Pay Here used car loans—Dealer finances older used cars with hefty down payments coupled with a payment plan, ultimately resulting in repossession when the car breaks down and thereby creating a lucrative revolving business. Example: a former financial counselor at military bases in the South found that one “Buy Here/Pay Here” dealer in Charleston, South Carolina had sold the same car 18 times.
2. Yo-Yo sales—A common high-cost bait and switch financing trap.

Additionally, a recent report by the Center for Responsible Lending estimates that dealer interest rate markups, the hidden interest rate dealers can subjectively add to a car buyer’s loan, cost consumers an additional $25.8 billion dollars over the lives of their car loans. This hidden added cost has also been linked to higher odds of default and repossession among subprime borrowers.

Today, the majority of auto dealer profits are derived not from the sale of the vehicle, but rather from the financing and add-ons included in the deal. Consequently, dealers often use their powerful discretion to
steer unsuspecting Americans into overpriced unsustainable auto financing deals, in some cases, including higher dealer kickbacks based on subjective borrower or loan characteristics. NACA member attorney Lynn Drysdale recently testified at a U.S. Senate Banking committee hearing about how members of the military are particularly targeted by these scams.

Take for example the story of Staff Sgt. Kevin White and his wife, Linda, of Murietta, California, who were offered a car loan by a dealer near Camp Pendleton at an annual interest rate of 23%, even though they had already been approved for a 6.9% loan through their credit union. Or the story of five soldiers from Fort Riley, Kansas who in 2007 were allegedly forced to pay extra for optional add-on products that weren't actually on their vehicles, such as leather, high-end stereo systems, anti-theft systems, upgraded wheels, and power sun roofs.

Buying or leasing a car is among the most expensive transactions many consumers will ever make. Financing obtained at a dealership may provide some benefits for consumers, but for many without any other financing options it simply opens the door for possible abuses. Dealer-arranged financing is a complicated, opaque, and often subjective process that can potentially involve unfair or deceptive practices. Military servicemembers are particularly affected by these abuses and in some cases may be targeted by dealers. For example, a recent analysis by the Center for Responsible Lending reveals that four out of five “Buy Here, Pay Here” dealers in the San Antonio area are within five miles of a military base and one out of every five is within three miles. This pattern appears to hold true on military bases across the country.

Consumer groups, such as the National Consumer Law Center, the Center for Responsible Lending, the National Association of Consumer Advocates, and Consumers for Auto Reliability and Safety, have urged the FTC and other federal agencies to take a closer look at these and other potential predatory practices in the auto lending industry. Consistent with the FTC’s authority under the Dodd-Frank Act, the Commission is conducting a series of roundtable discussions to gather more information on consumer protection issues in connection with motor vehicle sales, financing, and leasing to assess the possible need of sensible consumer protections or other initiatives.

The FTC’s second motor vehicle roundtable will take place at St. Mary’s University School of Law, One Camino Santa Maria, San Antonio, Texas on August 2 - 3, 2011. Industry experts and consumer advocates, including National Consumer Law Attorney John Van Alst, are scheduled to attend, but the roundtable discussion is free and open to the public, although attendees are asked to register in advance. The agenda includes a discussion of military consumers and financial literacy; the second day will cover fair lending practices. The public is also encouraged to submit comments about their experiences with buying or financing a vehicle through a dealer. More information is available at the FTC website (http://www.ftc.gov/bcp/workshops/motorvehicles)

For more information on the topics covered in the event and to reach members of NACA, NCLC, CRL, or CARS participating in the roundtable discussion, please contact or Jan Kruse at (617) 542-8010, jkruse@nclc.org; Cesar Castro at (919) 313-8537, cesar.castro@responsiblelending.org; Delicia Reynolds at (202) 452-1989 ext 103, delicia@naca.net; or Rosemary Shahan at (530) 759-9440, rs@carconsumers.org.

###