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New National Consumer Law Center Survey Finds Consumer Abuses in Auto Sales and Financing Are Common Throughout the United States

Results of a National Consumer Law Center[®] national online survey completed by 47 attorneys representing more than 3,500 clients with auto dealer complaints found that:

- **87% of attorneys said they receive between 21 and 200 or more requests for assistance each year from consumers experiencing problems buying and/or financing a vehicle.**
- **91% of attorneys turn people away who said they suffered abuses in auto dealer sales/finance transactions due to too many requests for help.**
- **83% of attorneys said that the consumers they interviewed “always” or “often” received a product (car or financing) from an auto dealer that was different from what was described to them during the car purchasing transaction.**
- **96% of attorneys said that the abuses their clients suffered were part of a general industry practice.**

“Our survey, conducted among participating legal aid and private attorneys representing more than 3,500 clients with consumer auto dealer complaints, indicates that the current market for cars and car loans lacks transparency and has perverse incentives that reward dealers for putting consumers in loans that are more likely to fail, rather than rewarding dealers for putting consumers in safer loans,” said John Van Alst, a staff attorney at the National Consumer Law Center with expertise in consumer auto sales and financing.”

“Regulators, such as the Consumer Financial Protection Bureau and the Federal Trade Commission,” said Van Alst, “should put into place stronger consumer protections, including instituting a right of rescission or cooling off period for the purchase of a used car, financing, and any add-ons; stopping dealer loan markups; and ending yo-yo sales. Implementing such protections would help ensure that consumers don’t get taken for a ride when buying or financing a vehicle from auto dealers.”

Background

This release summarizes key findings from a National Consumer Law Center online survey conducted from April 5-10, 2011. Three hundred and fifty legal aid and private attorneys across the United States who identified themselves as working on auto issues as part of their practice were invited to participate. Of those, 47 attorneys completed the survey, in which they were asked about their experiences working with clients on issues in car sales and financing from auto dealers. The results represent practicing attorneys in all regions of the United States.

Key Findings

- 1. Most consumers do not understand the terms and conditions of the sale when buying a vehicle.** Nearly three-fourths (70 percent) of attorneys said their clients seldom (51 percent) or never (19 percent) understood what they were purchasing.
- 2. Most consumers do not understand the terms and conditions of financing or leasing a vehicle.** Nearly eight out of ten (79 percent) of attorneys said their clients seldom (62%) or never (17%) understood the financing or leasing terms and conditions related to purchasing a vehicle from an auto dealer.
- 3. Most consumers complain that they received a car or financial arrangement that was different than what they thought they were to receive.** Eighty-three percent of attorneys said that this was “often” or “always” the case with consumers they interviewed. Only 4 percent of attorneys said this was “seldom” or “never” the case.
- 4. “Yo-yo” financing, in which the dealer and buyer execute all the sales and financing documents and then the dealer attempts to cancel the transaction or change the terms, is common throughout the US, and practiced by both independent and franchise auto dealers.** Nearly 96 percent of responding attorneys across the country said auto dealers in their area engage in the practice. Of those attorneys finding the practice, three-fourths said that both franchise and independent auto dealers in their area engage in the yo-yo practice.
- 5. Most attorneys (89 percent) advise consumers *not* to purchase add-on products, and 66 percent said that the majority of consumers they interviewed, with time to reflect, would not purchase these products either.** Specifically, attorneys were asked about rust-proofing, service contracts, window etching, and GAP insurance. Additionally, 94 percent of attorneys agreed that there were incentives for a dealer’s finance and insurance department to sell these add-ons even if not in the best interest of the consumer; 81 percent said that add-on pricing is not clearly posted, preventing consumers from comparison shopping.
- 6. Consumer abuses when purchasing and financing or leasing a vehicle through auto dealers is common.** The vast majority (96 percent) of attorneys said that abuses in auto sales and financing were part of a general industry practice. In addition, auto dealers and lenders *themselves* admitted to 85 percent of the attorneys that consumer abuses were general business practice.

For more information, visit the National Consumer Law Center’s Working Cars for Working Families website: www.workingcarsforworkingfamilies.org

(See Appendix for full survey questions and responses.)

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National Consumer Law Center® (NCLC®) is a non-profit organization specializing in consumer issues on behalf of low-income and other vulnerable people. Since 1969, NCLC has worked with legal services and organizations as well as government and private attorneys across the United States, to create sound public policy for low-income and elderly individuals on consumer issues.

APPENDIX: Survey Questions and Responses
Consumer Issues in Car Sales and Financing: A National Consumer Law Center® Survey

1. Is consumer law your area of focus?		
Answer Options	Response Percent	Response Count
Yes	89.6%	43
No	10.4%	5
<i>answered question</i>		48
<i>skipped question</i>		0

2. In which region of the United States do you practice? (Select all that apply.)		
Answer Options	Response Percent	Response Count
Northeast	14.6%	7
Mid-Atlantic	20.8%	10
South	25.0%	12
Midwest	20.8%	10
Southwest	6.3%	3
West	16.7%	8
<i>answered question</i>		48
<i>skipped question</i>		0

3. How many requests for assistance do you (or your office) receive from consumers with problems in a car purchase and/or finance each year?		
Answer Options	Response Percent	Response Count
Less than 20	12.8%	6
21-50	36.2%	17
50-100	19.1%	9
100-200	8.5%	4
200 or more	23.4%	11
<i>answered question</i>		47
<i>skipped question</i>		1

4. Do you turn away some people who complain they were misled, cheated, or otherwise abused in auto sales/finance transactions?		
Answer Options	Response Percent	Response Count
Yes	91.5%	43
No	8.5%	4
<i>answered question</i>		47
<i>skipped question</i>		1

5. If Yes, why? (Select all that apply.) If No, please skip to the next question.

Answer Options	Response Percent	Response Count
Arbitration clause	51.2%	22
Lack of time and/or resources	60.5%	26
I receive so many requests I prioritize those I can help the most.	67.4%	29
Other (please specify)	55.8%	24
<i>answered question</i>		43
<i>skipped question</i>		5

6. Through litigation or other attempts to resolve problems in auto sales and finance, have you discovered that the abuses your client was subjected to were part of a more general industry practice?

Answer Options	Response Percent	Response Count
Yes	95.7%	45
No	0.0%	0
Don't Know	4.3%	2
<i>answered question</i>		47
<i>skipped question</i>		1

7. Have dealers or lenders told you that abuses a consumer has suffered are the usual business practice in sales and financing of vehicles?

Answer Options	Response Percent	Response Count
Yes	85.1%	40
No	14.9%	7
<i>answered question</i>		47
<i>skipped question</i>		1

8. How common is it for consumers to approach you (or your office) with a clear understanding of add-on products they were sold?

Answer Options	Response Percent	Response Count
Always	0.0%	0
Often	6.4%	3
Sometimes	23.4%	11
Seldom	46.8%	22
Never	23.4%	11
<i>answered question</i>		47
<i>skipped question</i>		1

9. How common is it for consumers to approach you (or your office) with a clear understanding of terms and conditions of the sale?

Answer Options	Response Percent	Response Count
Always	0.0%	0
Often	6.4%	3
Sometimes	23.4%	11
Seldom	51.1%	24
Never	19.1%	9
<i>answered question</i>		47
<i>skipped question</i>		1

10. How common is it for consumers to approach you (or your office) with a clear understanding of terms and conditions of financing or leasing a vehicle?

Answer Options	Response Percent	Response Count
Always	0.0%	0
Often	6.4%	3
Sometimes	14.9%	7
Seldom	61.7%	29
Never	17.0%	8
<i>answered question</i>		47
<i>skipped question</i>		1

11. How often do consumers that you interview receive a product (car or financing) that is different from what was described to them in the car buying transaction? (Examples: A car has substantial defects that were not disclosed to buyer or the financing terms differed from those described to the buyer.)

Answer Options	Response Percent	Response Count
Always	10.6%	5
Often	72.3%	34
Sometimes	12.8%	6
Seldom	2.1%	1
Never	2.1%	1
<i>answered question</i>		47
<i>skipped question</i>		1

12. Do motor vehicle dealers in your area engage in "yo-yo financing," in which the dealer and buyer execute all the sales and financing documents yet the dealer subsequently attempts to cancel the transaction or change the terms?

Answer Options	Response Percent	Response Count
Yes	95.7%	45
No	0.0%	0
Don't Know	4.3%	2
<i>answered question</i>		47
<i>skipped question</i>		1

13. If Yes, how common is this "yo-yo" practice? If No or Don't Know, skip to the next question.

Answer Options	Response Percent	Response Count
Some dealers	42.2%	19
Most dealers	31.1%	14
All dealers	6.7%	3
Don't Know	20.0%	9
<i>answered question</i>		45
<i>skipped question</i>		3

14. Does the practice of "spot delivery," in which the dealer and buyer execute all the sales and financing documents yet the dealer attempts to retain the ability to unilaterally cancel the transaction or change the terms, have benefits for consumers?

Answer Options	Response Percent	Response Count
Yes	14.9%	7
No	78.7%	37
Don't Know	6.4%	3
<i>answered question</i>		47
<i>skipped question</i>		1

15. Do both franchise and independent dealers in your area engage in yo-yo financing?

Answer Options	Response Percent	Response Count
Yes	74.5%	35
No	6.4%	3
Don't Know	19.1%	9
<i>answered question</i>		47
<i>skipped question</i>		1

16. Would you advise a consumer to purchase add-ons, including rust-proofing, service contracts, window etching, or GAP insurance?

Answer Options	Response Percent	Response Count
Always	0.0%	0
Often	0.0%	0
Sometimes	10.6%	5
Seldom	36.2%	17
Never	53.2%	25
<i>answered question</i>		47
<i>skipped question</i>		1

17. Have consumers you interviewed who purchased add-on products ever indicated that, if given time to think through the price and value of the products, they would NOT have purchased the add-on products?

Answer Options	Response Percent	Response Count
Always	12.8%	6
Often	53.2%	25
Sometimes	29.8%	14
Seldom	0.0%	0
Never	4.3%	2
<i>answered question</i>		47
<i>skipped question</i>		1

18. In your experience, are there incentives for a dealer's finance and insurance department to sell add-ons even if these products are not in the best interest of the consumer?

Answer Options	Response Percent	Response Count
Yes	93.6%	44
No	0.0%	0
Don't Know	6.4%	3
<i>answered question</i>		47
<i>skipped question</i>		1

19. In your experience, are add-ons clearly and consistently priced through posted pricing prior to the meeting with the finance and insurance department so that consumers can comparison shop?

Answer Options	Response Percent	Response Count
Yes	0.0%	0
No	80.9%	38
Don't Know	19.1%	9
<i>answered question</i>		47
<i>skipped question</i>		1

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