Auto Lending Practices Can Take Consumers for a Ride

A car purchase can expand economic mobility, but tricks and traps in auto financing can lead to harm and abuse. Among those tricks and traps is the discretionary dealer interest rate markup. Car dealers can add extra interest to a car loan, and keep some or all of the difference. This practice has a long history of unfair and discriminatory impact. CRL research also suggests that borrowers of color are sold more add-on products and are more likely to be told misleading information about their loan.

Recent data and settlements show that many auto loans are made without due consideration of ability to repay. Increasing delinquencies in the subprime auto market are a strong indicator of this failure. More regulatory attention needs to be paid to auto loan underwriting.

When would-be buyers are encouraged to leave with a car before finance terms are finalized, a yo-yo scam can unfold. The unsuspecting consumer leaves with the car, trusting the dealer will finalize the terms discussed. When consumers are called back to these dealerships, they are often pressured to sign finance contracts with worse terms than those originally discussed. If consumers try to walk away from the now-worse deal, they often face threats of legal action, criminal charges of auto theft, loss of down payment, or fees for mileage and wear and tear.

Reform Remedies

- Aggressively enforce laws that prohibit unfair, deceptive, and discriminatory practices in auto lending.
- End the practice of discretionary dealer interest rate markup.
- Use enforcement and rule making to prohibit yo-yo scams.
- Ensure loans are made with effective consideration of the borrower's ability to repay the loan, and that income and other key underwriting information is verified.

Fast Facts

According to the New York Fed, there are now more than $1 trillion in outstanding auto loans across the U.S.

Car payments are the third largest source of household debt, after mortgages and student loans.

While borrowers of color reported negotiating interest rates as often or more often than white borrowers, borrowers of color still paid higher interest rates than similarly situated whites.

80% of cars financed are financed through dealers.

"Abusive lending practices have no place in our credit markets. The current auto market requires safeguards to ensure that it is robust and sustainable." - Rebecca Borné, CRL Senior Policy Counsel

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