

October 24, 2016

Dear Senator:

We, the undersigned, write to urge you to join Senator Richard Blumenthal on his letter urging the Federal Trade Commission (FTC) to use its rulemaking authority to combat discriminatory and unfair lending practices in auto lending.

Recently, the FTC issued a complaint against a Los Angeles-area auto dealer group for “yo-yo” financing tactics,¹ false or deceptive advertising, misleading consumers financing terms and conditions, and packing loans with expensive add-on products - often without the consumer’s consent.²

Deceptive and discriminatory practices in auto lending are serious and ongoing concerns. Many predatory and abusive practices have been allowed to thrive, leading to unnecessarily expensive and likely unsustainable loans, particularly for those least able to afford it. Predatory practices place people with lower credit scores at particular risk because fewer direct auto financing options are available to them.

Similarly, Center for Responsible Lending (CRL) research indicates that African-American and Latino borrowers receive higher interest rates on car loans from dealers than similarly situated white borrowers and are more likely to receive misleading information in the car buying process, resulting in higher priced cars and loans.³ Many of these abusive practices in auto lending, including in the subprime space, are not new. Abuses pertaining to auto dealer interest rate markups, yo-yo scams, loan packing, and by “Buy Here Pay Here” dealers have been the subject of scores of lawsuits and enforcement actions by state and federal regulators,⁴ and were the subject of discussion during FTC roundtables held in 2011.⁵

When done responsibly, auto finance makes economic opportunity possible and sustainable. Unfortunately, a number of abusive practices in auto lending can do just the opposite, unnecessarily costing consumers billions of dollars and putting consumers at risk for losing their cars. The FTC should continue to work to eliminate the well-known and well-documented abuses in the auto lending. Of particular focus should be those practices that have a historic pattern of abuse and disproportionate impact on low-income borrowers and borrowers of color, namely dealer interest rate markups and yo-yo scams.

We hope that you will join Senator Blumenthal in urging the FTC to issue rules addressing these issues. Discrimination and deceptive practices have no place in our lending markets. The FTC should use its authority to protect consumers and end discrimination in the auto lending market.

If you have any questions, or would like to sign-on to this letter, please contact Anna Yu in Senator Blumenthal’s office at Anna_Yu@blumenthal.senate.gov. The deadline for this letter is close of business October 27th, 2016.

Sincerely,

¹ <https://www.ftc.gov/news-events/press-releases/2016/09/ftc-charges-los-angeles-based-sage-auto-group-using-deceptive>. A yo-yo scam occurs when a car buyer who finances the car through the dealer believes that the financing is final or is as good as final. The dealer lures the consumer back to the dealership, claims the financing is not final, and pressures the consumer to sign a new financing contract with a higher interest rate or other less favorable terms.

² <https://www.ftc.gov/system/files/documents/cases/160929sagecmpt.pdf>.

³ Delvin Davis, Non-Negotiable: Negotiation Doesn’t Help African Americans and Latinos on Dealer-Financed Car Loans (2014), available at <http://www.responsiblelending.org/other-consumer-loans/autofinancing/research-analysis/CRL-Auto-Non-Neg-Report.pdf>.

⁴ See CFPB Enforcement Actions, <https://www.cfpbmonitor.com/auto-finance/>.

⁵ <https://www.ftc.gov/news-events/events-calendar/2011/08/road-ahead-selling-financing-leasing-motor-vehicles>.

Americans for Financial Reform

Center for Responsible Lending

Connecticut Commission on Equity and Opportunity

Consumer Action

Consumers for Auto Reliability and Safety

League of United Latin American Citizens

NAACP

National Association of Consumer Advocates

National Consumer Law Center (on behalf of its low-income clients)

National Council of La Raza

National Fair Housing Alliance

National Urban League

U.S. PIRG