

# Auto Finance Rip-Offs: What is happening and what can we do to stop it?

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# Common Auto Lending Abuses

- **Auto loan markups**
- **Yo-Yo sales**
- **Loan packing**
- **"Buy Here, Pay Here" scams**

# Auto Lending Abuses

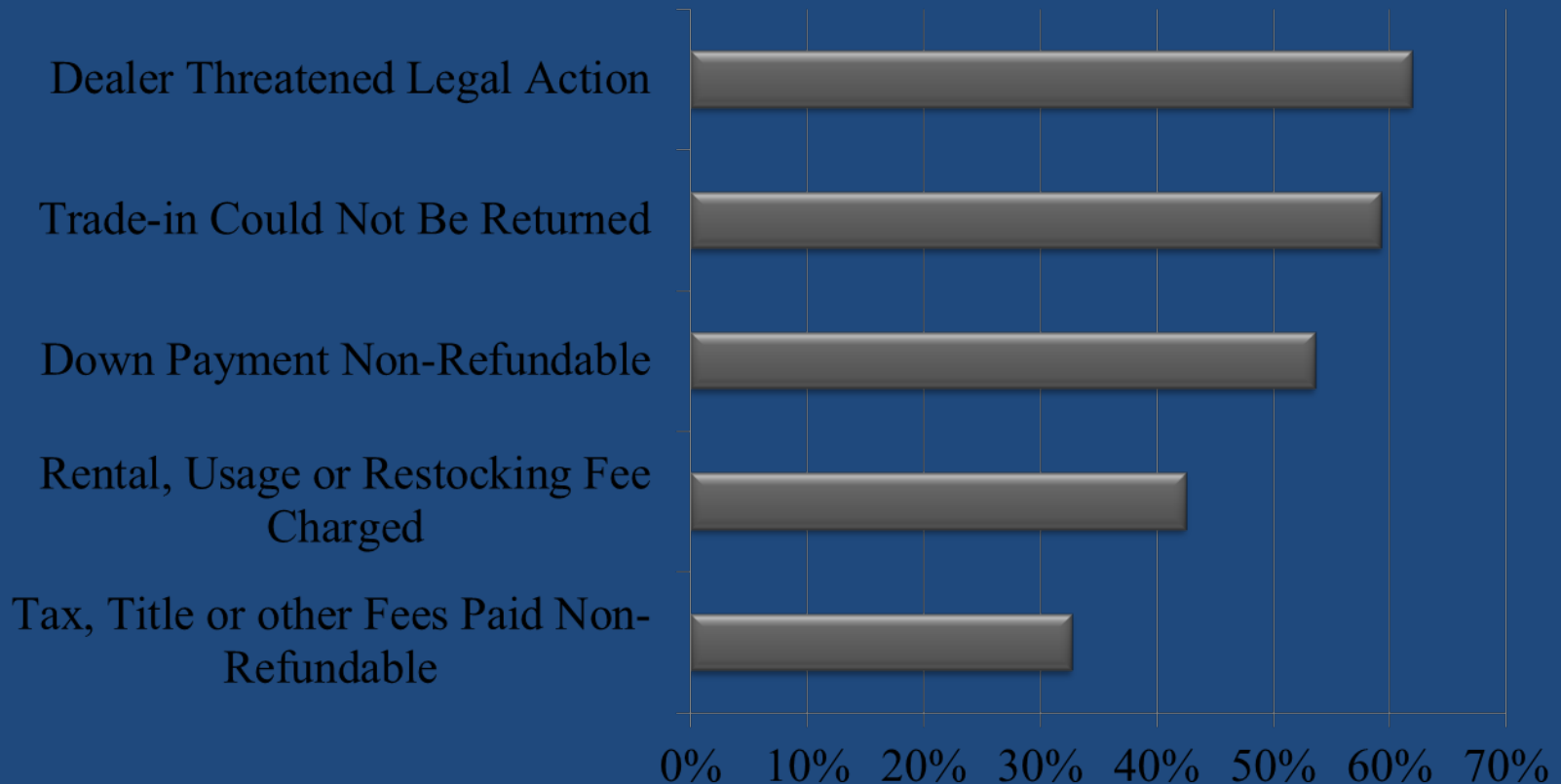
- Dealer markup/dealer reserves:
  - Dealer has discretion from third-party lenders to increase the interest above the rate for which the car buyer qualifies.
  - Dealer takes part or all of the proceeds from the increased rate.
  - Similar to yield spread premiums that mortgage brokers used to charge on mortgage loans.
  - This practice alone adds \$25.8 billion in hidden interest over the lives of many car loans.

# Auto Lending Abuses

- Yo-yo Scams:
  - Dealer sends consumer home with car before financing is complete,
  - Consumer is brought back to the dealer with the car,
  - Consumer is told that interest rate will be much higher than previously thought,
  - When consumer tries to rescind deal, told that trade-in has been sold and/or down payment is non-refundable.
  - Consumer who does not return the car threatened with repossession and/or criminal charges (theft).

# Tactics Used in Yo-Yo Scams

## Incidence Reported



# Auto Lending Abuses

- **Loan packing:**
  - The practice by which dealers add various types of aftermarket, “add-on” products that are usually unnecessary and overpriced in order to increase the price of the vehicle or the amount financed.
  - “Add-on” products include rust proofing, tire and wheel protections, paint sealant, extended warranties, security systems, insurance products, etc.

# Auto Lending Abuses

- **"Buy Here, Pay Here" scams:**
  - Typically finance used auto loans in-house to consumers with no or poor credit histories.
  - Use their higher default and repossession rates to operate much like payday lenders; using same vehicle several times as the basis for their abusive business model.



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