

Auto Lending Abuses

Predatory practices in auto financing force consumers to struggle not only for a competitive and affordable car loan, but for a fair and honest one. Finding a good deal is often not based on the quality of the car or the creditworthiness of the consumer, but rather the consumer's ability to survive a financial shell game with one of the largest investments most people will ever make.

Some known abuses include:

- **Auto loan markups:** Also known as dealer reserves, auto loan markups involve kickbacks from third-party lenders to auto dealers for steering car buyers into loans with subjectively higher interest rates. This practice alone adds \$25.8 billion in hidden interest over the lives of many car loans.
- **Yo-Yo sales:** Also known as spot deliveries or conditional sales, Yo-yo sales are deals where the financing is not finalized until after the consumer has already taken the new vehicle home from the dealership. The sale becomes abusive when the dealer calls the consumer back to the lot to sign a new loan with a higher interest rate or other abusive charges.
- **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.
- **"Buy Here, Pay Here" dealerships:** These dealers typically finance used auto loans in-house to consumers with no or poor credit histories. The average APR is much higher than a bank or credit union loan. These dealers use their higher default and repossession rates to operate much like payday lenders; churning the same used vehicle several times as the basis for their abusive business model.

What Are The Solutions?

- Ban the back-end compensation dealers receive for selling more costly loans with unfavorable terms to consumers.
- Prohibit yo-yo scams and ensure more meaningful enforcement to prevent them.
- Provide a consistent and transparent means of presenting the cost of the vehicle, all fees, and add-on product sales.