AMERICANS FOR FINANCIAL REFORM

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AFR Applauds CFPB's Steps to Increase Fairness and Transparency in the Auto Lending Markets

AFR applauds CFPB steps to bring greater fairness and transparency to the auto lending market.

The Consumer Financial Protection Bureau (CFPB) hosted a field hearing today in Indianapolis, Ind. with a focus on auto finance issues. The hearing coincides with the agency's release of a proposed rule that will bring a significant group of nonbank lenders under its oversight.

This action is part of the CFPB's ongoing work to implement its supervisory program for nonbanks by defining who qualifies as a "larger participant" in various markets for consumer services. The agency has previously defined larger participants for the debt collection, credit reporting, and student loan servicing markets. While technical, this process is important because it lays out the parameters of the CFPB's supervision of a crucial area of the financial marketplace, most of which have not faced any federal oversight up until now. The CFPB's proposed rule would essentially allow the Bureau to supervise nonbank auto finance companies that make, acquire, or refinance 10,000 or more loans or leases in a year.

A fairer and more transparent auto lending market would make a big difference in millions of peoples' lives. Apart from a home, a car is frequently the largest purchase a household makes. Vital to people's economic lives, cars are used to travel to and from work, school, and childcare. And abuses in the auto lending market have been rampant.

Problems for consumers range from auto loan markups—where third party lenders provide kickbacks to auto dealers for steering car buyers into loans with higher interest rates—to loan packing, where buyers get stuck with various aftermarket add-on products that are usually unnecessary and overpriced, increasing the price of the vehicle or the amount financed. Price discrimination is also an issue, as evidenced by the Bureau's enforcement action against Ally Financial Inc. and Ally bank. The Bureau's investigation found that Ally's policy and practice of allowing dealers to mark up a borrower's interest rate over the established "buy rate" increased Ally's interest revenues and led to higher markups for many minority borrowers. The CFPB reported yesterday in their Supervisory Highlights report that resolutions with several supervised banks will collectively pay another $56 million in redress for up to 190,000 borrowers (beyond the Ally case). The CFPB reported yesterday in its Supervisory Highlights report that resolutions with several supervised banks will collectively pay another $56 million in redress for up to 190,000 borrowers (beyond the Ally case).