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CFPB and DOJ Find that Minority Car Buyers Paid More for Ally Bank Loans; Win Loan Discrimination Settlement

In December 2013, the Consumer Financial Protection Bureau (CFPB) and the Department of Justice (DOJ) ordered Ally Financial Inc. and Ally Bank to pay damages to minority borrowers who paid higher interest rates for their auto loans relative to similarly situated non-Hispanic white borrowers. Ally was ordered to pay $80 million in damages, as well as $18 million in penalties. The order represented the federal government's largest ever auto loan discrimination settlement, and highlighted CFPB's determination to respond to discriminatory practices in lending markets.

Ally, one of the largest indirect auto lenders in the US, sets base interest rates and then allows auto dealers to charge higher rates when they finalize deals with consumers, called the "dealer markup." The dealers then get all of part of the additional revenue. The CFPB and DOJ investigation found that the 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 agencies concluded that Ally violated the Equal Credit Opportunity Act (ECOA) by charging minority car buyers higher markups for their auto loans than they changed non-Hispanic white borrowers with similar financial backgrounds and credit scores. The CFPB and DOJ found that more than 20 percent of contracts that Ally had purchased had African-American, Hispanic, or Asian/Pacific Islander borrowers or co-borrowers, and that such borrowers paid more for their loans. Specifically:

- On average, African-American borrowers were charged approximately 29 basis points more in dealer markup than similarly situated non-Hispanic whites. The investigation determined that approximately 100,000 African-American borrowers were charged higher markups, and as a result, paid on average over $300 more per person in interest, relative to similarly-situated non-Hispanic whites over the period covered by the investigation (from April 2011 to December 2013).
- On average, Hispanic borrowers were charged approximately 20 basis points more in dealer markup than similarly situated non-Hispanic whites. The investigation determined that approximately 125,000 Hispanic borrowers were charged higher markups, and as a result, paid on average over $200 more per person in interest, relative to similarly-situated non-Hispanic whites over the covered period.
- On average, Asian/Pacific Islander borrowers were charged approximately 22 basis points more in dealer markup than similarly situated non-Hispanic whites. The investigation determined that approximately 10,000 Asian/Pacific Islander borrowers were charged higher markups, and as a result, paid on average over $200 more per person in interest, relative to similarly-situated non-Hispanic whites over the covered period.