

DISCRIMINATION WHEN BUYING A CAR

HOW THE COLOR OF YOUR SKIN CAN AFFECT YOUR CAR-SHOPPING EXPERIENCE



ABOUT THE NATIONAL FAIR HOUSING ALLIANCE

Founded in 1988 and headquartered in Washington, DC, the National Fair Housing Alliance (NFHA) is the only national organization dedicated solely to ending discrimination in housing. NFHA is the voice of fair housing. NFHA works to eliminate housing discrimination and to ensure equal housing opportunity for all people through leadership, education, outreach, membership services, public policy initiatives, community development, advocacy, and enforcement.

NFHA is a consortium of more than 220 private, non-profit fair housing organizations, state and local civil rights agencies, and individuals from throughout the United States. NFHA recognizes the importance of home as a component of the American Dream and aids in the creation of diverse, barrier-free communities throughout the nation.

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EXECUTIVE SUMMARY

Transportation is all about connecting people to the places they need to go—work, school, the grocery store, recreation, places of worship, the library, the bank, the doctor, or elsewhere. Some people may live in high opportunity neighborhoods, where all of these amenities exist within walking distance, but most of us require some other form of transportation at least some of the time. Public transportation can be a great way to connect people to opportunity, but it must be accessible, reliable, and affordable. In many communities, people cannot depend on public transportation to get them where they need to go. In order to access opportunity, these people must have their own transportation—usually an automobile. Too often, the people in this situation are people of color, whose neighborhoods have been starved of investment and whose ability to move to neighborhoods that better connect them to opportunity has been constrained by discriminatory policies and practices. And too often, when they seek a loan to finance an auto purchase, they face discrimination again.

Auto loans are the third most prevalent form of debt among U.S. residents after home and student loans, and over three-fourths of new cars are purchased using an auto loan.1 However, several studies (detailed further in Section II of this report) have uncovered widespread discrimination in the auto loan industry. As do other forms of lending discrimination, auto lending discrimination has broad implications. This discrimination has undoubtedly played a part in creating the racial and ethnic wealth gaps and credit access disparities that exist in the U.S. today, and it will ensure that they persist if allowed to continue unchecked.

The National Fair Housing Alliance (NFHA) has decades of experience in assessing the ability of people to access lending products and services in a non-discriminatory manner. This work has been primarily concentrated on access to mortgage lending. In 2016, NFHA expanded its lending analysis to explore how well people are able to access auto loans without the hurdles and higher costs of discrimination. NFHA modeled this investigation after a proven methodology used in the mortgage lending arena called matched pair testing to determine whether barriers exist in auto lending that would have deleterious effects on consumers.

In order to ascertain the difference in treatment between White and Non-White customers at car dealerships, NFHA sent eight pairs of testers, one White and one Non-White, to car dealerships in Virginia to inquire about purchasing the same vehicle. Testers are like secret shoppers, and they are instructed to inquire about the same product and then document what they are told and observe. The testers in each pair were similarly situated, matched on gender, and fell within the same age bracket. In seven out of the eight tests, the Non-White tester had a higher income. In the eighth test, though the Non-White tester had a lower income, her debt-to-income ratio was much better than that of the White tester. The Non-White tester's credit score was higher than the White tester's credit score in all cases.

¹ Federal Reserve Bank of New York, Quarterly Report on Household Debt and Credit (November 2015), www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2015Q3.pdf.

All testers, regardless of race, encountered a number of challenges to obtaining the concrete information needed to obtain the best auto loan option available to them. However, the investigation found that Non-White testers were treated considerably worse and received a higher quote for the financing of the exact same vehicle far more often than their White counterparts, despite being better qualified. Overall, this investigation found that, when auto dealers have pricing elements at their discretion, there is an opportunity for discrimination to occur. This investigation revealed that, more often than not, auto dealers took that opportunity to discriminate. Key findings include the following:

- **62.5 percent** of the time, Non-White testers who were more qualified than their White counterparts received more costly pricing options.
- On average, Non-White testers who experienced discrimination would have paid an average of **\$2,662.56** more over the life of the loan than less-qualified White testers.
- **75 percent** of the time, White testers were offered more financing options than Non-White testers.
- Dealers offered to help bring down interest rates and car prices using incentives and rebates or by making phone calls to personal contacts for White testers more often than they did for Non-White testers.

In addition to the pricing differences above, Non-White testers were subject to dismissive and disrespectful treatment more frequently than White testers. Such high rates of discriminatory treatment are alarming and extremely rare in similar audit-style investigations conducted in the mortgage lending industry. Although it has its bad actors, the mortgage lending industry has been regulated and monitored for civil rights violations for decades. It is imperative that auto lending regulations, particularly those that are designed to fight discrimination, are similarly robust and regularly enforced.



of the time, better qualified
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options than their White
counterparts



Non-White testers who were subject to discrimination would have paid \$2,662.56 more over the life of their loan as compared to less-qualified White testers



75% percent of the time, White testers were offered more financing options than Non-white testers

SECTION I: BACKGROUND

Auto financing is an issue that affects nearly every American. More than 90 percent of American households own a vehicle.² Automobile lending is the third largest category of household debt in America, behind mortgages and student loans, with almost 100 million auto loans totaling over \$1 trillion in the U.S. economy.³ Consumers finance 85.2 percent of new vehicle purchases and 53.5 percent of used vehicle purchases.⁴ There are multiple routes through which a consumer can obtain financing on a vehicle. The two primary methods of obtaining financing to purchase a vehicle are direct lending and indirect lending. Other, less-common, options for auto financing are leasing a vehicle and "Buy Here Pay Here" car dealerships. This investigation focused primarily on indirect lending.

In direct lending, consumers apply for and obtain loans directly from a credit union, bank, or other lending institution. These lending institutions are not directly tied to any car dealership but offer auto loans to customers, thereby circumventing the auto-financing process at the car dealership. Consumers financing their car through direct lending options will receive an interest rate quote from a lending institution. This gives them the advantage of comparing interest rates and loan terms from several lending institutions and provides an opportunity for consumers to shop around for the lowest interest rate and best loan terms available. Once they enter into a contract to purchase a vehicle at a dealership, consumers can use the loan from the direct lender to pay for the vehicle.

In indirect lending, consumers obtain auto financing at a car dealership when they purchase the vehicle. Dealerships participate in loan programs with multiple lenders. These lenders authorize the dealerships to offer loans on their behalf and provide relevant financial information to customers that are approved for loans. Lenders often compensate dealerships for approved loans, meaning both dealerships and lenders benefit from indirect lending. When a consumer is seeking financing at a dealership, the dealership collects basic financial information on the applicant and generally forwards that information to prospective auto lenders. The lending institutions evaluate the information forwarded to them by the dealership and determine whether or not they are willing to extend credit to the applicant. Indirect lending occurs in two forms: the dealership originates loans to consumers which lenders then purchase, or the dealerships forward the loan application to a lender, who then originates the loan. Industry sources indicate that one-third to more than one-half of car buyers use dealer financing.67

² U.S. Census Bureau, Selected Housing Characteristics (2015), Available online at: https://factfinder.census.gov/faces/tableservices/jsf/pages/productview. xhtml?pid=ACS_15_5YR_DP04&prodType=table.

³ Federal Reserve Bank of New York, Quarterly Report on Household Debt and Credit (November 2015), www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2015Q3.pdf.

⁴ Experian Information Solutions, Inc., State of Automotive Finance Market (2017), https://www.experian.com/assets/automotive/quarterly-webinars/2016-Q4-SAFM-revised.pdf.

⁵ When consumers lease an automobile, they do not own the car but have agreed to use it (lease it) for a certain number of months. Consumers must return the vehicle when the lease ends, at which point they may have the option of purchasing the vehicle. At "Buy Here Pay Here" dealerships, auto financing is obtained directly from the dealership with no involvement of an outside lending institution. Consumers with bad or non-existent credit typically use "Buy Here Pay Here" financing. Interest rates on loans extended under this category are much higher than they are on loans offered from other lending institutions. The vehicles sold at "Buy Here Pay Here" dealerships typically have thousands of miles on them and in some cases come equipped with a GPS tracker, so the dealerships may repossess the vehicles if the customers default on their loans. Neither leasing nor "Buy Here Pay Here" dealerships were included in the investigation described in this report.

⁶ Davis, Delvin, The State of Lending in America & its Impact on U.S. Households: Auto Loans (December 2012). Available online at: http://www.responsiblelending. org/state-of-lending/reports/4-Auto-Loans.pdf.

⁷ https://www.nytimes.com/2016/06/12/opinion/sunday/when-auto-dealers-profit-from-bias.html.

In indirect lending scenarios, consumers submit standard financial information to the dealership, including income, debt, monthly rent payments, and an authorization for the dealer to check their current credit score. The dealer then determines the consumer's cost to secure a loan known as an annual percentage rate (APR). A consumer's APR on an auto loan consists of two factors: the "buy rate" and the "dealer reserve." The buy rate is a rate determined by lending institutions through automated computer algorithms. The buy rate is based entirely on credit and risk factors and is typically generated for the dealers by the lending institutions instantaneously upon receiving the consumer's financial information. The buy rate is the minimum interest rate given to a dealer by a lending institution; it represents the lender's "OK" to give the consumer a loan at that rate.

The second factor of the APR—the dealer reserve or "markup"—increases the final interest rate offered to the consumer. The dealer reserve is entirely up to the discretion of the dealer and is not based on the consumer's financial profile or their risk of defaulting on the loan. Lending institutions typically send the profits earned from dealer's reserves to the dealers as commissions—essentially extra profit on the sale. The buy rate is the lowest interest rate a dealership has been authorized to offer. When dealers refer to any interest rate higher than the buy rate as the lowest interest rate they can offer, they are misleading the borrower.

I.1 History of Discrimination in Auto Lending

There is an extensive history of discrimination in the auto lending industry, and much of it is attributed to unfair dealer markups on auto loans. Though it was suspected for decades that Non-White car purchasers often received unfair dealer markups on auto loans, Yale Law Professor Ian Ayres was the first researcher to demonstrate that this was actually the case. He conducted his study in 1991 by sending testers of various races and ethnicities to new car dealerships in Chicago and found that Black male testers were asked to pay more than twice the markup of White male testers.8 He conducted another study in 1994 in order to test the results of his original study, correcting for weaknesses in the original methodology, and used a new quantitative method of identifying the causes of discrimination. The results from this second investigation mirrored the first. It was clear that auto dealers systematically offered lower prices to White testers than to testers of other races and ethnicities.9

In 2003, Vanderbilt Business Professor Mark A. Cohen released a study that was much broader in scale than the Ayres' study. In his study, Cohen investigated more than 1.5 million General Motors Acceptance Corporation ("GMAC") loans made between 1999 and 2003. Cohen found that Black customers were three times as likely as equally qualified White customers to be charged an interest rate markup on their loans financed by GMAC.¹⁰ According to the study, racial discrimination in auto lending was a national phenomenon that occurred rampantly, regardless of the profession of

⁸ Ayres, Ian, Fair Driving: Gender and Race Discrimination in Retail Car Negotiations (1991). Faculty Scholarship Series. 1540. Available Online at: http://digitalcommons.law.yale.edu/fss_papers/1540.

⁹ Ayres, Ian, "Further Evidence of Discrimination in New Car Negotiations and Estimates of Its Cause" (1995). Faculty Scholarship Series 1523. Available online at: http://digitalcommons.law.yale.edu/fss_papers/1523.

¹⁰ Mark A. Cohen, Report on the Racial Impact of GMAC's Finance Charge Markup Policy, 2003.

the customer or the model of the car purchased. Black borrowers paid an average of \$362 more than White borrowers in extra interest over the life of a loan. Even Black GMAC employees paid more on loans than their White counterparts. Cohen's report claimed that GMAC borrowers were charged almost \$422 million in subjective markups and that Black borrowers paid nearly 20 percent of this, despite only representing 8.5 percent of all borrowers. In addition to discriminatory interest rates, Cohen also found a discriminatory difference in treatment. Black borrowers were much less likely to be offered preferential interest rates, special financing incentives, or rebates. Black college graduates were less likely to be offered below-market interest rates on special loans designed for recent college graduates. After numerous statistical tests, he concluded that the higher interest rates charged to Black customers could not be explained by creditworthiness or other legitimate business factors.

In the late 1990's, the National Consumer Law Center (NCLC) co-counseled class action lawsuits against the major auto finance companies (Toyota Motor Credit Corp, Daimler Chrysler Financial, Ford Motor Credit Company, General Motors Acceptance Corporation, Nissan Motors Acceptance Corporation, American Honda Finance Corporation, and Primus Automotive Financial Services) because of their use of discretionary markups. NCLC hired an expert witness to match data on auto loans obtained in discovery and matched this data to driver's license data from states that collected drivers' race. They analyzed millions of loans and were able to identify the race of many borrowers using this methodology. They were also able to identify the race of customers who financed a car in a state that did not collect racial information, but who had previously resided in a state that did. They found that dealerships were twice as likely to add an interest rate markup to loans obtained by Black consumers as they were to loans obtained by similarly situated White borrowers. In cases where both loans were marked up, Black borrowers paid significantly more. Statistically significant racial disparities were observed in every region of the United States and in every state in which sufficient data was available. All of the auto lending institutions named in the class action suits settled, paying millions of dollars and agreeing to cap discretionary markup rates for at least five years.11

Recently, both the Consumer Financial Protection Bureau (CFPB) and Department of Justice (DOJ) concluded that car dealerships' practice of marking up interest rates for auto loans results in discrimination for minority buyers. The CFPB and DOJ conducted proxy analysis on data from millions of auto finance transactions. They use a method called the Bayesian Improved Surname Geocoding System (BISG), which integrates both surname analysis and geographical analysis, using the U.S. Census Bureau data from 2000 in order to calculate a single proxy probability for race and ethnicity.¹² From 2013 to 2016, Ally Bank and Ally Financial Services (formerly GMAC),¹³ American Honda Finance Corporation,¹⁴ Fifth Third Bank,¹⁵ and Toyota Motor Credit

¹¹ National Consumer Law Center et al., Comments to the CFPB (May 4, 2017). Available online at: https://www.nclc.org/images/pdf/credit_discrimination/cfpb-2017-ecoa-fnl3-cmmnts.pdf.

¹² http://files.consumerfinance.gov/f/201312_cfpb_consent-order_ally.pdf (pp. 5-6), Analysis is also described in the following document: http://files.consumerfinance.gov/f/201409_cfpb_report_proxy-methodology.pdf.

¹³ https://www.justice.gov/opa/pr/justice-department-and-consumer-financial-protection-bureau-reach-98-million-settlementto.

¹⁴ https://www.justice.gov/opa/pr/justice-department-and-consumer-financial-protection-bureau-reach-groundbreaking-settlement.

¹⁵ https://www.justice.gov/opa/pr/justice-department-and-consumer-financial-protection-bureau-reach-settlement-resolve.

Corporation¹⁶ all settled with the CFPB and DOJ after the enforcement agencies found that Non-White borrowers were being charged higher discretionary markups than similarly situated White borrowers.

I.2 Why This Matters for Fair Housing Advocates

The fair housing movement is committed to ensuring that everyone has access to opportunity, regardless of who they are and where they live. Access to reliable transportation is an essential requirement to afford people access to broader employment options, good schools and universities, and critical amenities and services necessary for people to lead productive lives. Indeed, access to transportation is intimately linked to access to opportunity. However, the reality is that not everyone has equal access to reliable public transportation-let alone to their own vehicle. People of color and low-income people are far more likely to be without a car and/or to live in areas where reliable public transportation does not exist. Non-White families are more isolated and displaced from communities with living wage jobs, banks and credit unions, grocery stores, green spaces, high-performing schools, and quality healthcare facilities. Non-White families are also more likely to live in food, health, and credit deserts, making access to reliable transportation much more essential.17

There are a number of factors that contribute to racial and ethnic disparities related to car ownership and access to reliable transportation. For instance, the long history of segregation and discrimination in the U.S. has left massive racial wealth gaps that contribute to why people of color are more likely to live in neighborhoods with fewer amenities. Wealth disparities also help explain why people of color are less able to purchase a car. But car ownership rates are also informed by access to yet another important piece of the equation—an auto loan.

Access to fair credit, generally, has been an obstacle to fair housing and equality in America. The U.S. has a dual credit market that was largely made possible by Jim Crow laws and segregationist policies that required separate and, in most cases, unequal facilities. The bifurcated U.S. financial market has been exacerbated by residential segregation which, as the Kerner Commission Report projected, created two separate societies: one replete with opportunities and access to quality, affordable credit, and the other, a credit desert, without quality, safe, and affordable credit options. Our separate and unequal credit system was buttressed by federal policies implemented during the Great Depression that were built on the belief that race was a valid underwriting criterion. This association with race and risk has never been excised from our financial marketplace; it is still reflected widely in credit scoring models and lending practices and still greatly impacts consumers today.

NFHA has examined access to credit and credit scoring for decades, repeatedly finding that credit inequities are significant obstacles to persons of color in obtaining stable housing, homeownership,

¹⁶ https://www.justice.gov/opa/pr/justice-department-and-consumer-financial-protection-bureau-reach-settlement-resolve-0.

¹⁷ National Fair Housing Alliance, The Case for Fair Housing, 2017 Fair Housing Trends Report, (April 2017). Available online at: http://nationalfairhousing.org/2017fair-housing-trends-report/.

wealth, and other assets. Receiving the best possible auto loan for which you qualify, and thus an affordable car payment, plays a part in building or maintaining your credit score. If discriminatory treatment blocks you from the best rate available to you, there could be an impact on your credit score and certainly on your overall ability to accumulate wealth. This investigation was a concrete way for NFHA to assess whether there are continued disparities in the auto-lending sector that affect the ability of people of color to access credit in a fair and equal manner. It also provides learnings about any obstacles that might impact consumers' ability to maintain wealth.

I.3 Relevant Laws

There are many laws and compliance regulations pertaining to all aspects of car sales that occur at a car dealership, including the finance and insurance operations. Two of the statutes that are particularly relevant to the issue of fair access to credit are the Truth-In-Lending Act ("TILA") and the Equal Credit Opportunity Act ("ECOA").

Under TILA, car dealerships are required to disclose the following credit terms in the course of engaging in a credit transaction: Annual Percentage Rate, Finance Charges, Amount Financed, Total Number of Payments, and other important terms (for example: monthly payment, late fees, and whether you can prepay your loan without a penalty). These disclosures are due prior to the consummation of a credit transaction. Under state law, a credit transaction is generally consummated when the customer executes the Retail Installment Sales Contract (RISC). In order to comply with TILA regulations, it is standard industry practice to provide these required TILA disclosures in the sales contract.

ECOA prohibits creditors from discriminating against any applicant, with respect to any aspect of a credit transaction, on the basis of race, color, religion, national origin, sex, marital status, age, or because an applicant receives income from a public assistance program. ECOA protection applies when a customer makes a request for credit.

Although racial discrimination in auto-lending markup rates has been alleged in multiple lawsuits and documented in academic studies, oversight by federal authorities was not robust until 2010 when Congress formed the CFPB under the Dodd-Frank Act and gave the agency the power to federally regulate lending by nonbanks, which includes auto finance lenders. In 2013, the CFPB issued legal guidance clarifying dealership lenders' obligations under federal lending laws. 18 This guidance clarifies that when disparities exist in an auto lender's portfolio, lenders may be liable for both disparate treatment and disparate impact.

The Financial Choice Act, a bill passed on June 8, 2017, by the House of Representatives, would curtail the CFPB's authority to begin examinations of nonbank financial institutions that it does not already examine. Thus, any new auto lending firm would be exempt from CFPB examination

¹⁸ Consumer Financial Protection Bureau, CFPB Bulletin 2013-02, Indirect Auto Lending and Compliance with the Equal Credit Opportunity Act (Mar. 21, 2013), $available\ at\ http://files.consumer finance.gov/f/201303_cfpb_march_-Auto-Finance-Bulletin.pdf.$

moving forward. The bill also seeks to stall the CFPB's enforcement of anti-discrimination laws in the auto industry, thereby allowing racial discrimination in auto lending to go unchecked.

SECTION II: METHODOLOGY

Testing is a controlled method of documenting the quality and quantity of information provided to consumers by service providers, such as auto dealerships. Testing is a widely accepted methodology that has been utilized for decades for enforcement, research, public policy, education, outreach, and compliance monitoring purposes.¹⁹ It is used by private, nonprofit fair housing organizations, state and local governments, HUD, and the U.S. Department of Justice. It is also used by the housing, insurance, and lending industries to enable companies to measure their compliance with anti-discrimination laws. In the context of employment, testing has been used to document unlawful discrimination during the hiring process. For the purpose of this investi-gation, testing was used to assess and document whether there were differences in treatment between White and Non-White consumers during the car shopping and loan pre-approval processes at car dealerships.

In this investigation, NFHA tested eight franchised car dealerships in Virginia. NFHA conducted one paired test at each dealership. Within each test, a White tester and a better qualified Non-White tester inquired about purchasing the same new 2017 car with the same vehicle identification number (VIN#) within 24 hours of one another. In seven out of eight tests, the testers saw the same car down to the VIN number. The tests were designed such that the testers would need to finance their purchase, and each tester was instructed to consent to a credit check and pre-approval by the dealership.²⁰ The testers within each pair were prepared to state the same down payment amount and were instructed to request, if asked, the same monthly payment. Testers were instructed not to request or specify a loan term and refuse vehicle add-ons, upgrades, and warranties. None of the testers had a trade-in that would affect the deal. Additionally, each tester was trained to ask one time if the quoted monthly payment option was at the best interest rate the dealer could provide but otherwise was instructed not to negotiate or haggle the price, rate, term, or other features.

The White testers and Non-White testers were matched on their gender and fell within a similar age bracket. They also had credit scores that were close in range, but the Non-White testers were always more creditworthy than their White counterparts. In seven of the eight pairs, the Non-White tester also had a higher income. In the other test pair, the Non-White tester's income was less than the White tester, but the Non-White tester had a better debt to income ratio. During the tester recruitment and screening process, testers provided NFHA with detailed financial and credit information. NFHA assessed factors such as credit history, FICO credit scores, and debt ratios to establish matched tester pairs so that the Non-White tester was more creditworthy than the White counterpart. The testers were also matched on sex, age, and other characteristics—such as military history or status or recent college graduation—that might make them eligible for discounts and rebates from the dealerships. For example, because car dealerships sometimes provide loyalty incentives to repeat customers, no tester was sent to a dealership that sold car brands the tester had previously purchased. All things being equal, the Non-White testers should have received at

¹⁹ The use of fair housing testing evidence has uniformly been accepted by the courts, including the Supreme Court. See e.g. Havens Realty Corp v. Coleman, 455 U.S. 363, 373-374 (1982).

²⁰ In testing, testers often use aliases;, but however, in this investigation case, testers used their real names and accurate personal information. during the tests.

least the same treatment as the White testers, and since credit-related consumer transactions are often risk-based, the Non-White testers should have received better pricing terms and conditions because they posed less risk.

Each tester was trained prior to conducting the test. The training consisted of an in-depth session on testing procedures and completion of a practice test. The training included an explanation of the car buying process and testing procedures and included role playing which allowed testers to practice their responses and actions in different scenarios. The practice tests were conducted at franchised dealerships in Virginia that were not the same dealerships to which NFHA sent the testers for this project. The practice tests allowed testers to rehearse their roles and for NFHA to refine the testers' behavior or language to ensure that information provided by testers was similar within each matched pair.

The dealerships chosen sell new and used cars throughout Eastern Virginia. The eight dealerships represented seven car brands (one brand was repeated) and seven franchisees (one franchisee was repeated). Testing was conducted between the Fall of 2016 and Spring of 2017. Testers within each pair visited the same dealership within 24 hours of one another. Tests were conducted on weekdays early in the month to rule out any end-of-month pricing changes.

Each tester was equipped with a concealed digital audio recorder that captured his or her experience at the dealership from arrival to departure. Additionally, after the testers left the dealership, they debriefed with NFHA staff.

SECTION III: TESTING OUTCOMES AND FINDINGS

Analysis of the results from the eight paired tests that comprised this investigation raise a number of findings that have negative implications for consumers. First and foremost, the findings show that better-qualified Non-White testers were subject to discriminatory treatment and pricing at an alarming rate. Moreover, they reveal that borrowers of all races face some level of difficulty when trying to obtain the basic information needed to make a sound financial decision on their auto loan and to protect themselves as consumers. The sections below discuss these overarching findings in more detail.

III.1 Discriminatory Treatment when Obtaining an Auto Loan

An analysis of the results of the eight matched-pair tests revealed that, while all testers experienced some level of undesirable treatment, Non-White testers fared worse both in terms of treatment and in terms of the bottom-line cost of the loans they were offered. This occurred despite the fact that the Non-White tester was always more creditworthy than the White counterpart. This outcome is inconsistent with the expectation that the better-qualified Non-White tester should have received better pricing options in every case.

Analysis of the eight tests revealed the following discriminatory trends:

- 1. Non-White testers were given more expensive pricing options than the less creditworthy White testers in the majority of these tests. Thus, they were more likely to pay significantly more for the same vehicle over the lifetime of the loan.
- 2. White testers were far more likely to be taken seriously as buyers, while Non-White testers were presumed to be less qualified than they actually were. White testers were more likely to have their credit scores pulled and to obtain more specific information about financing, while Non-White testers were given quotes based on average credit and were less likely to have their credit scores pulled at all.
- 3. Salespeople and finance officers worked with White testers to bring prices down more often than they did with Non-White testers, sometimes through breaking policies and procedures or by making an extra effort to give the White tester a better price.
- 4. Non-White testers were more likely to be subject to disrespectful treatment.

The following sections detail each of these findings and provide examples from the paired tests of the differential treatment and outcomes.

FINDING 1: Non-White testers were given more expensive pricing options than the less creditworthy White testers in the majority of these tests. Thus, they were more likely to pay significantly more for the same vehicle over the lifetime of the loan.

In the eight tests conducted, the Non-White testers were always more creditworthy than their White counterparts. In a risk-based pricing structure, it is expected that the Non-White testers would have cheaper overall total payments on their loans than the White testers due to their superior credit score. However, this occurred in only three of the eight tests.

In the other five tests, the Non-White testers received more expensive total overall payment quotes, paying on average \$2,662.56 more than the White testers over the course of the loan, despite being more qualified. These differences in total overall payments do not align with what is expected from a risk-based pricing model. The average of \$2,662.56 more per loan cannot be explained by credit history or any other potential qualifying factors. Dealers gave the White testers more favorable loan terms than their Non-White counterparts, despite credit history, income and debt-to-income ratios that indicated that the Non-White testers were more deserving of favorable loan terms.

As noted later in this report, salespeople and finance officers were entirely elusive when discussing the concrete details needed to concretely identify each of the elements that comprise the overall cost of the vehicle for the consumer. For example, it was almost impossible for testers to determine the actual price of the vehicle in many cases. Therefore, this analysis compared the cost to the consumer, including the price of the car as well as the amount paid due to the terms of the financing.

In order to ascertain the differences in pricing between White and Non-White testers, the best viable pricing option offered to the Non-White tester was compared with the best viable option offered to the White tester. For the purposes of this analysis, the best viable pricing option is defined as the cheapest pricing option in which the monthly payment and down payment quoted was at or under the monthly payment and down payment asked for by the tester. In instances where none of the offers quoted to the tester were actually viable, the cheapest option offered was used in the analysis. The findings from the analysis of the best viable pricing option in each test are illustrated in the table below.

TEST PAIR	Non-White	White	Difference
TEST PAIR 7	\$25,960.00	\$29,840.00	\$3,880.00
TEST PAIR 4	\$25,125.00	\$27,000.00	\$1,875.00
TEST PAIR 3	\$36,060.68	\$38,364.80	\$2,304.12
TEST PAIR 5	\$19,157.60	\$16,925.00	-\$2,232.60
TEST PAIR 1	\$21,112.00	\$18,850.00	-\$2,262.00
TEST PAIR 2	\$31,961.20	\$27,220.00	-\$4,741.20
TEST PAIR 8	\$31,125.00	\$28,848.00	-\$2,277.00
TEST PAIR 6	\$18,840.00	\$17,040.00	-\$1,800.00

Average overpaid by non-White testers in five tests that show	-\$2,662.56
discrimination	

FINDING 2: White testers were far more likely to be taken seriously as buyers, while non-White testers were presumed to be less qualified than they actually were. White testers were more likely to have their credit scores pulled and to obtain more specific information about financing, while Non-White testers were given quotes based on average credit and were less likely to have their credit scores pulled at all.

While both groups of testers encountered challenges in the car-buying process, the Non-White testers fared much worse. The salespeople and financial officers did not treat them seriously as buyers and presumed they were less creditworthy than they actually were. This was primarily evident in the initial interest rate quotes the salespersons provided the Non-White testers, which were based on "average credit" instead of their actual credit scores. It was also difficult for Non-White testers to have their actual credit scores pulled.

At one dealership the Non-White tester asked for "exact numbers in terms of the financing options," and the salesperson responded "gotcha," but explained that he had to put another customer in a vehicle for a test drive first. Upon his return, he gave the tester financing quotes and said, "I showed you two different ways, I assumed average credit," and "I just ran this at six percent, because that's about average credit." After the Non-White tester asked where the credit score was pulled from and was told Equifax, the tester stated her Equifax score was in the 800's. This did not change the rate offered to her, nor did the salesperson then agree to perform a credit check. The lowest interest rate offered to the Non-White tester was six percent.

In contrast, at the same dealership the White tester asked, "What is the process for financing here?" and the salesperson responded, "We just do an application...once you fill out the application, we submit to the finance managers, they submit to the bank, then we find out in about 10 to 12 minutes." The salesperson offered the White tester much more information than what was provided to the Non-White tester, and both a soft and hard credit pull were conducted. The salesperson also told the White tester: "I can get you started filling out your credit application." The White tester eventually received an interest rate quote of 2.89 percent.

The following excerpts show the difficulty one Non-White tester had while trying to get her exact credit score and pricing information.

NON-WHITE TESTER: All right. So – [the finance officer] didn't tell you like the score or anything like that, just –

SALESPERSON: They usually keep that to themselves. They don't share all that stuff.

Later in the test, the Non-White tester tried to get more concrete information:

NON-WHITE TESTER: So is there anything I can keep with this price or anything like that? It's okay if I can't -

SALESPERSON: We don't usually run copies of it, but I could always write down on a piece of paper --

NON-WHITE TESTER: Yeah, that's fine.

Conversely, the white tester at the same dealership was offered and given a copy of her credit information without making the specific request.

WHITE TESTER: I trust and respect your estimates on it. I just want to know real numbers. I want to know what my financing is going to look like.

FINANCE OFFICER: 3.25 would be your interest rate.

WHITE TESTER: Based on what?

FINANCE OFFICER: Based on your tier system rating. It gives us a beacon score, which is your FICO score, and it tells us what rate you're going to be at.

WHITE TESTER: So were you able to -- did you just pull my credit and base it on that?

FINANCE OFFICER: He pulled your credit. As a matter of fact, tell him to print the credit out for her...

The Non-White tester wanted to find out her exact financing options based on her credit score, so she filled out a credit application. Upon receiving ambiguous answers about financing, the tester asked, "what would the interest rate and all of that be, monthly payments?" The salesperson returned and gave her prices, but no interest rate. The tester again asked, "Did he ever come out with the interest?" and was told "He said it was somewhere in the threes," another ambiguous answer. This tester was also told she was given the best deal the salesperson had ever witnessed, despite that fact that the best option she was quoted would cost her \$1,800 more than the best offer received by the White tester at the same dealership, even though the Non-White tester was more financially qualified.

Conversely, the salesperson pulled the White tester's credit score and told her she could take the credit score document home with her. She was also given exact specifics on her financing: an Equifax credit score of 780, \$195 monthly payments, 3.25 percent interest rate, and a loan duration of 72 months. This was an entirely different experience than that of the Non-White tester, who was given only ambiguous answers.

At a third dealership, the Non-White tester was told he was being given quotes based on the national average of 4.6 percent. The Non-White tester then asked for exact financing quotes based on his actual credit score. He was told his "Equifax credit score was 788...18 percent of the country falls in there...so this is a very good score." Despite his "very good score," he was quoted a rate

of 5.28 percent, an interest rate well above the national average, even after being told he had a top percentile credit score. The only option offered to lower that interest rate was to purchase the vehicle on the same day, via the use of a "same day coupon." The less creditworthy White tester at the same dealership was initially quoted an interest rate of 4.74 percent, then 4.63 percent. There were additional similar instances at many of the other dealerships that were tested.

At one dealership the White tester had no problem filling out a credit application and having her credit score pulled immediately when requested. The Non-White tester, however, had an extremely difficult time having her credit pulled and obtaining exact financing options. She asked, "You're saying in order to do that, I would actually have to do a loan application?" One of the finance officers responds, "So, correct, yeah." Later on, the Non-White tester asked again, "You're saying in order to run the credit, it's going to be an actual loan application?" The finance officer responded, "Correct." The Non-White tester followed up again, asking, "There's no way to just go ahead and run the credit just to find out what

In this example, the White tester spoke to the finance officer at the dealership. The finance officer told the White tester that her credit score was 706.



WHITE TESTER: I wanted to know what my interest rates would be.

FINANCE OFFICER: You're right there on the cuff. A lot of them start at the 720, so 720 is normally Tier A/1. I might be able to grandfather you in and get you around 2.99%...

WHITE TESTER: Is there any way I can like get an idea of -- when in the process will I know what my interest rate is?

FINANCE OFFICER: Once I send it over to the bank. I'm pretty solid you're going to be at 2.99%. I just got to call them and do a little bit of begging.

WHITE TESTER: Begging?

FINANCE OFFICER: Yeah. Get them to give me a bump to the 720, so it's going to depend on what credit unions I go through.

Several minutes later in the conversation, the finance officer explained that there are different credit tiers that determine interest rates at different banks. He showed the White tester the tiers used by two banks.



FINANCE OFFICER: So this is like I was telling you, see how Tier 1, 740 or higher puts you all the way to Tier 1 and you're going to qualify for 2.99%, so that's what I'd be calling to get you a bump too. You fall actually—706 you fall right here, which would be a 5.99%, but see then I call my buddy over here at [local credit union], theirs is at 720, so you're a lot closer there. See at 720, you got 2.89%, but if they don't, you grandfather in at that 3.99%, which still is a solid rate for you. those terms are going to be like as far as the interest rate and the loan terms?" and was told once again, "Yeah." This back and forth repeated with the Non-White tester asking the same or similar questions the entire time, attempting to differentiate between a credit pull and loan application, until she was about to leave. At that point, the finance officer came back out and said, "I spoke to my GM. He said, you know what, he said that he would be willing to have you sit down with one of them. Take a look at the credit and everything." The GM had the Non-White tester fill out an application and she asked: "Just so that I'm clear, this isn't the actual loan application, this is just the credit so that I can find out what the monthly payments will be and the interest rate and the terms?" The FM responded in the affirmative, and the Non-White tester finally received her credit score, interest rate, and financing options.

FINDING 3: Salespeople and finance officers worked with White testers to bring prices down more often than they did with Non-White testers, sometimes through breaking policies and procedures or by making an extra effort to give the White tester a better price.

White testers were often offered additional help during the process that was not extended to the paired Non-White testers. Dealer behavior that revealed this practice included offering to call in a favor from a friend on behalf of the White tester, helping White testers add on incentives or rebates for which they did not qualify, and other preferential treatment.

For example, at one dealership a White tester was told that his "credit score is right on the cuff," but "I might be able to grandfather you in" in order to get him a lower rate. The tester's credit score was 706, but the salesperson offered to "call [his] buddy at" the credit union and get him to bump up his credit score to 720, their cutoff for better financing.

At another dealership, a White tester was offered a college and military discount, two discounts he was "not technically qualified for." The White tester was neither a member of the military nor a student or recent graduate. This type of extra assistance was not extended to the paired Non-White tester, though he was asked if he was active or retired military.

In another example, both testers were in the salesroom at the same time attempting to purchase the same car. The salesperson and financial officer told the White tester both the credit score of the other, Non-White tester, as well as the location where the other tester lived, saying, "the other customer doesn't have any loans, but her credit score is a 695, so closer to the 700... The rate is a little better for her." Despite the rate initially being better for the Non-White tester, the White tester was eventually quoted a lower interest rate than the Non-White tester. The White tester was told that she would be given a better rate than the customer with the much higher credit score (the White tester's score was 640) because she had previously had an auto loan, while the Non-White tester did not have an auto loan. However, it is important to note that the White tester had been delinquent on her auto loan throughout the term of the loan.

White testers were also often offered general advice about loans, the credit scoring process, and the entire financial process. This type of additional assistance was much more likely to be extended to the White testers than Non-White testers.



FINANCE OFFICER TO A WHITE TESTER: No, you know what, this is your first time. We have the worst reputation in the world as car people, so we have to be transparent and make sure that if you don't—even though—this is my thing. You don't have to buy a car from us, but I want to make sure we arm you with the proper information so that you can make a good decision wherever you go.

FINDING 4: Non-White testers were more likely to be subject to disrespectful treatment.

In addition to not being taken seriously as purchasers and having a difficult time obtaining their financing options, the Non-White testers were on occasion subjected to poor treatment. For example, one finance officer spoke to a Non-White tester with an offensive tone after the tester explained several times that he just wanted to know if the rate quoted to him was the lowest rate and that he wanted to talk it over with his wife.



FINANCE OFFICER TO NON-WHITE TESTER: Well, maybe I can go to a different bank, kill the 750 and get you a better rate, that might give you a lower payment, I don't know. But at this point, I'm not interested in trying, because you're not giving me a commitment. You're not saying, hey, if you can get me a better rate, get me at 250, I'll do the deal. Then I'll go in there and I'll try different things, I'll submit the deal. But at this point, you're being very obtuse. You're not giving me anywhere to go.

When the tester explained he needed to keep his wife involved in the decision-making process, the finance officer replied, "Yeah, I kind of tell her what I'm doing and then I go out and I just do it."

III.2 General Challenges to Obtaining an Auto Loan

As the testing results and examples above demonstrate, this investigation revealed discrimination at a significant rate. Through the course of the investigation, however, it was clear that all of the testers, regardless of their race, experienced some challenges when shopping for an auto loan. These challenges shed light on what a typical consumer experience during the car buying process may entail. The Federal Trade Commission (FTC) and CFPB offer guidance, worksheets, and other educational resources for consumers to ensure they get good deals on cars and car loans. The practice of "comparison shopping" is central in their guidance; they both offer worksheets for consumers to fill out in order to compare prices and financing terms offered by different dealers and creditors. 2122 The FTC recommends one "shop for the best deal when financing a vehicle," and

²¹ Consumer Financial Protection Bureau, "CFPB Auto Loan Shopping Sheet: Comparing Auto Loans." Available online at: http://files.consumerfinance.gov/f/documents/201606_cfpb_auto-loan-worksheet.pdf.

²² Federal Trade Commission, "Financing or Leasing a Car." Available online at: https://www.consumer.ftc.gov/articles/0056-financing-or-leasing-car#Before.

the CFPB recommends that consumers "comparison shop" to "compare loans apples-to-apples, and get the financing that is right for their budget."23

Unfortunately, analysis of the eight paired tests revealed that, in the context of indirect lending, consumers are unlikely to be able to make apples-to-apples comparisons when shopping for an auto loan. The following findings were uncovered in this investigation:

- Testers faced extreme difficulty when trying to determine all of the terms of their auto loan transaction, even if they consented to a pre-approval. Testers were frequently unable to receive all five of the following pieces of information for a single pricing option: a) Price of the vehicle; b) Amount financed; c) Monthly payment; d) Interest Rate; e) Term of the loan.
- It was difficult for testers to receive exact financing quotes, and dealers were much more likely to work to obtain better quotes for the tester if he or she committed to purchasing that same day, making comparison shopping virtually impossible.
- Car dealers were unclear about which elements of the financing process were essential versus which elements were optional or non-essential for obtaining a loan quote. Testers received unclear or inconsistent information about the cost of acquiring credit.

Each of these findings is expanded upon with more detail and examples in the sections below:

FINDING 1: Testers faced extreme difficulty when trying to determine all of the terms of their auto loan transaction, even if they consented to a pre-approval. Testers were frequently unable to receive all five of the following pieces of information for a single pricing option: a) Price of the vehicle; b) Amount financed; c) Monthly payment; d) Interest Rate; e) Term of the loan.

All of the tests in this investigation revealed that it was almost impossible to obtain the exact numbers and information needed to fully understand the cost and terms of the loan being offered. Having concrete knowledge of the exact numbers that comprise the total cost of a loan is imperative in the decision-making process and in ensuring that the consumer chooses the loan that would be most affordable or manageable for him or her. While all of the testers received some of the numbers needed to piece together the overall cost of the loan options they were provided, the testers rarely walked away with a single, clear quote in which all five items listed above were provided.

Lenders and dealers are not required to offer the best interest rates available, so in order for consumers to get the best possible deal when financing a vehicle, it is important for them to obtain interest rate quotes from different sources for comparison. TILA was enacted to "assure a meaningful

²³ Consumer Financial Protection Bureau, "Consumer Financial Protection Bureau Unveils New Know Before You Owe Auto Loans Shopping Sheet" (June 2016). Available online at: https://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-unveils-new-know-you-owe-auto-loans-shopping-

disclosure of credit terms so that the consumer will be able to compare more readily the various credit terms available to him and avoid the uninformed use of credit."24 TILA disclosures exist so consumers can comparison shop and obtain the best loan available to them; however, dealers typically do not disclose them until the Retail Installment Sales Contract. The average consumer will not see the RISC until they are ready to purchase a car in which case they sign the RISC, rendering the comparison shopping purpose of the TILA disclosures useless. While dealers did not break any laws by not disclosing the TILA disclosures, none of the testers received all of the loan term disclosures that TILA would require later in the process. The FTC and CFPB guidelines and TILA exist to inform customers about how to get the best deal and protect themselves from being taken advantage of. The investigation revealed that this is hard to implement in practice.

The interest rate offered on a loan is a key component of the car purchasing process and a necessity for comparison shopping in order to get the best deal possible. Even when an interest rate was made clear, often the other related elements of the price that are needed to fully understand the cost of financing the car were not made clear.

In this scenario, the salesperson asked the Non-White tester if, before she left, she would be interested in purchasing the car if he was able to save her a little money. When she asked for additional details, the following conversation occurred:

SALESPERSON: What if we got you at 305 a month with 4,000 down?

NON-WHITE TESTER: 305?

SALESPERSON: Yep.

NON-WHITE TESTER: A month?

SALESPERSON: 305, you're like right almost exactly where you want to be at.

NON-WHITE TESTER: With four down, 305 a month, with the same interest rate and everything. I guess – and that's – 305 would still be for 72 months?

SALESPERSON: It will be like the same deal. 305, so I'm sure they're going to have to do something, either lower the rate or lower the price. They have to be able to get there somehow. You want me to show you what 305 looks like?

NON-WHITE TESTER: Please, thank you.

[Pause]

^{24 15} U.S. Code § 1601 Congressional findings and declaration of purpose

SALESPERSON: It looks good. 4,000, 305, same amount.

NON-WHITE TESTER: When I was in the finance room – I guess this is lower, but he said that the \$21,706 included all of this already. The 699, 917, 101 so that it wasn't 23. That's not correct?

SALESPERSON: You always pay tax, tags and fees.

NON-WHITE TESTER: But he said it was already included, that's what he told me in there, because I asked him. I said that this paper shows the higher number at 23 and he said no, the cost of the vehicle is 21. I said that is including the tax and fees and he said yes.

SALESPERSON: He might have been talking about including that, because there's no way. Because he would be selling the car for like, 19,000. That's impossible.

NON-WHITE TESTER: Okay.

SALESPERSON: So he must have misspoke. He's a finance guy, so he knows about financing. So there must have been a miscommunication there

This conversation continued with the Non-White tester asking a number of clarifying questions, only to get contradictory and constantly changing numbers on the price of the vehicle, taxes, tags and fees.

THE CFPB'S AUTO LOAN SHOPPING GUIDANCE

The CFPB provides consumers with a worksheet for comparing auto loans. The worksheet is divided into four sections: upfront costs, how much is needed to borrow, how much money you'll pay over the life of the loan, and the total cost of the purchase. These are the elements of the financing that are required* to fill out this worksheet:

- Price of the vehicle
- Additional features, services, or add-ons
- Taxes, title, and non-negotiable fees
- Negotiable fees
- · Down payment
- Trade-in value

- Interest Rate
- Length of the loan in months
- Monthly payment

The testing that comprised this investigation showed that nearly all of the testers were unable to obtain all of the information that would be needed to complete this worksheet.

^{*} Note: Some elements from the sheet, such as trade-in allowances, are not listed here because they were not included in NFHA's testing scenarios.

FINDING 2: Finance officers and salespeople were much more likely to work to obtain better quotes for the tester if he or she committed to purchasing that same day, making comparison shopping virtually impossible.

Consumers of all races were pushed to commit to same-day purchases in order to receive exact quotes. Shopping for the best interest rate available becomes impossible when dealers make it clear to consumers that they will not get them the best interest rate unless the consumer commits to purchasing the vehicle on the same day. This was a common practice at the dealerships tested, one which occurred regardless of the tester's race. At one dealership, the Non-White tester asked, "Is that the best rate?" and the dealer responded, "Do we have a deal?" Later on the dealer said he was "not interested in trying because you're not giving me a commitment."

At the same dealership the White tester was told, "for the commitments they work a little bit harder," referencing the finance and insurance officers obtaining better interest rates for the customers once they have committed to purchasing a vehicle. At one dealership the White tester was told, "I didn't want to submit to other banks if you're not making a decision today," and at another dealership the White tester was told, "we don't pull credit if you're not buying today." At another dealership the tester asked, "Is this the best rate you can give me?" and the dealer responded, "for right now, yes." The tester asked what that meant and was told, "Until he decides to try to shop it to get you a better rate." Car dealers made it very clear to testers that unless the testers were willing to commit to purchasing a vehicle, they were not going to work to obtain the best possible interest rates for them. This practice makes comparing interest rates from various lenders impossible and unfairly pressures consumers to commit to purchasing a car without shopping around for the best financing options.

The CFPB and FTC have released fact sheets, guides, and tables regarding purchasing and financing a new car, but there is still a general lack of understanding surrounding these processes on the consumer's end and, in our investigation, it was clear that the car dealers were aware of this. Car dealers, in our testing scenarios, added to this confusion in order to exert pressure on the testers to buy cars on that day. Dealers were generally vague about credit, interest rates, and loan terms unless the consumer had committed to purchasing a vehicle on the same day.

FINDING 3: Car dealers were unclear about which elements of the financing process were essential versus which elements were optional or non-essential for obtaining a loan quote. Testers received unclear or inconsistent information about the cost of acquiring credit.

Dealers were unclear about whether testers would have to complete credit checks, pre-approval loan applications, or actual loan applications. It was nearly impossible for testers to get further clarity or explanations, even when they asked many follow-up questions requesting specifics.

The testers also received conflicting information about the impact on credit scores if the dealer submitted the application to multiple lenders. According to the CFPB, "Shopping for the best deal on an auto loan will generally have little to no impact on your credit score(s). The benefit of shopping will far outweigh any impact on your credit. In some cases, applying for multiple loans over a long period of time can lower your credit score(s). Generally any requests or "inquiries" by these lenders for your credit score(s) that took place within a time span ranging from 14 days to 45 days will only count as a single inquiry, depending on the credit scoring model used. You can minimize any negative impact to your credit by doing all of your shopping in a short amount of time. You could save hundreds or even thousands of dollars by shopping for the best rate and terms on a loan."25

In some cases, the dealers told the testers that they didn't want to pull their credit if they weren't planning to come back for 30 days, because they would have to pull their credit again and that would impact their credit score. However, more often the dealer told the testers that they didn't want to submit to multiple lenders that day because it would drag down their scores, which is incorrect. At one dealership the dealer told the tester, "we can shoot your thing out to every bank in the world . . . the problem with that is every bank we send it to, they're going to run your credit. It's going to cause your credit score to come down." Dealers misrepresented the effect of submitting to multiple lenders, creating even more confusion surrounding the auto lending process for consumers and also pressuring them to purchase the same day. Dealers were often unclear about whether consumers would be completing credit checks or actual loan applications, and whether car add-on packages were optional or must be purchased.

At another dealership a tester asked, "You're saying in order to run the credit, it's going to be an actual loan application," and was told, "Correct. Again it's like I don't want to obviously take a ding on your credit score."

In addition to this lack of clarity around the impact on credit scores, testers received financing options quoted by salespeople and financial offers that did not always add up. In nearly every testing scenario, the numbers quoted on elements of the total cost such as interest rate, monthly payment, and price of the car did not match up correctly when entered into an auto loan calculator. This inconsistency would make it very challenging for any consumer to understand the actual amount he or she would be paying for a car.

²⁵ Consumer Financial Protection Bureau, "Consumer Financial Protection Bureau Unveils New Know Before You Owe Auto Loans Shopping Sheet" (June 2016).

SECTION IV: RECOMMENDATIONS

The findings outlined in this report show a troubling pattern of unfair and discriminatory treatment that, if not addressed, will continue to perpetuate the deep racial wealth and opportunity gaps that exist in our nation today. In order to overcome discriminatory practices in the auto lending industry, NFHA proposes the following recommendations for policy makers, auto dealerships, and consumers.

State Attorneys General should actively enforce state anti-discrimination and consumer protection laws in the auto lending industry. Every state in the United States has lending or consumer protection laws prohibiting discrimination in lending on the basis of race. These state consumer protection and anti-discrimination laws are enforced by state Attorneys General, who serve as the "people's lawyer." It is within the power of a state Attorney General to bring lawsuits against auto lenders for discriminatory practices, including interest rate markups. State AGs should combine powers to leverage their resources to bring corrective actions and provide remedies to harmed consumers. Coordinated AG action can result in sweeping industry changes. Coordinated AG efforts would also bring national awareness to discrimination in auto lending and unfair, deceptive, and abusive dealer rate mark-ups.

The FTC and CFPB should continue to address discriminatory practices in the auto lending industry, and CFPB's oversight authority should be expanded to dealers. The CFPB must deal with discrimination in auto lending by keeping lenders compliant. An important part of this effort is the CFPB's indirect auto lending guidance, which helps to address discriminatory dealer markups; this guidance must remain in effect. At the same time, the agency has limited power to examine the dealers themselves. The CFPB's oversight should be extended to car dealers themselves, which would enable them to better address marketplace discrimination directly and through coordinated efforts with state AGs.

Prohibit dealer rate mark-ups. There should not any financial incentives for dealers who arrange loans for car purchasers to put borrowers into higher rate loans than the ones that they qualify for. In order to ensure this, dealer compensation should not be permitted to vary based on the loan terms, other than the principal balance. Mortgage broker mark-ups were addressed similarly In response to abuses in the subprime mortgage market that led to our most recent housing crash.

Along with substantive reform of the discriminatory practices in this market, disclosures should be improved and should be required earlier in the process. The Truth in Lending Act was designed to promote the informed use of consumer credit by requiring disclosures about loan terms and costs, in order to standardize the manner in which costs associated with borrowing are calculated and disclosed. Currently, dealerships typically provide the TILA disclosures in the Retail Installment Sales Contract (RISC), as car dealers are not required to provide disclosures under TILA until the consummation of a credit transaction, which in the majority of states takes place when a consumer executes the RISC. TILA should be modified so that dealers are required to

provide the TILA disclosures earlier in the interaction. The disclosures exist in the first place so that consumers can compare loan terms from multiple lenders in a standardized manner. Currently, TILA disclosures in the auto lending sphere do not promote the informed use of consumer credit, as auto dealers are not required to disclose them until a consumer has essentially agreed to purchase the vehicle anyway. There should also be greater TILA enforcement, ensuring that auto dealers are compliant with the law.

The educational materials developed by the CFPB and the FTC encourage consumers to shop for the best deals on vehicles and financing options, and they provide tips for how consumers can obtain a good deal. It would be a best practice for dealers to provide these educational resources to consumers. Consumers need this level of information to make sound decisions about such a large purchase. There is little transparency around the interest rate, leaving consumers subject to unfair pricing and discrimination and unable to comparison shop for the best deal. As long as dealers and lenders have powerful perverse financial incentives to put borrowers in higher-priced loans than they qualify for, and discrimination goes unaddressed, improved disclosures will not be sufficient to protect car buyers from financial abuse.

Regulators should continue to investigate discriminatory practices across a broader set of dealerships, including used car dealerships and non-franchised dealerships. This investigation has shed a great deal of light on the auto lending process for indirect lenders, but more work must be done to examine the policies and behaviors of auto dealers and how these practices impact consumers.

APPENDIX: DETAILED CHARTS FOR EACH PAIRED TEST

(IN CHRONOLOGICAL ORDER)

PAIRED TEST 1: PRICING TERMS ASSOCIATED WITH BEST VIABLE PAYMENT OFFERED

NON-WHITE TESTER

Credit Score: 705 Income: \$45,000

WHITE TESTER

Credit Score: 684 Income: \$34,000



\$2,500

\$258.50

72 Months

3.99%

\$21,112.00

DOWNPAYMENT

MONTHLY PAYMENT

LOAN TERM

INTEREST RATE

TOTAL PAID AT BEST VIABLE OPTION

\$2,500

\$218.00

75 Months

2.90%

\$18,850.00

The Non-White tester would pay a total of \$2,262 more than the White tester for the same car over the course of the loan.

PAIRED TEST 2: PRICING TERMS ASSOCIATED WITH BEST VIABLE PAYMENT OFFERED

NON-WHITE TESTER

Credit Score: 688 Income: \$68,000

WHITE TESTER

Credit Score: 669 Income: \$68,000



\$4,000

\$388.35

72 Months

1.90%

\$31,961.20

DOWNPAYMENT

MONTHLY PAYMENT

LOAN TERM

INTEREST RATE

TOTAL PAID AT BEST VIABLE OPTION



\$4,000

\$387.00

60 Months

1.90%

\$27,220.00

The Non-White tester would pay a total of \$4,741 more than the White tester for the same car over the course of the loan.

PAIRED TEST 3: PRICING TERMS ASSOCIATED WITH BEST VIABLE PAYMENT OFFERED

NON-WHITE TESTER

Credit Score: 788 Income: \$79,000

WHITE TESTER

Credit Score: 751 Income: \$70,000



\$5,000

\$369.77

84 Months

5.28%

\$36,060.68

DOWNPAYMENT

MONTHLY PAYMENT

LOAN TERM

INTEREST RATE

TOTAL PAID AT BEST VIABLE OPTION

\$5,000

\$463.40

72 Months

4.74%

\$38,364.80

The Non-White tester would pay a total of \$2,304 less than the White tester for the same car over the course of the loan.

PAIRED TEST 4: PRICING TERMS ASSOCIATED WITH BEST VIABLE PAYMENT OFFERED

NON-WHITE TESTER

Credit Score: 773 Income: \$42,000

WHITE TESTER Credit Score: 706 Income: \$36,000



\$3,000

\$295.00

75 Months

2.90%

\$25,125.00

DOWNPAYMENT

MONTHLY PAYMENT

LOAN TERM

INTEREST RATE

TOTAL PAID AT BEST VIABLE OPTION



\$3,000

\$320.00

75 Months

3.01%

\$27,000.00

The Non-White tester would pay a total of \$1,875 less than the White tester for the same car over the course of the loan.

PAIRED TEST 5: PRICING TERMS ASSOCIATED WITH BEST VIABLE PAYMENT OFFERED

NON-WHITE TESTER

Credit Score: 693 Income: \$16,500



\$19,157.60

\$5,000 **DOWNPAYMENT**

MONTHLY \$235.90 **PAYMENT**

60 Months **LOAN TERM**

6.79% **INTEREST RATE**

> **TOTAL PAID AT BEST VIABLE OPTION**

WHITE TESTER

Credit Score: 640 Income: \$10,800



\$5,000

\$159.00

75 Months

5.20%

\$16,925.00

The Non-White tester would pay a total of **\$2,233 more** than the White tester for the same car over the course of the loan.

PAIRED TEST 6: PRICING TERMS ASSOCIATED WITH BEST VIABLE PAYMENT OFFERED

NON-WHITE TESTER

Credit Score: 793 Income: \$46,000



\$3,000

\$220.00

72 Months

"in the 3s"

\$18,840.00

WHITE TESTER

Credit Score: 780 Income: \$13,100



DOWNPAYMENT

MONTHLY PAYMENT

LOAN TERM

INTEREST RATE

TOTAL PAID AT BEST VIABLE OPTION

\$3,000

\$195.00

72 Months

3.25%

\$17,040.00

The Non-White tester would pay a total of **\$1,800 more** than the White tester for the same car over the course of the loan.

PAIRED TEST 7: PRICING TERMS ASSOCIATED WITH BEST VIABLE PAYMENT OFFERED

NON-WHITE TESTER

Credit Score: 644 Income: \$86,000



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\$305.00

72 Months

4.59%

\$21,960.00

Credit Score: 614 Income: \$28,041

WHITE TESTER



DOWNPAYMENT

MONTHLY PAYMENT

LOAN TERM

INTEREST RATE

TOTAL PAID AT BEST VIABLE OPTION

\$5,000

\$345.00

72 Months

9.90%

\$24,840.00

The Non-White tester would pay a total of \$3,880 less than the White tester for the same car over the course of the loan.

PAIRED TEST 8: PRICING TERMS ASSOCIATED WITH BEST VIABLE PAYMENT OFFERED

NON-WHITE TESTER

Credit Score: In the 800s Income: \$60,000

WHITE TESTER

Credit Score: Over 800 Income: \$80,000



\$3,000

\$375.00

75 Months

6.00%

\$31,125.00

DOWNPAYMENT

MONTHLY PAYMENT

LOAN TERM

INTEREST RATE

TOTAL PAID AT BEST VIABLE OPTION

\$3,000

\$359.00

72 Months

2.89%

\$28,848.00

The Non-White tester would pay a total of **\$2,277 more** than the White tester for the same car over the course of the loan.

Note: This pair of testers was matched by their DTI. The Non-White tester had a lower DTI of 1% while the White tester had a DTI of 38%.