



Grounding All Recalled Used Vehicles Devalues Trade-ins Legislation Would Reduce Buyers' Trade-ins by an Average of \$1,210

ISSUE

Sen. Richard Blumenthal (D-Conn.) and Rep. Jan Schakowsky (D-Ill.) have previously introduced bills that could cripple the used-car market by halting the sale or wholesale of any used car by a dealer under open recall. These measures are overbroad because most recalls do not require the drastic step of grounding. Also, these bills would create a “trade-in tax” that would instantly devalue a car buyer’s trade-in by grounding recalled vehicles for such minor matters as a peeling sticker. The bills would also push recalled cars into the unregulated private market, making it more difficult to complete recall repairs. **Congress should oppose overbroad vehicle recall bills and focus on initiatives to improve consumers’ response to vehicle recall notices and increase recall completion rates.**

BACKGROUND

Franchised auto dealers play a vital role in ensuring that recalled vehicles are fixed, since they are authorized to complete manufacturer recall repairs. Introduced last Congress, S. 1634/H.R. 3449 would prevent dealer sales (but not private sales) of any used vehicles under open recall. Dealers cannot repair vehicles until the manufacturer provides the required remedy and parts. From 2010 to 2014, the average delay for parts to fix a recalled vehicle was 60 days.

The legislation would make it difficult or impractical for consumers to trade-in their vehicles under open recall, since these bills would prevent car buyers from trading in a recalled vehicle, even for such minor matters as an incorrect phone number in the owner’s manual or if parts were not available. A 2015 study by J.D. Power found that enactment of these bills would result in an average “trade-in tax” of \$1,210 and that some consumers’ trade-ins would suffer devaluations of \$4,000-\$5,000.

By devaluing trade-ins and not similarly regulating private sales, vehicle owners will resort to selling their vehicles in the private market where the consumer has almost no safety or consumer protections, making it even less likely recalled vehicles get fixed. The bills’ proponents have offered no supporting safety analysis despite the estimated \$1.1 billion cost to consumers if these measures were enacted. The Senate Commerce, Science, and Transportation Committee rejected this measure when it was offered as an amendment to the 2015 highway reauthorization bill.

KEY POINTS

- **Overbroad recall legislation would make it difficult for car buyers to trade in vehicles with open recalls and harder for consumers to afford a newer, safer vehicle.** Due to a lack of replacement auto parts, it can take months for recalled vehicles to be repaired. Since a used vehicle sitting idle on a dealer’s lot depreciates 2 percent a month on average, this bill would force dealerships to pay consumers significantly less for trade-ins with open recalls or not accept trade-ins at all.
- **During the Obama administration, the National Highway Traffic Safety Administration admitted that not every recall warrants the vehicle’s immediate grounding, yet these bills would diminish a recalled vehicle’s trade-in value by an average of \$1,210.** This would harm many car buyers who rely on their trade-in value for a down payment on their newer vehicle.
- **Unrepaired vehicles will be pushed into the unregulated private market.** Faced with devalued trade-ins, vehicle owners will have an incentive to sell their vehicles in the private market, making it even less likely that recall work will be done in a timely manner, if at all.

STATUS

Last Congress, S. 1634/H.R. 3449 failed to gain momentum in the Senate Commerce, Science, and Transportation Committee and House Energy and Commerce Committee. It is likely these overbroad recall bills will be reintroduced this year, and sponsors may try to attach the measure to other legislation. **Congress should oppose proposals that create a “trade-in tax” on millions of consumer trade-ins without even guaranteeing that a single additional recalled vehicle gets fixed.**

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