2019 WASHINGTON CONFERENCE
J.D. POWER STUDY SUMMARY

Study Shows That Grounding Used Vehicles for Any Recall Would Cost Consumers Over $1 Billion Annually

Grounding All Used Vehicles Under Open Recall would Substantially Hurt Consumer Trade-in Values

S. 1971, the Used Car Safety Recall Repair Act, introduced by Sen. Richard Blumenthal (D-Conn.), would prohibit auto dealers (but not private sellers) from selling or wholesaling a used vehicle under open recall. This legislation is overbroad because most vehicle recalls do not require the drastic step of grounding.

J.D. Power & Associates Study on Grounding Trade-Ins

A 2015 J.D. Power study examined the potential impact of legislation like S. 1971 on consumer trade-in vehicle values. The study found that such legislation could make it uneconomical for dealers to accept many recalled vehicles as trade-ins because of the costs of financing the vehicle purchase from the consumer, storing the vehicle, insuring the vehicle and vehicle depreciation. *The study found that the value of vehicle trade-ins under open recall—even for a minor issue that poses no threat to safety—would decline by an average of $1,210, and by as much as $5,713* if auto dealers were prohibited from selling or wholesaling any used vehicles with open recalls. The total trade-in value reduction for consumers would be approximately $1.1 billion annually.

Key Points of the J.D. Power Study

- **Trade-in allowances are critical to new-car affordability.** Because trade-in allowances are typically used to fund a down payment for a new-car purchase, dealers must balance the projected wholesale value of the car against the costs of holding the vehicle until resale. For example, since a used vehicle depreciates by an average of 2% a month, after sitting 90 days on a dealer's lot waiting for a part to remedy the recall, a $15,000 trade-in would lose nearly $900 in value. A dealer would need to assess and reflect the additional risks and costs mandated by legislation like S. 1971 in the trade-in value, which would adversely affect consumers who want to buy a newer, safer vehicle.

- **Almost 70% of vehicle recall delays are longer than 90 days.** The varying length of recall delays further exacerbates trade-in value reductions that consumers will face when dealers factor in the uncertainty of parts availability. This is a difficult estimate for dealers to make because repair delays can result from challenges with engineering, production and distribution.

- **Reduced options for consumers when trading in vehicles**. Out-of-brand dealers are not authorized to repair an out-of-franchise vehicle (e.g., a Honda traded in to a Ford dealer) and must rely on their competitor to facilitate the repair. These dealers will incur higher costs than in-brand dealers—in some instances *over 69% more*—when storing the out-of-franchise car during the repair delay and transporting it to an in-brand dealer for repair. These increased costs will make dealerships less likely to accept an "off-brand" car in trade, giving consumers fewer options to sell their trade-in.

Conclusion

Legislation such as S. 1971 could cripple the used-car market, hurt consumers by devaluing their trade-in vehicles and likely push unrepaired vehicles into the unregulated private market, making it less likely recall repairs are completed.

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