

# FAIR CREDIT FOR AUTO LOANS

## TOO IMPORTANT FOR THE CFPB TO GET WRONG

The CFPB's fair credit initiative to eliminate or limit a dealer's ability to discount auto loans for consumers has several fundamental flaws, including three major problems:

**1** The CFPB is using an analysis for determining the background of borrowers it knows to be flawed.

**2** Its analysis does not compare customers that are similarly situated (alike in relevant ways).

**3** It fails to account for legitimate, competitive business factors that may explain pricing differences.

### PROBLEM 1:

#### The CFPB's Consumer Analysis is Flawed

To evaluate whether dealer discounts for consumer auto loans adversely affects one group relative to another even when consistently applied, an analysis must first determine who is a member of a protected class (such as race, national origin, etc.). To determine a borrower's background, the CFPB relies on a method that: (1) was not designed to determine the background of individual borrowers; and (2) it knows to be flawed.

#### Flawed CFPB Method



Borrower ZIP Code



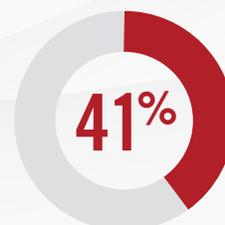
Borrower Last Name



20-41%

Error Rate

A non-partisan study by Charles River Associates found a 41 percent error rate for classifying a significant group of minority consumers. The CFPB's own review revealed a 20 percent error rate for the same group.



Error rate found by study



Error rate admitted by CFPB

## PROBLEM 2:

### Analysis Fails to Compare Customers that are Similarly Situated

A proper fair credit examination must ensure that consumers being compared are both appropriately classified as belonging to a protected group (based on race, national origin, etc.) and that those consumers are similarly situated. For example, the CFPB does not compare customers that are alike in relevant ways since it does not take into account factors not related to a consumer's background that may impact loan rates, such as whether a consumer is buying a new or used car or different geographic markets.

#### Proper Method



Belonging to a protected group (based on race, national origin, etc.)



Alike in relevant ways (similarly situated)

## PROBLEM 3:

### The CFPB Fails to Look at Legitimate Business Reasons

Even if the CFPB accurately classifies the background of a borrower, and then does an “apples to apples” comparison of borrowers, the Bureau would still need to take into account “legitimate business reasons” for any pricing differentials. In 2007, the Department of Justice recognized seven legitimate business reasons for dealers discounting auto loans, such as to meet a consumer's monthly budget, or when a dealer “meets or beats” competing offers from a bank, credit union or other dealer. The CFPB, however, fails to account for legitimate, competitive business factors that may explain pricing differences.



Monthly Budget

OR



Competing Offer from Lender

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Reduced Rate for Consumer

## CONGRESS SHOULD HELP RESOLVE THIS IMPORTANT ISSUE

- Every consumer deserves to be treated fairly.
- The retail automobile industry has promoted a strong fair credit compliance program based entirely on the Department of Justice approach manages fair credit risk, and explains any pricing differences. The CFPB should embrace a DOJ-based program that addresses fair credit risk while preserving consumer discounts that keep auto credit affordable.
- It's important that government agencies follow due process and employ an independent and unbiased analysis, especially when dealing with such important issues of fair credit and consumer affordability.
- Congressional assistance is needed to bring this matter to a successful conclusion and to preserve consumers' access to affordable auto credit.