



J.D. Power Study: 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 any 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 due to (1) the costs of financing the vehicle purchase from the consumer, (2) storing the vehicle, (3) insuring the vehicle and (4) vehicle depreciation. The study also 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 down payments for new-car purchases, 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 in the trade-in value the additional risks and costs mandated by legislation like S. 1971, and this 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 would 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

Overbroad recall legislation like S. 1971 would 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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