CRL's Flawed 2014 Report on Auto Financing

Recommendations Would Increase Consumers' Cost of Auto Financing

On January 23, 2014, the Center for Responsible Lending (CRL) released *Non-Negotiable*, a report that relies on flawed methodology to argue that financing offered by automobile dealers that allows them to "meet or beat" competing financing offers should be eliminated. "Meet or beat" financing lowers credit costs for all consumers by forcing banks and credit unions to offer competitive rates or risk being undercut by a dealer. The report has no credibility for the following reasons:

CRL Admits Its Methodology Is Flawed. The report makes inflammatory allegations by erroneously claiming that people of color paid higher annual percentage rates for auto loans despite the fact that they reportedly negotiated their rates more often than their non-minority counterparts. However, the report itself concedes it does not "hold all factors that may influence interest rate pricing as constant."[1] The report goes on to admit that CRL did "not run regressions to determine the statistical significance of the different factors, including race and ethnicity."[2] As a result, the statistical significance – or the probability that an effect is not due to chance alone – is unknown. To draw a valid connection between a rate, a consumer's background, and the degree of negotiation, the report should have held constant all other factors that influence interest rates. Failing to do so renders any comparisons based on APRs statistically invalid.

Most fundamentally, the Report Does Not Control for Creditworthiness. Any statistically valid study of credit pricing must compare customers who were similarly situated and, at a minimum, must take into account their creditworthiness. But CRL's report did not consider creditworthiness; indeed, its analysis included minority respondents who admittedly (1) had "poorer credit than whites," (2) had lower incomes, (3) purchased a higher percentage of used cars, and (4) borrowed more on average than the non-minority respondents.[3] Despite all these differences, CRL erroneously attributes the higher APRs reportedly paid by the minority respondents to unintentional dealership discrimination rather than to any other neutral differences. CRL simply ignores the fact that borrowers with "poorer credit" – regardless of their background – will predictably and understandably pay higher rates than more-creditworthy borrowers.

The Report Is Not Based on Data. The report relies on a questionable phone survey that asked participants to recall details such as "trade-in allowance" and "down payment" for transactions that occurred as long as six years ago. If survey participants didn't recall an answer, the survey accepted "their best guess."[4] Anecdotes that are based a guesses by respondents as to what happened six years ago are not data and provide no basis for the incendiary allegations that the report makes.

Conclusion. Although the report is entirely flawed and even acknowledges that its results "do not necessarily demonstrate discrimination," it nonetheless concludes that finance sources should pay dealers flat fees and should not permit dealers to discount those fees. This, however, would eliminate a dealer's ability to cut into its own retail margin to "meet or beat" a competing loan offer by a bank or credit union for the benefit of consumers.[5] Given its massive flaws and since its recommendations would result in both (1) less competition among auto lenders and (2) an increase in the cost of credit for consumers, CRL's report needs much more scrutiny and review before any policy decision is made to rely on it.

February 27, 2014

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[1] Center for Responsible Lending, "Non-Negotiable" (January 23, 2014) at 9.
[2] Id.
[3] Id. The difference in APR could be fully explained by any one of these factors and each of these is a neutral reason why finance sources would charge a higher APR on an auto loan.
[4] Id. at 20.
[5] CRL is not a disinterested party. It is closely affiliated with the Self-Help Credit Union. Id. at 31.