

CRL's 2011 Analysis of Dealer-Assisted Financing is Flawed and Untrue

In 2011 the Center for Responsible Lending (CRL) issued a report, “Under the Hood: Auto Loan Interest Rate Hikes Inflate Consumer Costs and Loan Losses,” that makes false and misleading claims about dealer-assisted automobile financing. A full review reveals that not one chart in the entire report accurately reflects the facts. The CRL report also contains significant factual errors and flaws; wrongly concludes that the compensation dealers receive for assisting their customers to obtain auto loans is an “overcharge”; and omits key data that demonstrates dealer-assisted financing saves consumers money.¹ As a result, the report’s conclusions are neither valid nor credible.

The CRL report contains significant factual errors and flaws. The CRL claim that dealer-assisted financing resulted in an estimated \$25.8 billion overcharge to consumers in 2009 is based on an erroneous assumption that consumers can qualify and access the wholesale/“buy” rate from a lender. Dealers, as well as other retailers, obtain products (in this case, credit) at a wholesale rate and include a retail margin in the price after absorbing the processing costs to market and deliver financing to consumers. Similarly, banks and credit unions do not lend to consumers at their cost of funds.

CRL also alleges that dealer compensation in the subprime arena causes higher levels of defaults and repossessions, yet the CRL fails to establish a causal relationship between dealer compensation and defaults. Among other flaws, the report appears to arrive at the conclusion of causation without controlling for creditworthiness, thereby rendering its entire analysis meaningless.

The CRL report fails to demonstrate that consumers who choose dealer-assisted financing actually pay more for financing than they would pay if they obtained financing from a bank or credit union. CRL alleges a \$25.8 billion overcharge, claiming dealer-assisted financing “lead[s] to more expensive loans,” without providing any evidence that dealer-assisted financing is more expensive than auto financing available from banks or credit unions. The data is also highly suspect, such as CRL’s contention that the average dealer compensation earned in subprime auto loans is 5.04%. It is difficult to imagine how an average amount of dealer participation could come anywhere close to that level when every finance source studied capped dealer compensation per transaction at no more than 2.5%.

The CRL report omits key data that actually provides evidence that dealer-assisted financing saves consumers money. Evidence on the relative cost of dealer-assisted financing compared to retail vehicle financing offered directly by banks and credit unions suggests that dealer-assisted financing increases consumer choice and competition and that customers save billions of dollars a year financing their vehicle purchases through dealerships. In fact, by using the report’s own analytical approach, their data suggests that from 2008 to 2010 consumers saved over \$21 billion on new car purchases alone using dealership financing. In addition, actual transactional data demonstrates that dealers offer consumers retail finance rates that, on average, are more competitive than the retail rates offered by direct lending sources.

Conclusion. Amid vigorous competition by banks and credit unions that lend directly to consumers, approximately 80 percent of car buyers choose to finance their purchases through dealerships via optional, indirect financing. Since dealers provide affordable vehicle financing to a larger pool of consumers than any other lender, it is essential that dealer-assisted financing and affordable consumer credit is preserved.

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¹ For a detailed rebuttal of the CRL report, see NADA’s March 30, 2012 Comments to the FTC’s Motor Vehicle Roundtables at Appendix A (available at http://www.ftc.gov/sites/default/files/documents/public_comments/public-roundtables-protecting-consumers-sale-and-leasing-motor-vehicles-project-no.p104811-00105/00105-82871.pdf)