Maryland Consumer Rights Coalition

Testimony to the House Economic Matters Committee
HB 655: Consumer Protection - Automobile Financing Charges - Required Dealer Disclosures
Position: Favorable

March 4, 2020

Delegate Dereck Davis, Chair
House Economic Matters Committee
Room 231, House Office Building
Annapolis, Maryland 21401
Cc: Members, House Economic Matters Committee

Honorable Chair Davis and Members of the Committee:

The Maryland Consumer Rights Coalition (MCRC) is a statewide coalition of individuals and organizations that advances financial inclusion and economic justice for Maryland consumers through research, education, direct service, and advocacy. Our 8,500 supporters include consumer advocates, practitioners, and low-income and working families throughout Maryland.

We are writing today to testify in support of HB 655.

There are strong links between physical mobility and economic mobility, yet purchasing a car is an expensive investment, particularly for cash-strapped families. Unfortunately, it is also a transaction in which low-income families, families with lower credit scores, and unsophisticated customers often get taken for a ride – and often end up spending thousands of dollars more than they should -- because of several flourishing schemes car dealers use to increase the overall price of the car.

House Bill 655 strengthens consumer protections by increasing transparency within the indirect auto financing process. The bill is intended to address the situation in which a consumer buying a car obtains financing through a dealer and the dealer increases the interest rate offered to the consumer without disclosing that the consumer is eligible to receive a lower interest rate or that the dealer will be receiving additional compensation as a result of the markup.

The “dealer kickbacks” – the hidden loan mark-ups from which dealers profit – this bill addresses is a very costly issue for car buyers and for Maryland as a whole. Maryland ranks 17th in the country for the amount of dealer kickbacks – they cost Maryland car buyers $520 million for cars purchased in 2009 alone. The CRL estimates that consumers across the country will pay $25.8 billion in interest rate mark-ups for cars purchased in 2009 alone, an average of $714 per car.[1]

[1] Risky Business-- Buying a Car in Maryland: Auto Fraud and Policy Choices, 2013

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These loan mark-ups also open the door to racial and economic discrimination in auto lending. A number of lawsuits in auto fraud cases have shown that dealers impose higher mark-ups on minority borrowers than on non-minorities with identical credit scores. And in its 2011 study of auto loan mark-ups, the Center for Responsible Lending (CRL) found that buyers with weaker credit scores may be targeted for mark-ups because they have fewer alternative financing options.[2]

HB 655 increases the transparency in the indirect lending process by requiring that the dealer disclose more information to the consumer – as to any and all loan offers made to the consumer, and the details of the financing agreement itself. This stipulation is particularly pertinent to expanding consumer protections because consumers often do not realize the full impact of hidden interest and markups, and how they affect the amount and time of indebtedness, including potentially resulting in delinquency and repossession.

By requiring a dealer to disclose loan offer information to consumers, including how much a dealer is making off the proposed loan and any other loan offers for which the consumer qualified, vulnerable consumers will be more educated about the transactions they are entering into and be able to make informed decisions.

For these reasons we urge a favorable report on HB 655

Best,

Marceline White
Executive Director

[2] Davis, Delvin and Joshua M. Frank, "Under the Hood: Auto Loan Interest Rate Hikes Inflate Consumer Costs and Loan Losses," Center for Responsible Lending, April 2011.