



Executive Summary: Risky Business – Buying a Car in Maryland: Auto Fraud and Policy Choices

A research report on auto sales fraud from the Maryland Consumer Rights Coalition (MCRC).

Purchasing a car provides low- and moderate-income families with mobility -- both economic and physical. Maryland families need access to cars for transportation to and from work as well as to procure better goods and services than they might have available in their local communities.

Yet purchasing a car is an expensive investment, particularly for cash-strapped families. Unfortunately, car dealers often take advantage of vulnerable families by steering them into high-cost loans, expensive add-ons they don't need, and deals with high downpayments.

Yo-Yo Sales

Yo-yo sales are a "bait-and-switch" scam. A consumer agrees to purchase a car but often unwittingly signs a conditional sales agreement rather than a final sales agreement. This agreement allows the dealer to cancel or change the terms of the financing after the consumer drives off the lot with the car. Weeks later, the consumer may get a call explaining that the financing fell through and that he or she must renegotiate the loan for a higher interest rate or larger downpayment.

Despite the fact that yo-yo sales are illegal in Maryland, 93 consumers complained to Maryland's Office of the Attorney General (OAG) about yo-yo sales abuses from Jan. 1, 2009 to Dec. 31, 2011. The OAG was able to resolve about 20% of these complaints. Yo-yo sales cost Maryland consumers more than \$240,000 from 2008 through 2012. Similarly, the Maryland Motor Vehicle Administration (MVA) received 19 yo-yo sales complaints between Jan. 1, 2011 and Dec. 31, 2012 and fined just 31% of the car dealers cited in those complaints.

Dealer Kickbacks

When a consumer pursues financing at the car dealer's shop, the dealer often acts as the initial lender but then calls two or three lenders to ask them to purchase the loan. The lenders tell the car dealer the interest rate at which they are willing to buy the loan -- this is known as the "buy rate." The lenders may also often allow the dealer to add interest to the loan deal the consumer signs to the buy rate. The extra profit is either split between the dealer and the lender or pocketed entirely by the dealer. This dealer kickback is particularly troubling because few consumers are even aware that they have been placed in a more expensive loan than they qualified for.

This problem is very costly for car buyers and for Maryland as a whole. According to a study by the Center for Responsible Lending, 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.

Rebuilt Wrecks

Repairing and selling salvage vehicles is big business. According to the National Association of Consumer Advocates, nearly one million salvaged vehicles are returned to the road each year.¹ Many of these salvage vehicles have been wrecked or flooded. Car dealers often sell these cars, knowing they have defects, without disclosing the car's true history to consumers. In Maryland, the number of salvage vehicles available for sale grew by 67% between 2003-2007.²

Loan-Packing and Add-Ons

Many car dealers also take extra money from consumers through "loan packing" – adding extra products and services to the cost of the car contract to inflate the price and the amount financed. These products include guaranteed auto protection (GAP) insurance, vehicle service contracts, life and disability insurance, and glass-etching.

While there are federal and state laws that address some of these issues, Maryland policy makers have a number of opportunities to strengthen consumer protections for car buyers in Maryland.

MCRC's policy recommendations include:

Yo-Yo Sales

- Right to rescission -- provide a cooling-off period of equal time for both car dealers and consumers.³
- No sale of trade-in -- prohibit dealers from selling any trade-in until all financing is completed.
- Return of downpayment – require that the full downpayment must be returned to the consumer should a yo-yo sales transaction take place.

Dealer Kickbacks

- Prohibit dealer interest rate mark-ups on auto loans.
- Barring prohibition, cap dealer-mark-ups at a given percentage rate or flat dollar amount per loan and require dealers to charge the same mark-up for all car purchases.

Rebuilt Wrecks

- Expand the definition of salvage vehicles and require dealers to give consumers better information about salvage vehicles.
- Extend Maryland's lemon law to include used cars with more mileage.
- Require warranties of six months or 6,000 miles for used cars.
- Ensure that any lemon law does not preclude consumers from seeking other forms of redress.

Loan-Packing and Add-Ons

- Require dealers to provide consumers with clear and transparent information about the cost of the vehicle, all fees, and add-ons.
- Clearly separate costs of any add-ons from the cost of financing the car in all paperwork.
- Require dealers to pre-price all add-ons and post those prices clearly at the dealership.

¹ "The Problem of Rebuilt Wrecks," *Consumer Reports*, April 2012. <http://www.consumerreports.org/cro/2012/12/the-problem-of-rebuilt-wrecks/index.htm>.

² "Rebuilt Wrecks for Sale! Carfax Study Reveals Emerging Threat to Used Car Buyers," Feb. 26, 2008 <http://news.carfax.com/index.php?s=25079&item=58293>

³ Van Alst, John W, "Fueling Fair Practices: A road map to improved public policy for used car sales and financing," National Consumer Law Center, 2009, p.14.