



**DISCRIMINATORY MARKUPS IN AUTO LENDING: THE IMPACT
ON THE HISPANIC COMMUNITY**

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I. INTRODUCTION

My name is Beatriz Ibarra, Assets Policy Analyst for the National Council of La Raza (NCLR). For a number of years, NCLR has engaged the auto finance industry and worked alongside consumer and civil rights advocates to ensure adequate protections for Latino* and immigrant car buyers. We appreciate the opportunity to share our views on auto financing as it relates to the Hispanic community.

NCLR is a private, nonprofit, nonpartisan organization established in 1968 to reduce poverty and discrimination and improve life opportunities for Hispanic Americans. NCLR is the largest national Hispanic constituency-based organization, serving all Hispanic nationality groups in all regions of the country through our network of more than 300 affiliate community-based groups.

As you may know, the Latino population now constitutes 13.9% of the total U.S. population – 39.9 million persons – and represents great economic and financial potential, but studies show that there is a significant wealth gap in the U.S. between Latinos and Whites. In light of this, Latinos are major stakeholders in efforts to increase access to financial services as well as efforts to protect consumers from predators in the marketplace.

II. BACKGROUND

In 2002, one-quarter (25.4%) of Latino households did not own any assets other than a vehicle or unsecured liabilities, compared to 6.3% of White households. Barriers to wealth accumulation for the Latino community are considerable and need to be addressed by policy-makers.

The family car is one of the largest purchases many families will ever make, second only to buying a home. Reports show that Latinos and African Americans are often the victims of discrimination in auto financing. Business professor Mark Cohen of Vanderbilt University conducted a series of studies chronicling the impact of a pricing component known as a “markup” on Latino and African American consumers. By studying financing records from two major auto financing companies, Dr. Cohen found that minority car buyers were more likely than their peers, regardless of credit, to have a marked up auto loan. For example;

- In his first report, co-authored with Yale University professor Ian Ayres, Dr. Cohen determined that the markup charge is not related to the customer’s creditworthiness and is essentially an undisclosed subjective finance charge that the finance company splits with the dealer. A statistical analysis of more than 1.5 million race-coded sale files indicates a staggering disparity between the amount of the markup paid by minorities and that paid by White customers. This racial disparity exists in every state analyzed and in all credit tiers. Lastly, Dr. Cohen found that the result of this form of credit pricing is that Hispanic and African American consumers with the same creditworthiness as Whites customers nevertheless pay more for credit. Independent studies of other major auto financing companies have reached the same conclusions.

*The terms “Hispanic” and “Latino” are used interchangeably by the U.S. Census Bureau to identify persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, and Spanish decent; they may be of any race.

- In his second report, Dr. Cohen collected data from another major auto company's 219,278 financing records from 2001 to 2004. The data collected from these records revealed that 57% of Hispanic customers who financed their car through the company were charged an unwarranted markup, compared to 40.2% of White customers. The average markup for Hispanic customers was \$715, compared to \$464 for White customers.

These disparities, at minimum, raise serious questions about practices in the auto lending market and the impact of dealership policies and practices on Latino and African American customers. While some companies have imposed a cap on the markup charge, recent data show that the lower markup cap only reduces the disparity between African American and White consumers but does not eliminate it. One study showed that even after the markup cap was put in place in one company, the average markup for African Americans was \$498, compared to \$343 for Whites. These reports clearly show that lawmakers need to take a closer look at the auto financing industry and expose practices that undermine the ability of Latinos and minorities to get fair and equal access to credit. Addressing the wealth gap among American families demands that we tackle difficult issues in the marketplace and help consumers protect their assets and income from predators.

III. RECOMMENDATIONS

A number of steps could help eradicate discrimination against Latino and other minority consumers in the auto financing field. Specifically:

- **Require auto financing companies to disclose the amount of the buy rate and all fees charged to the consumer prior to the purchase of a car.** All disclosures should be in languages and formats accessible to car buyers. Language access rules need not be overly rigid. Reasonable criteria that trigger language accessibility requirements can be established. All these elements are essential to ensure greater fairness and transparency in the auto financing process.
- **Eliminate the use and practice of markups in favor of a flat fee.** Instead of charging a hidden markup, lenders and car dealers should only be permitted to charge a simple, flat fee for services provided. Dealers should be fairly compensated for their services but in a nondiscriminatory way. For example, flat fees can be priced so that the dealer is adequately compensated for the cost of arranging car financing.
- **Investigate, expose, and remedy practices in the auto lending industry which target the state's most vulnerable citizens.** The regulatory agency should conduct a study to chronicle the impact that new legislation would have on auto financing loans. Moreover, independent reports and investigations should be commissioned to study the impact of selected industry practices on Latinos and minority consumers.
- **Encourage industry to take the lead in eradicating bad actors and curbing policies that disproportionately impact selected consumers.** Experience suggests that good policy and practice can drive out bad. Business leaders "playing by the

rules” and offering their Latino and minority customers good deals should be rewarded and enlisted to help push out those preying on vulnerable consumers. Dealers could address discrimination in auto financing by self-policing or instituting codes of conduct to ensure that customers are no longer subject to dealer financing at unfair terms.

IV. CONCLUSION

Hispanics are a growing share of the nation’s labor force and consumer base. A critical goal of NCLR is to ensure greater integration of Latinos into the mainstream financial services industry; only then will more Hispanic families move successfully into the ranks of the American middle-class. However, practices that foster widespread and systemic discrimination against Latinos and African Americans in auto financing undermines these efforts.

No credit opportunity, with the exception of a home mortgage, is more important than a car loan to most American consumers. Given the substantial documentation of widespread discrimination against Latinos and African Americans in auto financing, we urge you to take firm and immediate steps to ensure greater fairness and transparency in the auto financing process.