

Buckle Up: Navigating Auto Sales and Financing



Staff Report of the Bureau of Consumer Protection
Federal Trade Commission

Carole L. Reynolds
Stephanie E. Cox

July 2020

FEDERAL TRADE COMMISSION

Joseph J. Simons	Chairman
Noah Joshua Phillips	Commissioner
Rohit Chopra	Commissioner
Rebecca Kelly Slaughter	Commissioner
Christine S. Wilson	Commissioner

BUREAU OF CONSUMER PROTECTION

Andrew Smith	Director
Serena Viswanathan	Acting Deputy Director
Malini Mithal	Associate Director, Division of Financial Services
Nikhil Singhvi	Assistant Director, Division of Financial Services
Todd Kossow	Regional Director, Midwest Regional Office
Jason Adler	Assistant Regional Director, Midwest Regional Office

The views expressed in this report are those of the authors and do not necessarily reflect the views of the Commission or any individual Commissioner.

Buckle Up: Navigating Auto Sales and Financing

A BCP Staff Report¹

- A. AUTO ADVERTISING 5
- B. NEGOTIATING A PRICE..... 5
- C. NEGOTIATING FINANCING TERMS 7
- D. ANCILLARY PRODUCTS AND SERVICES (ADD-ONS) 8
- E. REVIEWING AND SIGNING THE DOCUMENTS.....

Through enforcement actions, consumer and business education initiatives, roundtables, and other industry research efforts, the Commission has examined and addressed an array of issues arising in the auto industry. In the scores of automobile enforcement actions the FTC has brought, the agency has confronted misleading auto advertising, loan falsification, “yo-yo” financing, deceptive add-on fees, and privacy and data security issues, among other practices. In bringing these actions, the FTC has developed evidence of unlawful practices from consumers, informants, and others, and has worked with federal, state, and local law enforcement partners in the United States and abroad to obtain strong injunctive and monetary remedies.

The FTC also has held workshops on consumer protection issues in the auto marketplace, ranging from the challenges servicemembers face buying and financing a car to the privacy and security practices of vehicle manufacturers.² As part of its consumer education campaign, the Commission publishes a consumer blog with articles on buying and financing a car, covering topics such as spotting deceptive car ads, understanding trade-ins and negative equity, and what to expect from financing negotiations.³ The Commission also maintains a business blog with guidance to the industry on deceptive and unlawful practices to avoid and helpful tips for compliance with the law.⁴ As the industry develops, the FTC also monitors emergent trends that might affect the consumer experience.⁵

In April 2017, the FTC conducted an in-depth qualitative study of 38 consumers who had recently purchased and financed a vehicle through an automobile dealer. The study objective was to learn about consumers’ experiences selecting, purchasing, and financing an automobile from a dealer.⁶ The data obtained through this study, while qualitative, sheds light on which

² See [Connected Cars: Privacy, Security Issues Related to Connected, Automated Vehicles](https://www.ftc.gov/news-events/events-calendar/2017/06/connected-cars-privacy-security-issues-related-connected) (June 28, 2017), <https://www.ftc.gov/news-events/events-calendar/2017/06/connected-cars-privacy-security-issues-related-connected>; the Military Consumer Financial Workshop (with segments on deceptive and other unlawful auto practices), <https://www.ftc.gov/news-events/events-calendar/military-consumer-workshop>; and The Road Ahead: Selling, Financing, and Leasing Motor Vehicles (three workshops examining auto purchases, financing, and leasing), <https://www.ftc.gov/news-events/events-calendar/2011/11/road-ahead-selling-financing-leasing-motor-vehicles>, <https://www.ftc.gov/news-events/events-calendar/2011/08/road-ahead-selling-financing-leasing-motor-vehicles>, <https://www.ftc.gov/news-events/events-calendar/2011/04/road-ahead-selling-financing-leasing-motor-vehicles>. The Commission also continues to monitor the marketplace for discriminatory conduct that could violate the Equal Credit Opportunity Act, 15 U.S.C. § 1691 et seq.

³ See <https://www.consumer.ftc.gov/blog>.

⁴ See <https://www.ftc.gov/tips-advice/business-center>.

⁵ See the Commission’s workshop to explore auto distribution, the current regulatory system, and how trends, such as ride-sharing, connected cars, and autonomous vehicles, might affect how cars are sold: Auto Distribution Current issues and Future Trends (Jan. 19, 2016), <https://www.ftc.gov/news-events/events-calendar/2016/01/auto-distribution-current-issues-future-trends>.

⁶ The automobile purchase and finance area also can involve important and complex fair lending issues and considerations under the Equal Credit Opportunity Act, not addressed in the study. See generally John W. Van Alst, National Consumer Law Center, *Time to Stop Racing Cars: The Role of Race and Ethnicity in Buying and Using a Car*, April 2019, available at https://www.nclc.org/images/pdf/car_sales/report-time-to-stop-racing-cars-april2019.pdf.

aspects of the automobile purchase and finance process are opaque, increasing the likelihood that consumers are vulnerable to deceptive or unfair practices.⁷

This report highlights results from the study that are related to the broader context of sales and financing issues BCP has encountered in its enforcement role.

A. AUTO ADVERTISING

The participants in the FTC's 2017 qualitative study identified dealers through a variety of means, and several were drawn to particular dealers based on their advertised prices or financing offers. Some participants explained that they chose a particular dealer because the dealer advertised low prices or discounts, and others said they were attracted by advertisements promising 0% or other low APRs. Some of these consumers found out belatedly that they did not qualify for these offers, that they could not combine a 0% APR offer with other incentives, or that the car they selected did not qualify for the advertised rate.

Advertisements with misleading financing terms (as well as those with deceptive price and discount offers) remain a concern. Dealers should make only accurate and non-misleading advertising claims to consumers, advertise terms that are actually available, and clearly and conspicuously disclose material qualifications or limitations on any advertised deal.

B. NEGOTIATING A PRICE

Some participants in the qualitative study expressed confusion about how the price they were offered depended on rebates or other offers. One participant complained that she had to work backwards from the sticker price multiple times to figure out how each offer was calculated. Some participants purchased a vehicle for the sticker price without negotiating, because they felt they couldn't—as was the case for some participants with low credit scores—they were uncomfortable haggling, or they believed the quoted price was fixed. Consumers who did not understand they could negotiate the price may have started the purchase and finance process with a higher amount than if they realized they could bargain for this amount.

⁷ Part n pl-0 0 9.96 75. m7

Consumers may encounter a variety of pricing terms when purchasing a car at a dealership. The following chart illustrates some common terms that may be used in that process.

KNOW YOUR PRICES	
Invoice Price	The amount of money the manufacturer charges the dealer for the vehicle, before any rebates, allowances, discounts, and incentives the dealer receives.
Base Price	The cost of the car without options, but including standard equipment and any factory warranty. This price is listed on the sticker affixed to the car window.
Monroney Sticker Price (Manufacturer Suggested Retail Price)	– Required by federal law and shows the base price, the manufacturer’s installed options with the manufacturer’s suggested retail price, the manufacturer’s transportation charge, and fuel economy (mileage); the sticker is affixed to the car window and may only be removed by the buyer.
Dealer Sticker Price	The Monroney sticker price plus suggested the retail price of dealer-installed options, and includes additional dealer markup or profit, dealer preparation, and any dealer pre-installed add-ons like undercoating; it is an additional sticker on the

Some consumers may not end up discussing price at all during their initial negotiations. As noted during the FTC’s 2017 Military Consumer Financial Workshop,⁸ dealers sometimes disproportionately focus consumers on the monthly payment rather than the total “out-the-door” price of the vehicle. In the qualitative study, many study participants did not consider the overall cost but looked almost exclusively at the monthly payment when deciding on a car.

Several of the participants who negotiated using the monthly payment later expressed surprise about the other terms of their deal. While some participants brought up the monthly payment first as a mark for what they could afford to pay, some other participants felt that sales personnel focused the discussion on monthly costs, and those participants’ attention to the total price was diverted.

Even consumers who try to focus on total price may run into trouble. As some study participants explained, after negotiating what they thought was an agreed price for a vehicle with sales personnel, they faced negotiating again during the dealer’s financing process, which they found frustrating and time-consuming. The introduction of add-ons during financing discussions caused several participants’ total sale price to balloon from the cash price, and for two participants, negative equity for trade-ins caused the amount financed to increase.

Given the length and complexity of auto sales and financing transactions, discussing the “out-the-door” price of the vehicle (the total price, before financing, including taxes and fees) before discussing financing could help avoid confusion.

⁸ See Military Consumer Financial Workshop (July 19, 2017), <https://www.ftc.gov/news-events/events-calendar/military-consumer-workshop>.

C. NEGOTIATING FINANCING TERMS

Several s

disability insurance.¹⁴ The cost of add-on products services can range from hundreds to thousands of dollars.¹⁵

Most study participants' contracts included charges for add-ons, but the interviews revealed consumers who were unaware which add-ons they had purchased, were unable to identify add-ons in the paperwork, were unclear what those add-ons included, and sometimes did not realize they had purchased any add-ons at all. Indeed, add-ons were the single greatest area of confusion observed in the study.

Problems consumers can face when purchasing add-ons from dealers include:

Late, Limited, or No Discussion of Add-Ons: For most consumers in the qualitative study, add-ons did not come up until the financing process, if at all, after a long car-buying process and at a time when the consumer often felt pressure to close the deal. While some study participants discussed add-ons both with sales personnel and then

Unexpected Limitations of Add-On Products: Some participants in the qualitative study purchased extended warranties or service plans without fully understanding what services or repairs were covered, and some were surprised to discover during the interview that their plans had unexpected limitations. Some consumers who purchased these agreements experienced issues with either the purchase or later use of them, and a few were later surprised to learn they had to pay out-of-pocket for repairs or services that were not covered. One consumer purchased a “Lifetime” maintenance plan, only to discover later that he received a one-year plan that covered periodic oil changes.

Opaque Pricing of Add-Ons: While a few participants in the qualitative study said that the dealer explained the cost of each add-on, some other participants said that the representative quoted the price only in terms of how much it would increase their monthly payment. Some consumers did not know how much their add-ons cost at all. Several consumers indicated that they were not given prices on the add-ons individually but were instead told that the add-on cost would roll into their financing or that it was already included in the negotiated price of the vehicle. Even for the same product offered by the same dealer, consumers may pay significantly different prices for an add-on. In one instance, a qualitative study participant expressed frustration that the salesperson quoted one price for an add-on but the finance representative quoted him a higher price for the same product.

Bundling Add-Ons: Some consumers indicated that the add-ons were sold as a package,

weeks, was so lengthy that it left them feeling overwhelmed or experiencing “buyer’s fatigue” by the time they reached the financing portion of the transaction.¹⁶ As one consumer explained, after a lengthy negotiation process, he was “just ready to sign the paper and get out” of the dealership.

- x **Despite Length of Transaction, Review Is Rushed:** At the same time, many study participants noted that the time for consumer review and understanding of purchase and finance documents felt short and rushed. At least two consumers specifically stated that the finance representative talked through the documents so quickly that they had to ask them to slow down. One interviewed consumer said that he felt like the dealer representative got “irritated” because he was taking time to read his paperwork, and another said that the representative rushed her review and made her feel “forced to move the process along.”
- x **Information Overload:** On top of the perceived time crunch, some study participants felt that the amount of information presented made it impossible for them to read and understand their paperwork before signing. Some consumers specifically said they were “overwhelmed” by the sheer volume of paperwork they were given, some said it was too complex and they didn’t understand it, and several others said the contract contained so much fine print that it would take hours or days to read it, if they wanted to. One consumer did not read what he considered to be the “boilerplate” of the contract because he understood it wasn’t negotiable. Many consumers focused on the numbers that were filled in by the dealer representative and ignored the surrounding language.
- x **Electronic Document Review:** Though some participants in the study reviewed their paperwork in hard copy, at least a handful of consumers said some electronic documents were used. Some consumers received information while at the dealership on an iPad or tablet, and some of these participants had trouble following along with the information. Some consumers reviewed and signed their paperwork electronically and then were handed paper copies afterwards. One consumer explained that she reviewed her contract on a computer screen but was not given time to review the documents thoroughly; she said that the dealer representative just scrolled through it and told her where to sign electronically. A few consumers said they reviewed and signed their paperwork electronically, and, at the end, were given a flash drive with all of their signed (t)-2 (h a)4 (l)-2 (l)-2 (of).

- x **Misapprehension that Deal Is Non-Binding:** One study participant thought she had signed something confirming her interest in the car and did not understand that she had signed a contract. Another consumer was surprised to discover that his paperwork said that there was no “cooling off” period.¹⁷ He explained that the dealer never raised this with him, and that he had been under the impression that all “high ticket” sales had a 48 or 72-hour cancellation window. At least two consumers said that they believed they had a 3-day rescission window during which you could cancel or change your deal, but their paperwork contained no such protection.¹⁸

F. RENEGOTIATION OF FINANCING

After consumers sign the contract, dealers might call them back to the dealership to cancel the deal, or change the terms of the contract, including because they have not found a financing entity to accept the contract. One study participant stated that he had agreed to certain financing terms, only to be contacted later and told that he was not eligible for those terms. Changes to financing terms also can

Dealers should explain spot delivery to consumers before having them sign spot delivery forms. Moreover, when a consumer is called back to the dealer because their financing falls through, dealers should never use deceptive or unfair tactics to pressure the consumer into a new deal, and dealers should prepare, maintain, and provide to the consumers records documenting any changes to the deal and the reasons for the changes. It is important for consumers to know that they do not have to agree to any changes or new paperwork they are being asked to sign.

* * * *

Commission staff expects to continue to focus on law enforcement and deceptive or unfair tactics in the auto industry as they arise, bringing cases against dealers as appropriate. Additionally, Commission staff expects to continue developing consumer education and business guidance initiatives to ensure consumers are equipped with meaningful information when considering or entering an auto transaction. Topics that may merit further study or initiatives include the length and complexity of the auto transaction, ancillary or add-on products, yo-yo financing tactics, GPS tracking capabilities, and other issues raised by consumer complaints. Potential information-gathering endeavors may include additional qualit2 (a)4 (t)-2 (i)-2 (on 6/0 (e)4 .h(g)10 (a)