Wednesday, April 17, 2024 / How car ownership got so expensive

[HALF SECOND OF SILENCE]

[BILLBOARD]

SCORING IN — Playground Rejects VERSION 2 (Breakmaster Cylinder)

NOEL KING (HOST): A popular TikTok trend I don’t pretend to understand is where someone armed with a video camera accosts co-workers and asks

*<CLIP> “How much is your car payment?” “Mmm 1800.” “How much is your car payment?” “I pay like 1200.” “How much is your car payment?” “What’s for lunch, that’s the real question.”*

If some of those numbers sound to you like rent, you’re not wrong. Owning a car has gotten more and more (and more) expensive. Insurance is up, repairs are up, interest rates are up, and it wouldn’t be America if scams were not also up.

Coming up on Today, Explained: we are NOT going to ask if you should just ride a bike or walk, that makes everyone mad, but we ARE going to examine what has happened to make car ownership so unaffordable.

*<CLIP> TikTok: I might not have money for food or to hang out with my friends, but I always have money for candles. I always have money for candles.*

[THEME]

NOEL: It’s Today, Explained. I’m Noel King with Vox Senior Correspondent Marin Cogan. Marin frequently covers auto-related nonsense, everything from why it’s so treacherous to be a pedestrian, to why dangerous drivers are facing fewer penalties. Recently, she’s been on the MONEY beat. It’s not your imagination. Car ownership has gotten insanely expensive.

MARIN: The average price of a new car is $48,000 right now, and there’s a couple different reasons for that it has somewhat to do with changing fuel economy standards, its also just that manufactures are favoring more expensive luxury cars and consumers are buying them more. But it’s not just car prices. It's car prices. It's auto insurance. And it's the cost of gasoline. Basically everything associated with owning a car has gotten more expensive.

*<CLIP> PBSNEWSHOUR: Five years ago, shoppers looking for an inexpensive car could choose from about a dozen models selling for less than $20,000. Now, there’s only one. The subcompact Mitsubishi Mirage. And there are reports that it will be phased out in 2025.*

NOEL: Let's break them out into individual little buckets there. Insurance, a thing that everybody must have, should have, is up. How much and how long has this been going on?

MARIN: So insurance rates for cars have risen dramatically over the last few years, um the consumer price index report that came out last week shows that Americans are paying 22.2% more for car insurance than they were the same time last year, and that's the highest jump rate since 1976.

*<CLIP> CNBC: And since february alone, prices jumped 2.7% so almost 7 times higher than the broader inflation rating.*

And previous CPI reports have shown that car insurance is up more than 38% since January 2020.

*<CLIP> CBS NEWS: My original insurance was $2,400 for 6 months and it went up to $4,000.*

NOEL: What's going on? What, everybody turned into a bad driver all of a sudden?

MARIN: <<chortles>> Actually, yeah, that is a part of it.

*SFX: Car crash*

The big insurance companies have been relatively quiet about what's going on. Inflation is definitely a big part of this equation. Everything costs more, and those costs are being passed on to consumers. But, the way we're driving plays a role, too.

SCORING IN – BREATHER, BMC

MARIN: During the pandemic, risky driving behavior like speeding and distracted driving, people using their phones while driving increased dramatically.

*<CLIP> KERA: No seatbelts. Speeding and impaired drivers. These trends of risky driving skyrocketed during the pandemic which has led to more crashes and deaths than pre-covid years and those numbers are reportedly staying high.*

MARIN: you can see this when you're on the road, right? You can see it. You can see people on their phones all the time when they're driving.

*<CLIP> TIKTOK: I’m cruisin’ down the highway and I look to my right, and I see this lady just on her phone with no tints. Like she just don’t care. She don’t care about no police, she don’t care about no state troopers, she just on her phone having a nice conversation…. She looked right at me, gave me a thumbs up and kept pushin’*

MARIN: That’s not just a vibes based, statement. There's actually data behind this too. So I spoke to an expert who has access to driver data for millions of drivers. There are people who download apps via their insurance companies that measure things like speeding and hard braking and other risky behaviors. And they said you could basically see the distracted driving behaviors go up. Basically, as soon as everything started shutting down during the pandemic. And they haven't come down since.

*<CLIP> This is what’s left of an SUV that was split in two*

*<CLIP> A driver ran a red light and the result was a horrific deadly crash*

*<CLIP> [crash sounds] Oh my god, oh my god.*

MARIN: Perhaps not coincidentally, the number of fatal accidents spiked during the first few years of the pandemic and the severity of auto insurance claims went up, too. So cars came in with more damage and it was more expensive to fix them.

SCORING OUT

NOEL: Why is it more expensive to fix a car these days?

MARIN: Okay, so if you think about the car that you had in 2004 versus the car that you could buy in 2024 if the two crashed, the car from 2024 would probably be a lot more expensive to fix, because it's more likely to have a lot more bells and whistles and advanced technology, things like backup cameras and lane sensors.

*<CLIP> CBS NEW YORK: A new AAA study finds these features can double and sometimes even triple the cost of repair. The sensors are all around today;s vehicles. For cars with front cameras, even a minor chip in the windshield can lead to a costly replacement.*

MARIN: So there's a report that I read that said, the estimate for a front end claim in 2022 was $3,700, and that was up 15% over the year before. Vehicles that are more than seven years old were about $1,000 less to repair.

*<CLIP> YAHOO FINANCE: Insurers are paying out more on claims though… motor vehicle repair look at this one it jumped 3.1% over the previous month. Car and truck rentals up 5.7% in a month…*

NOEL: If you get into an accident, then your insurance rates will go up. But you're saying it sounds like what you're saying is insurance is getting more expensive for everybody. So even if you haven't been an accident, you're paying more for insurance.

MARIN: That's exactly right. So I spoke to an industry insurance executive who said basically that we are all paying the cost for this increase in reckless driving and reckless behavior, so it's not just if you get into a crash, we're all now paying more.

NOEL: What's like the average, do we know?

MARIN: So the average cost for insurance is now about $2,000 a year. But that varies by so many different factors. So it's what state you live in. Certain states have way higher rates. It's your driving record. It's the type of car. You have so many different factors. So people are paying a really wide range, but it's often the people who can least afford it who are paying the most. Your insurance rates are often determined by the neighborhood you live in. So if you live in a high crime neighborhood, you’re likely to pay more. It’s also determined by your credit score. So again, this is just one of the many ways that it’s really expensive to be poor in this country.

NOEL: And so insurance is going up because people are driving differently and in some cases a lot worse. What does that have to do with the pandemic? I know that we've talked about, like since the pandemic, things on the roads have kind of seem like they have kind of seems like they're falling apart. But why?

MARIN: So we had inflation, right? Supply chains were severely disrupted. That made cars more expensive. At the same time you had drivers getting more dangerous. And then at the same time that happened, law enforcement in many parts of the country started really pulling back from traffic enforcement altogether.

*<CLIP> TMJN4 NEWS: The iTeam obtained data showing last year Milwaukee police issue its fewest number of citations since 2017*

MARIN: And there were a lot of different reasons for that. One is that it was during the pandemic and there were concerns about having close contact with people in public. The other is that there were major staffing shortages that started to present themselves during this time. And then also there was all the unrest and conflict after the murder of George Floyd. A number of these fatal police encounters began with traffic stops so there was a lot of criticism and scrutiny about the police and about their actions, and a lot of them pulled back. That one of the key ways that insurers used to determine your rate. And when they lost that key metric, they raised the rates for everyone.

NOEL: Are insurance rates going to stay this high?

MARIN: Yeah. So the experts I spoke with really didn't have any form of agreement on that. Some of them said, one guy I spoke to said, you know, really this was about insurance companies were taking a real hit when everyone started getting in crashes early in the pandemic. So they raised their rates, and now they've since caught up in those rates should come down, especially as inflation eases. But I will say I spoke to that expert maybe 5 or 6 weeks ago, and that was before this latest consumer price index report came out. And it shows that they've actually gone up. So now we're looking at the the steepest, rise in insurance rates since 1976. So I'm not so sure that they're going to come down anytime soon. It's really it's hard to say, but there's no consensus right now about whether they're going to come down.

NOEL: What are people doing to cope?

MARIN: there are a number of different things people can do. I don't know how widespread this is, but for example, my mom lives in Florida. Her insurance rates were getting really high. She took a class that was offered for senior drivers. That will help lower your rate if you take the class. You can also shop around. You can also download one of these telematic apps. They're offered by a lot of insurance companies that will measure your driving behaviors speeding, hard-braking, that sort of thing. And if they can measure that you're driving safely, they will give you a discount too.

SCORING IN

So there are different ways to cope. But, you know, we're all we are all still going to be paying more. There's no unfortunately, there's no magic bullet for this problem.

NOEL: Coming up: making what amounts to a mortgage payment or a month’s rent … on your car? It’s happening.

[BREAK]

[BUMPER]

NOEL: It’s Today, Explained. We are back with Marin Cogan. So recently for Vox, Marin, you wrote about an increasing number of car scams. And you stared talking about one specific TikTok video that you'd seen that sort of illustrates the problem. Tell us about that video.

MARIN: There's this woman on TikTok. Her name is Blaisy Arnold, and she posted a video about her Chevy Tahoe that's been viewed more than 2.5 million times.

SCORING IN - Kids Interlude

*<CLIP> TIKTOK:*

*Therealblaiseyarnold: So 3 years ago if you’re an OG on my TikTok, you know that I bought my Tahoe for a lot of money.*

MARIN: She has this Chevy Tahoe. She loves it, but it's time for her to give it up.

3 years ago I was in a mindset of where if I wanted something I was gonna get it! No matter what it was no matter what I had to do no matter what I had to pay. I would work and get the money that I needed and I would buy it.

MARIN: So in the video, she reveals that she took out an $84,000 loan to pay for the vehicle. Oh yes, and it gets worse. Since then, she said she'd been paying about $1,400 a month for the last three years.

And if you do the math you will see that $1400 a month payments in 3 years should be around $50,000 worth of payments.

MARIN: And that's like, you know, she's basically making a mortgage payment on her car.

NOEL: Yes, she is indeed.

Yea well…. I’ve only paid of $10,000 of the balance. So my $84,000 car that I bought three years ago is still at a balance of $74… almost $75,000.

MARIN: So she did the math and she said, over three years I've paid $50,000 into this vehicle. What she didn't realize is that because she has a really high annual percentage rate, that's her interest rate, plus whatever fees were added on when she signed up to finance this car, only 10,000 of that 50,000 she paid actually went towards paying off the car. The rest went to the APR.

SCORING OUT

NOEL: All right. For people who don't quite understand the importance of the interest rate, how is it possible that this woman took $50,000 of her own money and put it toward an $84,000 loan? And at the end of the day, it was like she had only paid $10,000.

MARIN: When you take out an auto loan, you pay something called an annual percentage rate, and people will see this on their credit card loans to, basically the annual percentage rate is the interest rate, and it's whatever fees and services are added on. So there's it's a it's a total percentage that you're paying on the loan every year. We don't know exactly what Arnold's Apr was, but it must have been extremely high because she was paying all that money and she paid $50,000, but 10,000 of that went to the actual balance of the loan. The other $40,000 were being eaten up by interest in all of those other fees that were packed into her annual percentage rate.

NOEL: Okay. So she got 2.5 million views, and you can absolutely understand why. And then nobody ever posted on TikTok about this again, because this has only ever happened to this woman, correct?

MARIN: <<chortles>> Well, actually it started… a lot of women started posting about their incredibly high car payments. And it was interestingly, I only saw videos of women posting about it, but they were talking about like, I'm paying 1400, I'm paying 1200, I'm paying $1,000 a month because I really wanted this luxury vehicle.

NOEL: The stakes for these folks are what exactly? If if you stop paying, then...?

MARIN: So if you have endless amounts of cash and you can always afford to pay for it, then you're probably fine, right? But if you don't, things can get really hairy. So in Arnold's case, she posted a follow up video where she was talking about what she was going to do with her car, and she made some jokey comments like, oh, people told me to hire the mob or leave it in a bad part of town.

*<CLIP> TIKTOK:*

*Therealblaiseyarnold: I think I’m just gonna not care if it gets repossessed because I’m not gonna pay for it anyways, so if they do the repossession, put it against me, oh well, I don’t have a car payment anymore… it’s fine.*

There are major consequences to that that can wreak havoc on your credit score. You can have debt collectors coming after you. It is likely that your car will be repossessed, and that kind of thing can follow you around and make it harder for you to get loans in the future.

NOEL: Had Blaisey Arnold with her high interest rate. Had she really personally screwed up?

MARIN: So a lot of people on the internet were saying, well, this woman is clearly she made a huge mistake.

*<CLIP> TIKTOK: Just because a lot of people have high car payments doesn’t mean it’s any less stupid.*

*TIKTOK: No hate to her. I don’t care what other people do with their money? But is that crazy? Because that is crazy.*

*<CLIP> TikTok. You don’t need a 35,000 car. You WANT a 35,000 car.*

MARIN: they said a lot of things about her, but I will say that they seem to think that, you know, she had made a really poor decision. And look, people can draw whatever conclusions they want. I personally, I'm not a financial advisor. I would not recommend making mortgage size payments on your car. I would say if you have, you're paying that much. Probably you need a cheaper car unless you're a very rich person, in which case you can probably afford it. So yeah, there was a lot of sort of shock and criticism about her, but I think what was interesting about it to me is that there is this much larger world of very scammy practices and the auto dealing and the auto lending, industry, and that's a really takes advantage of a lot of people. So I think like her example is very interesting, but there's, there's a, there's a much broader sort of structural issue happening here that is making people pay, even aside from the extreme costs that we talked about before. Making people pay way too much. And it's it's particularly preying on people who can least afford to pay for those cars.

NOEL: Okay. So you're using one of our favorite words, which is scam. Cars getting more expensive because of supply chain disruptions, insurance getting more expensive because people are getting in more crashes. Those things are knock on effects. They're not scams. Tell me why you're talking scammy, though.

MARIN: Yeah, because some auto lenders and dealers are just straight up scamming people.

SCORING IN – Omaha nightblade, BMC

*<CLIP> Somewhere between us signing on the computer and us waiting in the lobby and having the papers printed out, they added the $4000. I asked the question because I was lied to.*

MARIN: Sometimes they will jack the prices up for users with poor credit. They'll add tons of hidden fees that aren't obvious when people sign up. And they're often giving people loans that they know they can't sustain because they know that they'll collect really high interest rates. And then when the people default on those loans, they can take the car back and profit that way. To give you one example from a book, called Cars and Jails. The author spoke to a bunch of men who had recently been released from prison, who found that their credit history is often prevented them from getting a reasonable loan at an affordable interest rate. So they interviewed people driving these incredibly fancy vehicles, and they were saying, how are you able to get, cars like this with with low income and poor credit? And it turns out that they were going into the dealerships, and these men were being told that they couldn't get financing for the Honda they wanted, but they could get financing for a top of the line Mercedes. And they were doing this because they were knowing they were they were giving them loans that, these men were likely to default on, and then they could repossess the car really quickly.

NOEL: And were the men being lied to, could they have gotten financing for the little Honda?

MARIN: They probably could have, if they had shopped around and known exactly what they were doing. But the way these loans are being presented to them, they're being basically told that this is the thing that makes the most sense, and the loans are being presented in a way that makes the most sense. And, you know, a lot of these contracts, if you think about how confusing it is for most of us to read through a lot of these terms and services agreements, that we get a lot of the contracts we get, these things are designed to be intentionally opaque and trick people. So they think they're making the most rational decision, and they're not realizing that actually they're kind of getting screwed.

SCORING OUT

NOEL: In your report, you say that Consumer Reports also looked into this car scams. And what did they find?

MARIN: Yeah. So they basically found that, it's the Wild West out there in terms of car car loans. And that made people especially susceptible to scams. So there's a couple different things going on. There's there's no federal interest rate limit on auto loans. There's a really complicated and sometimes contradictory patchwork of state laws, and it leaves people really vulnerable to being scammed. And like I said, it's people with poor credit. It's people who can often least least afford these loans are getting these really shady loans.the consumer report investigation begins with this really striking anecdote about a man who was on disability payments from the Social Security Administration. He was given a loan for a Jaguar. His annual percentage rate was 75%. So that means he was paying loans every month, and almost all of that money was going to the Apr. It was just going to interest rates and fees. It wasn't going to paying off the vehicle. So that was just going to trap him in debt. And when they talked to this man, it was really clear. He was like, “I don't know, I don't know anything about these APRs. I just was trying to go and get a car.” So those are the people who are getting really screwed over.

NOEL: is there a certain type of person who is more likely to get scammed than others?

MARIN: People with poor credit history. People who are poor and people who are working class. For some immigrant families, they're targeted by this because they want to have a vehicle, they want to be able to get around in their community. Military members are particularly susceptible to these scams. When you add it all together, there are a lot of different people who are highly susceptible. It's also people who want cars that they can't really afford. There's always going to be a dealer or a lender who's out there who can convince you that actually you can afford it. And if just look at the terms of this deal and you think that you're getting a good deal and, oh, wow, I can actually afford this, I can't believe it. But you actually can't afford it, and you're not going to realize it until it's too late.

NOEL: So you said there's no federal interest rate limit, which makes me wonder. That hadn't even occurred to me. Could there be one like, could the government just say, nuh-uh, anything over? I don't know, 25% we're not doing. Yeah.

MARIN: Conceivably there could be one.

MARIN: The government could definitely crack down on these dealers more. And in fact, there has been some action in the last year, which is, I think, a positive step. There is a new rule that the FTC put out at the end of last year, called CARS. The acronym is g Auto Retail Scams. And it's designed to address this exact problem that we've been talking about.

*<CLIP> NBC NEWS: To target the scams, the FTC has a new CARS rule. Requiring dealers to provide a vehicles actual price and cost, spelling out optional add ons. And prohibiting dealers from adding bogus add ons like duplicate warranties, oil changes on EVs, and unwanted subscriptions.*

So they're going to try to crack down on, these sort of shady lenders who are jacking up the prices, who are, adding hidden costs that dealers or the buyers don't realize that they're getting.

There's a whole section specifically on, lenders who are targeting auto, military members to make sure that they're not getting scammed. And it could have a major effect, and cracking down on some of these shady behaviors.

*<CLIP> FTC:*

*LINA KHAN: This rule us really designed to create some honesty and some fair rules of the road so Americans can buy cars without worrying that they’re going to be tricked or scammed.*

and particularly for military service members. It's going to require lenders to be more upfront and honest about whether they have any official affiliation with the military, because oftentimes military members will show up on a base, need a car right away, and they have all these lenders going after them saying, and all these auto dealers going after them saying, like, we're affiliated with the military, we have special discounts. And they end up saddling with service members with a lot of debt. So it's going to try to cut back on all of these different ways that they are sort of sneakily making cars way more expensive than they need to be.

SCORING IN

Vox Senior Correspondent Marin Cogan:

Next week, we are doing an episode about reproduction. Birds do it bees do it…even educated fleas do it but nobody does it like human beings in a capitalist economy.

Egg and embryo freezing is BIG BUSINESS … and we would like to hear what your experience of that business has been like.

Did you and your partner make some embryos and freeze them….and then… break up? What happened when you get to take them back? (The embryos, not the parter)

Maybe your embryos were moved without you knowing?

The thing is: it’s not the norm for fertility clinics to warn couples that things can get hairy if you don’t end up making a baby with those embryos – and we will be reporting on that, so call us. Our number is (844) 453-4448. (844) 453-4448 Please leave us your name, if you’d like you can also leave us a callback number. You can also email a voice memo to todayexplained@vox.com.

Today’s episode was produced by Victoria Chamberlin and edited by Matthew Collette. It was engineered by David Herman and fact-checked by Laura Bullard.

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We use music by Breakmaster Cylinder.

I’m Noel King/Sean Rameswaram.

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[10 SECONDS OF SILENCE]