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Consumer Voices on Automobile Financing



About CFPB Research, Tools, and Resources for Financial Educators

An essential part of the mission of the Consumer Financial Protection Bureau (CFPB or Bureau) is to empower consumers to take more control over their financial lives. Since the Bureau opened its doors in 2011, we have worked to improve the financial literacy of consumers in the United States and to ensure access to tools, information, and opportunities for skill-building that they need to manage their finances.

The Bureau's principal financial education mandate is set forth in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The Dodd-Frank Act created the Bureau and mandated the establishment of an Office of Financial Education to "be responsible for developing and implementing initiatives intended to educate and empower consumers to make better informed financial decisions." 12 U.S.C. § 5493(d)(1).

To better help consumers make well-informed financial decisions and achieve their own life goals, we at the CFPB have sought to increase understanding of three broad areas: consumer financial behavior, the financial education field, and effective practices in financial education.

We conduct research in these areas to inform the CFPB's own financial education efforts and to share our insights with others who have a common interest in improving the financial well-being of consumers.

The CFPB's goal for its financial education activities is to help consumers move towards financial well-being. In the CFPB's definition of financial well-being, consumers:

- have control over day-to-day, month-to-month finances
- have the capability to absorb a financial shock
- are on track to meet financial goals, and
- have the financial freedom to make choices that allow one to enjoy life

To learn more, visit the Resources for Financial Educators webpage at
<http://www.consumerfinance.gov/adult-financial-education>

To get regular updates on CFPB research, tools, and resources for financial educators, sign up for the CFPB Financial Education Exchange (CFPB FinEx) by emailing CFPB_FinEx@cfpb.gov.

Table of contents

About CFPB Research, Tools, and Resources	1
Table of contents.....	2
1. Introduction.....	3
2. Background on auto financing	5
2.1 Direct and indirect auto financing	5
2.2 Other sources of auto financing	12
2.3 The complexity of auto purchase and financing.....	7
2.4 Shopping for an auto loan	8
2.5 Implications for financial educators: Impact on financial capability and well-being	9
3. About methodology	11
3.1 Focus groups.....	11
3.2 Consumer complaint data	12
4. Consumer experience with automobile finance	14
4.1 Focus group results	14
4.2 Patterns in consumer auto purchase and financing	18
3.4 Highlights from the consumer complaint data.....	22
5. Conclusions and implications	27

1. Introduction

The automobile¹ financing market makes up a significant share of the market for consumer financial products and services in America. Specifically, automobile lending is the third largest category of household debt for American consumers, behind mortgages and student loans, with almost 100 million auto loans totaling just over \$1 trillion outstanding.² For consumers who do not purchase a home, an automobile may be the largest purchase they will ever make. Taking out a loan to purchase an automobile can be a significant part of consumers' financial lives. The decision to obtain auto financing includes many factors, including the source of financing, features of the loan, and issues related to down payment, trade-in, and add-ons.³

Because automobile loans are part of the financial lives of so many consumers, the Consumer Financial Protection Bureau (CFPB or Bureau) engaged in research about how consumers approach the auto financing decision, and what challenges they face in navigating the process.⁴

¹ In this paper, the term "automobile" or "auto" is used to describe cars, minivans, SUVs, and light trucks.

² http://www.newyorkfed.org/householdcredit/2015-q4/data/pdf/HHDC_2015Q4.pdf

³ An add-on is an additional, typically optional feature or credit product that a dealer or lender may sell to consumers in addition to the auto and auto loan. This can mean car features such as alarm systems, tinting, special tires & wheels, rustproofing, and others. In the financing and insurance area, add-ons include GAP insurance, credit life insurance, and extended warranties. Consumers may also be able to purchase add-ons from banks, credit unions, and other entities after purchasing the vehicle. As with other aspects of the purchase and financing, comparison shopping may be beneficial.

⁴ There is other work ongoing in the important area of understanding how consumers make decisions in car financing. The Federal Trade Commission has begun the process of seeking OMB approval under the Paperwork Reduction

This report shares what we have learned to-date from the complaints submitted to the CFPB and from focus group research.⁵

In our focus group research, we found that many consumers reported that they diligently research vehicles, consulting friends, family and the Internet. However, many consumers did not fully explore their options for auto loans, and did not shop around and negotiate as much for the financing as they did for the vehicle itself. Our examination of the consumer complaint data showed that consumers faced challenges in understanding loan features during negotiations on financing. The complaint data also highlighted some aspects of the auto financing process where consumers have reported troubling experiences.

This paper is intended to share with financial educators what the CFPB has learned from this research and from its work helping consumers prepare for and navigate the complex process of financing a vehicle. The research has also helped to inform the development of the CFPB's Take Control of Your Auto Loan initiative.⁶ This initiative's goal is to empower consumers to shop for and compare financing options when purchasing a vehicle (including bringing a financing offer to the dealership), look beyond the monthly payment and consider the total cost of financing when choosing an auto loan, and be aware of situations and financing features that could lead to costly surprises down the road. To see the Take Control of Your Auto Loan resources, go to consumerfinance.gov/auto-loans.

Act to interview consumers about consumer experiences in selecting, purchasing, and financing an automobile from a dealer (<https://www.ftc.gov/news-events/press-releases/2015/12/ftc-seeks-public-comment-proposed-survey-consumers-regarding>).

⁵ The focus group research described in this report was funded by the CFPB under a competitive award to Abt Associates, contract number TPDCFPBPA130014 CAL0001.

⁶ This initiative is part of the CFPB Know Before You Owe effort, which has also focused on mortgages, credit cards and student loans.

2. Background on auto financing

Most consumers who buy an auto take out a loan to pay for it. More than 90 percent of American households have a vehicle,⁷ and consumers finance 86.6 percent of new vehicle purchases and 55.3 percent of used vehicle purchases.⁸

2.1 Direct and indirect auto financing

There are two primary methods of arranging for credit to buy a vehicle, often called “direct” and “indirect” lending. For direct lending, consumers go directly to a bank, credit union, or other lender and apply for and obtain a loan. Consumers using direct lending will commonly get an interest rate quote or a conditional commitment letter from these lenders before going to the dealership to buy an auto.

In indirect lending, also called dealer-arranged financing, consumers obtain auto financing from a lender through a dealership. The dealership usually collects basic information regarding the

⁷ <http://www.umtri.umich.edu/what-were-doing/news/hitchin-ride-fewer-americans-have-their-own-vehicle>

⁸ Melinda Zabritski, Experian Automotive State of the Automotive Finance Market, (Q3 2015) http://www.experian.com/assets/automotive/white-papers/experian-auto-2015-q3.pdf?WT.srch=Auto_Q32015FinanceTrends_PDF. In 2014, 16.4 million new vehicles and 36 million used vehicles were sold. <https://www.nada.org/WorkArea/DownloadAsset.aspx?id=21474839178>; <http://static.ed.edmunds-media.com/unversioned/img/industry-center/analysis/021715-used-market-report.pdf>.

applicant and forwards that information to one or more prospective auto lenders (banks, credit unions, “captive” (manufacturer-affiliated) lenders, or finance companies). After evaluating the applicant, a lender may choose not to become involved in the transaction or it may choose to offer to finance the loan on certain minimum terms. After the deal is consummated with the consumer, the loan may then be sold to the lender, which has already indicated its willingness to extend credit to the applicant on established terms.

Many consumers who finance the purchase of their vehicle use indirect financing. While the precise percentage of consumers who use indirect financing is not known, industry sources suggest that indirect financing accounts for a majority of all auto finance transactions.

2.2 Other sources of auto financing

Another type of financing is offered by “Buy Here Pay Here” dealers, where financing is obtained directly from a dealer without the involvement of a financial institution, and is most often used by consumers with poor or no credit. The interest rate on loans from a Buy Here Pay Here dealer can be much higher than loans from banks, credit unions, captive lenders or other lenders.⁹ Buy Here Pay Here lenders tend to sell high-mileage used vehicles, charge higher than average interest rates, and may utilize starter interrupt and GPS devices to keep track of the vehicle after sale.

Consumers also have the option to lease an automobile. A lease is an agreement to use an auto for an agreed number of months. The consumer does not own the auto and returns it after the lease ends. Consumers may have the option to buy the vehicle at the end of the lease. In the third quarter of 2015, approximately 31 percent of new auto acquisitions were leases.¹⁰

This report does not address Buy Here Pay Here financing or leasing.

⁹ Experian AutoCount, January 2015 – December 2015.

¹⁰ Experian State of the Automotive Finance Market Third Quarter 2015 at 7.

2.3 The complexity of auto purchase and financing

In the automobile financing process, consumers need to make a series of choices, including, for example:

- where to get financing
- how much to finance
- the duration of the loan
- how much of a down payment to make (if applicable)
- whether to trade in a vehicle, or sell it separately (if applicable)
- whether to purchase add-ons such as extended warranties and whether to include those in the financing.

All of these factors¹¹ influence how much a consumer will pay for the loan, and therefore, the effective cost to the consumer of the vehicle transaction.

The interest rate that consumers pay for an automobile loan may be negotiable, but generally is affected by the consumer's credit score(s), the vehicle purchased, and the specific requirements of different lenders. Consumers with lower credit scores will generally pay higher rates due to the increased risk that they will not be able to pay off the loan in full. Consumers buying new vehicles pay lower rates compared to consumers buying used vehicles since the value of the collateral is generally both higher and easier to predict.

¹¹ In addition, there are other choices related to the transaction that may affect financing and its costs, including spot deliveries, the choice of new versus used vehicles, whether the consumer plans to prepay (and if there are prepayment penalties), and whether the consumer owes money on the trade-in and plans to roll that balance into the new loan. Further, there are other factors outside of the actual transaction that relate to creditworthiness and will affect how much a consumer pays and the interest rate he or she can obtain, such as, past credit problems.

One factor that adds to the complexity of auto financing is the growing availability of loans with terms longer than the traditional 60-month repayment length. The percentage of vehicle loans with terms of 73-84 months has grown steadily, reaching 28 percent of all new autos financed, and 16 percent of used autos financed in the third quarter of 2015.¹² Consumers may not realize the extent to which the lower monthly payments from longer term loans can increase how much they will pay over the life of the loan. Consumers who take out longer loans run the risk of being “upside down” on their loans, in which they owe more on the loan than the auto is worth for a longer time, and also run the risk of simply paying more for their vehicle and loan.¹³

The fact that a consumer has many choices to make about the vehicle purchased at the same time as the auto financing decision can compound the complexity of the process. Consumers may fail to focus on the loan as they consider the type of vehicle to purchase, the price of that vehicle, and the value of the trade-in. Consumers also need to consider other costs associated with auto ownership, such as taxes, titling fees, insurance, gas, and maintenance.

2.4 Shopping for an auto loan

Based on data from the National Financial Capability Survey, 50 percent of consumers report comparison-shopping for an auto loan.¹⁴ In addition, research by one nonprofit organization

¹² Experian State of the Automotive Finance Market Third Quarter 2015 at 26.

¹³ Note that being upside down on an auto loan will likely also depend on the down payment, the agreed-upon purchase price, and other costs rolled into the financing, and may be affected by the choice to purchase a new car given the significant depreciation associated with driving a new vehicle off the lot.

¹⁴ FINRA Investor Education Fund, Financial Capability in the United States – National Survey Executive Summary (December 2009). This survey was also conducted in 2012, but the comparison shopping questions were not included in the 2012 survey. Recent research released by the Federal Reserve Board found a similar percentage (53 percent) of consumers reporting that they had shopped for interest rates or loan terms (Board of Governors of the Federal Reserve System, Report on the Economic Well Being of US Households in 2015 (May 2016).

suggests that approximately half of consumers who finance at the dealership do not negotiate the terms of their loan.¹⁵

As with any situation in which the consumer has to make choices about both the purchase of product and the financing – for example, in the purchase of a home -- consumers may find it challenging to shop for and consider the financing separately from the choice of product. This situation can be particularly complicated in the vehicle purchasing and financing process, in which multiple terms and factors are considered simultaneously. Consumers may be unaware of the full costs of the transaction, their financing options, or the ability to negotiate terms. For example, consumers may negotiate on many of the aspects of the auto financing, such as interest rate, and term of loan – but this negotiation can be difficult when the impact of these loan terms are not immediately transparent, or can change during negotiations. A consumer may negotiate for a lower interest rate, but if the financing offer then has a longer loan duration, the total cost of the loan may not be lower.

If the lender or dealer emphasizes and the consumer focuses on primarily on the monthly payment, other important aspects that contribute to the overall cost of the auto loan may not be fully considered. Auto financing discussions generally come at the end of hours of shopping and negotiation. Consumers may feel pressure to accept financing terms so that they do not have to renegotiate the transaction.

2.5 Implications for financial educators: Impact on financial capability and well-being

The CFPB's research on consumer financial well-being¹⁶ suggests that people who have higher levels of financial well-being, "Ask, Plan, and Act" when faced with a financial decision. The

¹⁵ CNW Marketing Research, Document 1237: Haggle over new-vehicle price/trade-in value (CNW, 2010a).

critical first step, “Ask,” refers to financial research that supports informed financial decision-making. Helping consumers adopt research and planning behavior through information and tools – one aspect of what the CFPB refers to as “Know Before You Owe” - can lead to good financial choices in the financing of their next auto purchase and for a lifetime of future financial decisions as well.

Making informed choices about automobile loans can contribute to a consumer’s financial well-being. As the terms for auto loans increasingly are longer than 60 months, these loans can constitute significant, long-term financial obligations that either help or hinder other financial and life goals. The average length of ownership of a vehicle by U.S. consumers is approximately 8 years,¹⁷ so the auto budgeting and financing process is regularly repeated by many consumers. Because many consumers use auto financing throughout their lives, and because the financing can substantially affect the full cost of auto ownership, there is a great benefit in helping consumers learn to shop effectively for auto loans.

¹⁶ Consumer Financial Protection Bureau. Financial Well-Being: The goal of financial education (February 2015).

¹⁷ <https://www.experianplc.com/media/news/2014/analysis-shows-that-the-longer-consumers-hold-onto-vehicles/>

3. About methodology

To gather information about consumer experiences related to auto budgeting and financing, we conducted a series of focus groups with consumers around their auto financing decisions. We also looked at data from complaints submitted to the CFPB in the “vehicle loan or lease” category.¹⁸

3.1 Focus groups

Focus groups can be a valuable way to understand common opinions, beliefs, and values that individuals hold, as well as how wide their experiences may range. Focus groups are not intended to give statistically significant data that can be generalized to all consumers. However, this method can yield rich qualitative information about what many consumers think and feel.

In May and June 2014, the CFPB conducted a series of focus groups with 308 consumers in Boston, Massachusetts; St. Louis, Missouri; Atlanta, Georgia; and Seattle, Washington. The consumers were selected to represent a variety of experiences with automobile purchase and financing,¹⁹ and with financial decisions in general. Though the participants represented a

¹⁸ While the CPFB does receive complaints about auto leasing, this report does not address leasing, as very few consumers in our focus groups had experience with leasing.

¹⁹ Not all consumers in the focus groups who purchased autos used financing. Some focus group participants paid for their vehicle with cash.

demographically diverse group, they are not statistically representative of the overall population.

Because the CFPB also screened for people who had significant experience with financial products and decisions, the consumers the Bureau talked to were generally more likely to have purchased a vehicle within the preceding 12 months and have more experience with and knowledge of the auto purchase and financing process than the general population.²⁰ Thus, these focus groups provide insight into the views of certain types of consumers but should not be seen as representing the thoughts or experiences of all consumers.

3.2 Consumer complaint data

The Dodd-Frank Act established the handling of consumer complaints as an integral part of the CFPB's work. The CFPB began accepting complaints in July 2011, and as of June 1, 2016, the CFPB has handled approximately 906,400 complaints. The Bureau currently accepts complaints on many consumer financial products, including credit cards, mortgages, bank accounts, student loans, auto loans, other consumer loans, credit reporting, money transfers, debt collection, payday loans, and virtual currency.

The CFPB's Consumer Complaint Database is a public database of consumer financial complaints that includes basic, anonymous information about complaints received from individual consumers, including the date of submission, the consumer's zip code, the relevant company, the product type, the issue the consumer is complaining about, and how the company handled the complaint. Starting in March 2015, the Bureau gave consumers the option to publicly share their stories when they submit complaints to the Bureau ("public narratives").

²⁰ Specifically, 50 percent of the focus group participants had purchased a car within the previous 12 months, 45 percent had purchased a car more than 12 months ago, and 5 percent had never purchased a car. According to recent research by the Federal Reserve Board, 24 percent of consumers surveyed had purchased a vehicle within the previous 12 months. (Board of Governors of the Federal Reserve System, Report on the Economic Well Being of US Households in 2015 (May 2016).

Since this option became available, more than half of consumers submitting complaints to the CFPB website have opted in to share their accounts of what happened.

In the public narratives of the Consumer Complaint Database, as of April 20, 2016, there were approximately 2400 narratives related to auto issues where consumers had opted to share their experiences publicly. The CFPB reviewed the subset of these public narratives (approximately 2000 narratives)²¹ that dealt with consumer complaints about vehicle financing, and then identified themes and areas of consumer concern or confusion, which are described below.²²

The CFPB identified similar themes and areas of concern in both the focus group discussions and the complaints. While we cannot generalize these themes and areas of concern to the broader population, we have gained qualitative information about some consumers' experiences and perceptions around auto financing. The information gathered is intended to provide financial education providers with more perspective on some of the issues consumers have experienced in auto financing.

²¹ The other approximately 400 public narratives on auto dealt with vehicle leasing and auto title loans.

²² For purposes of this study, we are focusing on the narratives of those who elected to make their complaints public, and that group may not be representative of complainants generally. However, the themes reflected here are generally similar in type and distribution to all complaints submitted to the CFPB on auto issues.

4. Consumer experience with automobile finance

4.1 Focus group results

The consumers who participated in the focus group discussions generally viewed the process of automobile budgeting and financing as confusing and stressful. Most of these consumers said they negotiated some part of the purchase or loan, usually the amount of monthly payments or the total price of the automobile. Few consumers said that they negotiated interest rates or other financing terms.

Roughly one quarter of the focus group participants paid for their automobile purchase in cash. Approximately 70 percent financed a purchase (either new or used vehicle)²³ and just over half of those did so through direct financing from a bank or credit union. A very small number of focus group consumers borrowed money from a friend or family member or used a Buy Here Pay Here dealer.²⁴

Some themes that emerged from the discussions with consumers are described below.

²³ This is slightly higher than the national average. Approximately two-thirds of all auto purchases (combined new and used) are financed. (Calculation based on data from Experian State of the Automotive Finance Market Third Quarter 2015 and <https://www.nada.org/WorkArea/DownloadAsset.aspx?id=21474839178>).

²⁴ We do not report on the findings related to consumers who borrowed from friends or family, or who went to a Buy Here Pay Here lot, due to the small numbers of both types of consumers in our focus groups.

4.1.1 Consumers said the situations in which they purchased a vehicle matters

Consumers in the focus groups reported different types of situations that had led them to purchase a vehicle. The context in which consumers were making the purchase decision appeared to influence the amount of comparison shopping and research they felt they were able to do. Those situations were:

- **Urgent or immediate need.** Many consumers in the focus groups described an urgent need for a vehicle due to an accident or breakdown of their vehicle. These consumers said they completed the automobile buying process within a day or two of the accident or breakdown. For these consumers, the search and purchase processes were compressed, and they were not able to thoroughly research either their purchase or how they financed it. Some consumers stated they relied on intuition because of the urgent nature of the decision-making process. Others discussed the heavy burden that the immediate need for a vehicle placed on their finances.
- **Replacement in the near future.** Some consumers in the focus groups said that they did not have an immediate need for a new vehicle, but knew that they would have to purchase one in the near future to replace their existing vehicle. These consumers reported having more time to research and make decisions.
- **Transition in life.** Some consumers in the focus groups said they bought a vehicle based on their transition into a new life stage, such as a move, retirement, or change in household. Their levels of focus on research and shopping were more varied.

4.1.2 Consumers said they seek information primarily about the vehicle (not the financing)

Most consumers reported doing some type of research before they purchased a vehicle. Nearly all of their research focused on the selection and price of the automobile, and not on the financing. Consumers in the focus groups consistently cited two sources of information they used during the auto purchase process:

- **Immediate family.** For consumers in the focus groups, the most common source of information cited was immediate family. Some reported receiving information from

family members that supplemented their own research, while others said they received hands-on assistance during the purchase process.

- **Automotive websites.** Consumers stated that they felt more knowledgeable and empowered after conducting online research. Some consumers said they used websites that include interest rate and auto loan calculators. Sources of online information mentioned included Consumer Reports, Kelly Blue Book, Edmunds, Auto Trader, and the National Automobile Dealers Association, among others.

4.1.3 Consumers said they used various negotiating tactics for purchasing vehicles

Some consumers reported negotiating during their automobile purchase experience, primarily on the price of the vehicle. These consumers discussed various tactics they used to negotiate, such as:

- Relying on information resources like family members and automobile purchasing websites.
- Shopping at specific times when consumers believe dealers are more likely to sell vehicles faster and at a lower price.
- Negotiating between dealers for a lower purchase price on the same vehicle.
- Using classified advertisement websites to negotiate between individuals and dealers for a lower purchase price on the same vehicle.

4.1.4 Few consumers reported focusing on the total cost of the financing

Consumers in the focus groups cited several economic decision factors when shopping for a vehicle. How they prioritized factors depended on the person, his or her financial situation, and his or her intentions for the vehicle. Most consumers in the focus groups focused on the monthly payments or price of the vehicle, and some expressed confusion about how changing financing terms could change the total cost of the auto and the underlying loan. A small number of consumers said they considered overall cost of ownership, including expenses like insurance, fuel, and maintenance.

The three primary decision factors mentioned by consumers in the focus groups were:

- **Monthly payments.** Many consumers reported focusing on the amount of the monthly payment and not on the terms of the financing or the total amount to be repaid over the term of the loan. Of these consumers, some did not appear to clearly understand that lower monthly payments extended over a longer period of time meant ultimately paying more than a higher payment over a shorter time frame.
- **Price.** Some consumers reported that they paid attention primarily to the price of the vehicle, or the price of the vehicle plus the interest rate, though this was not as common as focusing on the monthly payment.
- **Value retention.** Some focus group consumers said they placed weight on the present and future value of the vehicle. Many of these consumers said they thought buying a used auto was an advantage since the initial depreciation a new vehicle would face had already taken place. These consumers frequently mentioned that they traded in their vehicle when they went to the dealership. For these consumers, how well a vehicle retains its value appeared to be equally as important as the cost or monthly payment.

4.1.5 Consumers reported they rarely negotiated financing details

Many consumers in the focus groups said they did not consider or attempt to negotiate financing terms or interest rates, and some expressed confusion about the difference between direct and indirect financing. Many of these consumers noted they believed financing offered by dealers and financial institutions would be essentially the same. Some consumers in the focus groups also indicated they were unaware that they could negotiate financing terms and interest rates.

Those who did research their financing options mentioned strategies such as:

- Pre-qualifying for a direct loan through a bank or credit union in order to better negotiate indirect financing interest rates and terms. Some consumers reported that they prequalified for financing at a financial institution, then negotiated with the dealer and chose the loan with the lowest interest rate they could find, regardless of the source.
- Checking their credit reports or scores to understand their own creditworthiness before going to the dealership, in order to better negotiate financing interest rates and terms.

4.1.6 Many consumers reported they purchased add-ons offered during the financing process

Many consumers in the focus groups had negative perceptions of the sales process for extended warranties and other add-ons, and sometimes of the add-ons themselves. Some consumers explained they experienced “decision fatigue” by the time they finalized their purchase, and feelings of being overwhelmed and scared were not uncommon.

Notwithstanding these negative perceptions, the majority of consumers in the focus groups reported buying add-ons during the process of arranging financing. Some said they had planned on purchasing them for peace of mind. On the other hand, a roughly equal proportion reported that they had not intended to purchase these add-ons until they were at the dealer. The cost of these add-ons was typically added into the financing.

4.2 Patterns in consumer auto purchase and financing

The CFPB delved into consumer perceptions and motivations to identify patterns. These patterns may help financial educators and others interacting with consumers to better tailor information and resources to help consumers in managing their vehicle budgeting and financing. Note that because the focus group participants were not representative of the U.S. population as a whole, it was not possible to estimate the sizes of groups demonstrating these patterns. Common focus group responses suggest two major segments of auto buyers: those who finance and those who pay cash.

4.2.1 Consumers who reported they financed their vehicles

The CFPB identified two types of consumers who financed the purchase of a vehicle: those who reported comparison shopping for direct and indirect financing, and those who said they sought indirect financing through a single dealership.

The focus group consumers who said they comparison shopped for financing generally reported that they:

- investigated and shopped around for financing offers and terms, particularly interest rates, with multiple financial institutions before purchasing a vehicle.
- regularly used financial products and services and felt they possessed substantial knowledge about how credit works.
- were confident in their ability to get favorable credit terms and often had moderate to high credit scores, so they believed that shopping around for financing was worth the time and effort they invested.
- found pre-approval reassuring, as these individuals believed it was something that provided them leverage in negotiations.
- tended to be younger and possessed more investable assets. They were more likely to be college graduates and to be employed full time.
- if they had poor credit scores, may have attempted to shop for direct financing, but were denied. If denied, they then used indirect financing or cash for their purchase.

Implications for financial education: Because this segment of consumers reported they were already comparison shopping for auto loans, their financial education needs may not include focusing specifically on the value of comparison shopping and negotiating. Consumers in this segment may benefit from tools and information to help prepare for and manage their automobile financing search, from more information on the overall process, and from reinforcement of the need to look at the total cost of the loan.

The consumers who said that they sought financing only through a dealer generally:

- liked the convenience of indirect financing, and many believed that dealers and other financial institutions offer equivalent terms and interest rates.
- if they had low credit scores, reported that they used indirect financing because they believed direct lenders would deny their credit applications.
- tended to negotiate the price of the vehicle, but not features of the auto loan (such as interest rate and duration of loan).

Implications for financial education: This consumer segment could benefit from more information and decision-making tools related to the auto finance process to increase their

comparison shopping for auto loans and to negotiate for better loan terms. They could also benefit from an understanding of the value of focusing on the total cost of the loan.

4.2.2 Consumers who reported they bought their vehicles with cash

Cash buyers were individuals who told us they paid cash for the purchase of a vehicle instead of obtaining financing. Compared with those who said they financed, cash buyers in the focus groups tended to be less well-off financially: they reported earning less money and having fewer investable assets. They also reported being more likely to rent than own a home and less likely to be working toward paying down debt. Cash buyers said that they tended to buy used vehicles and spent less than those who financed the purchase.

Most cash buyers said they shopped for vehicles online, and many focused their search on online ads. In general, these individuals said they perceived the automobile-buying process as less stressful and attributed this fact to using cash. They also mentioned they felt more prepared for the purchasing situation because they did not have to exert the time and effort required to coordinate financing, and used this preparedness as leverage in negotiating a better price.

The focus groups identified two motivations among those who purchased an automobile with cash: those who reported paying cash on principle and those who said they did not believe that they could secure financing.

The consumers who told us they chose to purchase with cash on principle generally:

- were motivated by a strong opposition to debt.
- had learned lessons about taking on debt, and in some cases, said they were motivated to pay cash in order to recover from previous negative financial experiences.
- tended to be less well-off financially and believed they possess less knowledge about things like credit files and management of finances.
- tended to check their credit report less and were especially unlikely to check before shopping for a vehicle, as they knew that they would pay with cash.
- seemed wary of the financial system, and were pessimistic about employment prospects and the economy as a whole.

- may have felt that freedom from the stressful financing application process and unclear financing contracts were benefits to paying cash.

The consumers who purchased vehicles with cash and who told us that they believed financing was unavailable for them tended to:

- believe that poor credit likely limits their financing options, and as a result they said they felt constrained to a cash purchase.
- be more likely to be young, single, college students or recent college graduates, and people of color.
- feel that existing debt is an important constraint.
- hold optimistic views about their financial future and believe their poor credit situation is temporary.
- believe that they were taking positive financial actions, like establishing savings and charging purchases to credit cards only in emergencies.

Implications for financial education: The consumer segments in the focus groups who buy vehicles with cash could potentially benefit from financial education efforts to help them budget and save for vehicle purchases, improve their credit profiles (for those who have poor or no credit), and understand financing options if they seek to finance a vehicle in the future.

4.3 Highlights from the Consumer Complaint Data

This report reviewed the approximately 2000 public narratives in the CFPB's Consumer Complaint Database related to vehicle financing issues as of April 20, 2016.²⁵ A number of themes appeared in multiple narratives and suggest particular challenges that consumers face in navigating the auto financing process.

Note that while we observed these themes, we do not have data on how frequently consumers encounter these particular situations. Like the consumers in the focus groups, the people who submit complaints to the CFPB and who opt in to permit their complaints to be placed in the public database are not a statistically representative sample of the population as a whole. These themes provide a sense of the broad types of issues some consumers encounter that can provide insights for consumer educators. The themes also generally reinforce the findings from the focus groups described above.

The themes we identified in the Consumer Complaint Database public narratives are described below.

4.3.1 Lack of comparison shopping

Some consumers expressed they didn't understand the potential financing options available, or they did not feel confident in exploring options other than what was offered to them. For example, one consumer noted that he/she has assumed that the interest rate would be the same whether the loan was obtained from a dealer, an online lender, or a bank branch.

²⁵ There were a total of approximately 2400 public narratives on auto issues as of that date. Approximately 2000 public narratives related to vehicle loans. The other approximately 400 public narratives dealt with vehicle leasing and auto title loans.

4.3.2 Challenges in understanding and negotiating on vehicle loan terms

Consumers reported they found the terms of their vehicle financing options confusing. They also reported that they did not fully understand some terms or aspects of the loan (for example, loan term, interest rate, or lender) during the negotiating process or until after the process was complete. Consumers also complained about fees that they did not fully understand until later.

For example, some consumers reported that they did not fully understand the level of the interest rate they were paying until they started making payments. Some did not realize that the interest on their auto loan was compounding daily. Others were surprised when they realized that the cost of the financing would more than double the total cost of the vehicle purchase.

4.3.3 Promises of refinancing or better terms in the future

In some cases, consumers reported knowing they were not getting a good deal, but said that they were told they could refinance for better loan terms (such as a lower interest rate) at a later point. Some consumers reported they were told their payments would go down, or that the loan would be transferred to another lender with better interest rates after the purchase was finalized. Consumers reported that when they tried to follow up on these options, they found these options were not available.

For example, some consumers reported that they were unable to find a lender to refinance their vehicle because they were "upside down," i.e., the value of the vehicle was less than the amount owed. Some consumers also reported that they had been planning on lower monthly payments via refinancing and were concerned that they would default on their loans when they were unable to refinance.

4.3.4 Loans that last beyond the life of the vehicle

Some consumers reported that they faced challenges with their vehicles or loans that led to the loss of the vehicle, but consumers still owed money on their auto loan. In some cases, consumers believed that they could return the vehicle to the dealer but were not able to get the loan cancelled when they did. In other cases, the vehicles were repossessed and then sold, or were damaged or unrepairable. The consumers would be left with auto loans they had difficulty

paying, but no access to a reliable vehicle. Some consumers indicated they were discouraged when very little of the loan principal had been paid off after several years of payments.

4.3.5 Problems with add-ons

Consumers reported paying for add-ons they had not wanted. In addition, some consumers reported that lenders insisted that the purchase of add-ons were necessary for the loan to be approved. For example, in some cases, consumers said that they agreed to buy add-ons in order to complete the deal and go home. Consumers also reported that they discovered the add-ons they had purchased were difficult or impossible to use when needed. For example, some consumers reported that the GAP insurance they had purchased did not fully cover the balance of the loan after their vehicle was damaged or stolen.

4.3.6 Loan applications without permission and unexpected credit inquiries

Some consumers reported that dealers submitted loan applications to lenders without the consumers' permission, or added co-signers to loans without permission. For example, some consumers said after visiting a car lot or test-driving a car, they received letters approving or denying auto loans that they had not applied for. In some cases, consumers agreed to a loan with one lender but discovered a different lender listed in the final paperwork.

Consumers also reported that when they visited one or more dealers, there were multiple credit inquiries related to shopping for automobile loans. These consumers expressed concern that this had damaged their credit scores. However, many commonly-used credit scoring models count credit checks -- the industry calls them "inquiries"-- for an auto loan within a time span ranging from 14 days to 45 days, depending on the credit scoring model used, as a single inquiry. Thus, shopping around for a loan during that time will count the same as applying for just one loan.

4.3.7 Implications for financial education

While some of the themes mentioned above are not primarily related to lack of consumer knowledge, it is important for consumers to "Know Before You Owe" by understanding the different components of the auto financing transactions and which components are negotiable or optional. Consumers can also benefit by knowing that they can voice complaints (if appropriate) when challenges arise. It is also important that consumers feel empowered to

comparison shop in advance, to examine documents, and to know they can walk away if they suspect the loan is not in their best interest. This suggests the need for financial education initiatives designed to help consumers navigate the automobile financing process and watch out for potential problems.

In their own words

Consumer narratives from the CFPB Consumer Complaint database

“I assumed....that [the lender] would offer a competitive rate regardless of how it was obtained (i.e., online, branch, or auto dealer).”

“I purchased this vehicle at a high rate under the impression that I would be able to afford it after a very short time [by refinancing].”

“[The dealer] subsequently applied for a legitimate loan without my consent or knowledge.”

“I recently purchased a car from [a dealer] and gave my permission to have my credit ran ONCE.... Since my application was approved my credit has been ran a total of [multiple] other times since without my permission. This has significantly brought down my credit score due to hard inquiries which were made fraudulently and without my permission.”

4.3.8 Special consumer segments

Similar to the findings in the focus groups discussed above, we identified consumer segments in the complaint narratives that reported particular challenges in navigating the financing process. Specifically, two segments that had difficulty with the automobile financing process stood out in the consumer narratives:

- **First-time automobile buyers.** Some consumers noted they were first-time auto buyers, and they reported that their lack of experience with the process resulted in confusion about the loan terms and unfavorable loan terms.
- **Consumers with an urgent need for an automobile.** Some consumers mentioned they needed an auto immediately, and this limited their ability to shop around and negotiate for a better deal.

Both of these consumer segments could potentially benefit from financial education efforts to help them understand and navigate the automobile financing process.

5. Conclusions and implications

The diversity of consumer perceptions, attitudes, and behaviors in the focus groups and consumer complaint data brought to the surface some broad challenges and themes related to the experiences and struggles of some consumers navigating the auto financing process.

As part of the CPFB's interest in helping consumers to "Know Before You Owe," the CFPB wants to help consumers make informed choices around automobile financing. The CFPB encourages consumers to do three things:

- Shop for and compare financing options when purchasing an auto, including bringing a financing offer to the dealership;
- Look beyond the monthly payment and consider total cost of financing when choosing an auto loan; and
- Be aware of situations and financing features that could lead to costly surprises down the road.

Comparison shopping for financing can have important economic benefits for consumers and can help them be more financially empowered to make the best decision for themselves and their families. Elements of comparison shopping may include, for example, acquiring pre-approval for an auto loan at a bank or credit union – and using the information and tools noted below to help navigate the process.

To help consumers understand what they are borrowing and receive the best loan for their situation, the CFPB encourages consumers to look beyond the monthly payment when comparing financing offers. Consumers can benefit from using the total cost of the loan -- meaning the full cost of interest and principal over the life of an auto loan --- in comparing offers. Looking at total cost, not just vehicle price or monthly payment or another single aspect,

can assist consumers to keep track of multiple factors that may be in flux during negotiations for an auto loan, and help them ensure that they obtain the best financing for their situation.

To help consumers navigate the process of obtaining an auto loan, the CFPB has developed resources that financial educators may also find useful. These resources can be found at consumerfinance.gov/auto-loans:

- The **Auto Loan Worksheet**, which can help consumers look beyond monthly payments by keeping track of and comparing different automobile financing options.
- **Take Control of Your Auto Loan: A step-by-step guide**, an auto loan guide to help consumers understand and navigate the auto financing process, at.
- The **Take Control of Your Auto Loan website**, which presents information from the worksheet and guide in a web-friendly format at www.consumerfinance.gov/auto-loans.
- **Ask CFPB.** The CFPB answers consumer questions about auto budgeting and financing as part of the Ask CFPB website at consumerfinance.gov/askcfpb/.
- **Submit a complaint.** Consumers who have complaints about their vehicle loans can submit complaints online at consumerfinance.gov/complaint or by phone at (855) 411-2372.

These focus group results and consumer complaint themes can inform the work of financial educators and others who help consumers navigate their financial lives. We encourage the broad array of stakeholders who work with consumers to incorporate messages and information around automobile financing into their work with consumers.