NCLC Report Finds Discretionary Pricing and Racial Disparities in Auto Add-on Products Sold by Car Dealers

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A Groundbreaking First Look, Based Upon a National Data Set, Reveals What Dealers Pay for Add-ons and What They Charge Customers; Advocates Urge Federal and State Action

Download the report, 19 charts, and tips for consumers at: http://bit.ly/2kmubox

BOSTON – Most consumers would be surprised to learn how car dealers prey on them with sucker pricing of add-on products, such as service contracts and window etching, which can add thousands of dollars to the price of a car. For example, one customer in Kentucky who paid $299 for window etching never knew that another customer at the same dealership paid $1 for the same product. But now, for the first time, NCLC unlocks the door on this hidden market in Auto Add-Ons Add Up: How Dealer Discretion Drives Excessive, Arbitrary, and Discriminatory Pricing, an analysis of a national data set of three million add-on products sold from September 2009 through June 2015. Key findings: add-ons lead to unreasonably high and inconsistent pricing, and Hispanics pay higher prices than non-Hispanic customers for the same product.

"Our analysis demonstrates the negative consequences of opaque and inconsistent pricing of auto add-on products and the urgent need to bring transparency and consistency to this market," **said John W. Van Alst, director of the National Consumer Law Center's Working Cars for Working Families Project and the report's primary author**. "Our findings also reveal the troubling practice of dealers charging Hispanic customers more for the same product."

Key Findings

- **Add-on products are sold at prices far higher than dealer costs and marked up much more than similar products**. For example, the average markup for service contracts was 83 percent and for window etching 325 percent, while independent auto insurance agents' commissions average 11- to-18 percent.
- **Dealers are inconsistent in the pricing of add-on products, with even individual dealerships charging some consumers many times more than other consumers for the same product with the same dealer cos**t. For example, during May 2013 one dealer in Michigan charged customers from $349 to $5,000 for the same window etching product, while the dealer's cost was $50 (chart 6).
- **This inconstant pricing for the same add-on products leads to pricing discrimination, with Hispanics charged higher markups than non-Hispanics**. For example, the average percentage markup for a service contract was higher for Hispanics than non-Hispanics in 44 states. While demographics and sample sizes limited the number of states where differences were statistically significant, there were14 states for which the differences in both percentage and absolute markups were statistically significant. In each of those 14 states, Hispanics were

marked up more on a percentage basis, and in all but one state. Hispanics were marked up more on an absolute basis. These states were: Massachusetts, Virginia, New York, Florida (percentage only), Kentucky, Minnesota, New Jersey, Connecticut, Missouri, Nebraska, Arizona, California, Oklahoma, and Texas (chart 13).

- **Companies that provide car financing play an important role in allowing excessive and discriminatory markups of add-on products**. About 80 percent of car buyers obtain financing at the dealership. Potential creditors give dealers conditions about what sort of transactions they will accept. In order to get more business from dealers, some creditors allow higher markups for add-on products. For example, in Ohio, Ally Bank financed just 10 percent of GAP insurance where the dealer cost was $150 to $250 (chart 18) but it financed 74 percent of these same deals where the customer price exceeded $900 (chart 19).

These excessive markups on add-on products set in place a chain of negative consequences for the entire auto market. The expensive add-ons increase the price of cars and also increase the loan to value (LTV) ratio for cars. This increases the amount that consumers finance without providing any real increase to the value of the car, resulting in more negative equity and higher default rates.

"The National Consumer Law Center findings are incredibly troubling," **said Marisabel Torres, senior policy analyst at UnidosUs**. "The fact that Latino consumers were charged in excess for unnecessary add-ons in the car buying process demonstrates a need for increased oversight in this sector of the market. It is entirely unacceptable that corporations use race and ethnicity as a factor in determining what they charge customers for the same product. We urge state and federal authorities to further investigate and bring enforcement actions against those found to be engaging in these discriminatory practices."

Key Recommendations

- **Dealers should be required to post the available add-ons and their prices on each car in the lot, along with the price of the car.** To prevent the dealer from reintroducing non-transparency by offering discounts to some customers but not others, the prices for the add-on products must be non-negotiable.
- **To root out pricing discrimination, the federal Equal Credit Opportunity Act regulations should be amended to require documentation of the customer by race or national origin for non-mortgage credit transactions**, as is currently required for home mortgage transactions. If discrimination remains hidden, it will not be possible to end it.
- **State and federal enforcement authorities should investigate discrimination in pricing of add-on products and bring enforcement actions against a dealer if discrimination is shown**. The Consumer Financial Protection Bureau, the Federal Trade Commission, the Federal Reserve Board, and state attorneys general all have authority in this area.

"These predatory practices bury consumers deep in debt before they even leave the lot, and trap people in older, less-safe, higher-polluting vehicles," **said Rosemary Shahan, president of Consumers for Auto Reliability and Safety**. "For the amount of money millions of consumers are being charged for worthless add-ons, they could buy a much newer, safer, more fuel-efficient car. For the sake of consumers, their families, their communities, and the environment, state attorneys general, as well as the CFPB, FTC, and Federal Reserve need to step up their game and put a stop to the discrimination and abuse."