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## **Auto Roundtable Proceedings**

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The National Council of La Raza (NCLR)—the largest national Hispanic civil rights and advocacy organization in the United States—works to improve opportunities for Hispanic Americans. Through its network of nearly 300 affiliated community-based organizations (CBOs), NCLR reaches millions of Hispanics each year in 41 states, Puerto Rico, and the District of Columbia. To achieve its mission, NCLR conducts applied research, policy analysis, and advocacy, providing a Latino perspective in five key areas—assets/investments, civil rights/immigration, education, employment and economic status, and health. In addition, it provides capacity-building assistance to its Affiliates who work at the state and local level to advance opportunities for individuals and families.

Founded in 1968, NCLR is a private, nonprofit, nonpartisan, tax-exempt organization headquartered in Washington, DC. NCLR serves all Hispanic subgroups in all regions of the country and has operations in Atlanta, Chicago, Los Angeles, New York, Phoenix, Sacramento, San Antonio, and San Juan, Puerto Rico.

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## **Introduction**

These proceedings capture the major themes discussed during the Auto Roundtable, hosted by the National Council of La Raza (NCLR) at its 2007 Annual Conference in Miami, Florida. Participants examined how auto market practices impact low-income and Latino families and offered recommendations to improve industry trends. The issue of auto finance and purchase has surfaced among low-income families because car ownership influences job opportunity and financial security. For many Americans, auto ownership can mean the difference between gainful employment and poverty. Places with good jobs are often distant from low-income neighborhoods and can be difficult to access by public transportation. Owning a reliable car helps clear the way to financial stability.

Low-income Latinos and recent immigrants are confronted with numerous barriers when securing private transportation. Dealers, lenders, and insurers are well-versed in the fine print of car transactions; however, car buyers are much less likely to understand the terms of their purchase. If you bring into the mix a second or third language, buying a car can be that much more difficult. In addition, many recent immigrants have no or thin credit files. This can keep them out of a prime auto market and force them to shop at dishonest dealerships mostly made up of buy-here, pay-here lots that are known for grossly inflated rates and deceptive practices.

## **Discussion Themes**

This section reflects dominant themes and points of consensus brought up by panelists and audience members.

**Finance-rate markups are often hidden from the buyer during purchase.** The auto market has hidden fees called “markups.” Markups are a standard means of profit for dealers and lenders; they are made up of the increase above the buyer’s original rates quoted by the lender communicated only to the dealer. The dealer will increase the interest rate and then present a buyer with a contract that has financing at that higher rate. In many cases, the finance company and the dealership will divide the profits. Since the buyer was never presented the actual rate offered from the finance company, say 2% for example, the buyer would never know that the 5.5% interest rate they received was inflated. Many car buyers are charged a markup, but studies show that Latinos are charged more often and in disproportionately higher amounts than Whites.

**The amount of interest paid on an auto loan is often difficult to decipher.** While a consumer may be satisfied with the low monthly payment she is given, she could end up paying double the value of her car because she did not know how much interest she was paying. Many dealers stretch out the length of a loan to build in more charges but maintain the appearance of low monthly payments.

**Yo-yo sales are a deceptive tactic used to trap car consumers with thin credit.** In the case of a yo-yo sale, a consumer purchases a car and takes it off the lot but the transaction does not end there. The dealership initially misrepresents the sale as having a certain low rate. However, the whole deal is contingent on whether the buyer qualifies for financing. The dealer allows the buyer to take the car off the lot only to be called back in a week later for the bad news. Thus the

yo-yo effect begins. In many cases, the buyer feels trapped. Some have already given a down payment and even traded in a car. In this case, the dealer knowingly presented a rate for which the buyer would never qualify. Since the buyer has already invested money, the dealer offers financing at a much higher interest rate, or the buyer must return the car and lose any investment already made. Many dealers will refuse to refund the deposit which is often paid in cash. Some dealers eventually repossess the vehicle. There is often little recourse.

**Members of the Latino community, particularly those who encounter language barriers, have experienced disparate treatment in the auto market.** Most car buyers who are native-born English speakers are easily confused by auto loan contracts. The fine print is even more difficult to understand if a buyer is Spanish-language preferred. A panelist points this out: “Everyone is at a fundamental disadvantage. But when you add it on to someone doing the deal in their second or third language, which is the case for many Latino immigrants, it presents all sorts of additional problems.” One might be given verbal guarantees in Spanish, which don’t make it into the English-language contract. This is where a lot of problems arise—when the conversation is in Spanish, but the contract is in English.

**Scams do occur within the community.** A consumer is occasionally scammed by someone he trusts. The scammer might be serving as a broker, but he is taking advantage of the relationship he has with the consumer. This is exacerbated when the buyer requires a translator. Cases have been reported in which a translator scams the consumer he is helping. He says, “Sign here” and “Don’t worry, trust me.” The broker, in this case, is profiting from the transaction without disclosing it to the buyer.

**The auto market is often regulated on a state-by-state basis; this makes consistency in consumer protections very difficult to establish.** Very little has or can be done on the federal level; however, federal regulation could possibly help make the auto industry more transparent on the whole. In the meantime, states should follow best practices as often as possible. If a state passes a bill with a positive focus on consumer rights, that bill should be replicated in other states.

**Low-income auto assistance programs offer an avenue that helps families purchase affordable vehicles.** Throughout the nation, there are programs that help subsidize cars for low-income families—some use donated vehicles, some use government-owned fleet vehicles. There are credit unions that help finance cars, and there is a small group of programs that offers matched savings for a down payment through individualized development accounts. These can help clients compare prices or get out of a bad auto loan. The programs also often keep records of their client demographics and have a better idea of market trends.

## **Recommendations**

This section presents recommendations made by attendees.

**Car consumers should remember that they have options.** Many are intimidated; this is particularly the case in the Hispanic community. Buyers might run into problems for a variety of reasons, such as language barriers or losing their driver’s license. They should know that they can walk away if they don’t feel comfortable with the offer. Buyers should always try to keep in

mind that they have other options. Even if a dealership is offering a good price, consumers are not required to accept dealership financing. Before even walking onto a car lot, a buyer should acquire pre-approvals from other lenders, such as credit unions.

**One alternative to industry-wide markup policies could be a flat dollar rate to compensate dealerships for brokering finance deals.** If dealers made a commission with a flat dollar rate for each vehicle, they could do away with hidden markups on interest rates which sap income and assets from Latinos.

**An alternative to confusing contracts could be a required one-page summary, clearly stating how much will be spent on the vehicle.** If a dealership provides a one-page disclosure that plainly lists the car's purchase price, how much total interest will ultimately be paid over the length of the loan, and how much in add-ons or markups are charged, the buyer would have a clear picture of how much they will spend on the vehicle overall. Most importantly, they would be able to compare prices and identify a fair deal. A panelist noted that if you offer a one-page disclosure, "it really can be an eye-opener to that individual to see what they're ultimately paying for, whether those markups are optional—what's optional versus what's mandatory."

**Documentation could greatly help guide policy.** As it stands, the auto industry is required to retain very little data about its clients. Little is known about client demographics, which makes race/ethnicity, gender, and other disparities that much more difficult to track. Reliable data could help policymakers improve industry practices. Currently, it's difficult to pinpoint exactly who is buying cars, how much of a markup they are charged, and so on. Bringing these figures to the surface would help policymakers figure out where they should direct their attention.

**Advocates might be able to play an important role as facilitators for car buyers.** Similar to housing counselors, specialized auto advocates could offer their knowledge during a very complicated financial decision. They could provide input on hidden fees, consumer rights, and reasonable loan rates to help level the playing field between consumer and dealer. Even if services are offered at a fee, buyers could feel more confident in their purchase. About this concept, a panelist said: "I think from a cost standpoint, I understand that there's some cost [in these counselor services], but I also think it's the kind of service that people would pay for in buying a car, and that way they don't have to try to become experts in the whole transaction."