

Consumers for Auto Reliability and Safety

April 1, 2012

Consumers for Auto Reliability and Safety (CARS)

Comments submitted in response to the request for comments from the

Federal Trade Commission

Motor Vehicle Roundtables

Project Number P104811

Auto Dealers Scam Troops over Auto Sales, Financing

First, thank you to the Commissioners, the Director of the Bureau of Consumer Protection, and all the FTC officials and staff who participated in and contributed to the Motor Vehicle Roundtables. We very much appreciate having been invited to participate on the panels, and also welcome the opportunity to submit further comments.

These comments are submitted to the FTC regarding Roundtable #2, which focused on auto sales / financing and the military, and are intended to supplement information that was provided to the FTC at that forum.

The documentation is largely comprised of excerpts from authoritative, well-researched reports issued by the U.S. Department of Defense, The Secretary of the Air Force, the Secretary of the Army, the Marine Corps, other military officials with decades of experience assisting Servicemembers and their families with financial readiness issues, academic institutions, and military-affiliated organizations. While they span over a decade, they are remarkably consistent in identifying auto sales and financing scams as leading causes of financial readiness problems for military Servicemembers and their families.

U.S. Department of Defense

It is essential for America's national defense that auto sales and financing scams targeting military Servicemembers and their families be curbed. As Undersecretary of Defense Clifford Stanley wrote to Michael S. Barr, Assistant Secretary of Financial Institutions, U.S. Treasury:

"The Department of Defense fully believes that personal financial readiness of

troops and their families equates to mission readiness....While each Military Service includes car buying and financing classes as part of its normal financial education curriculum, there are still documented cases of Service members falling victim to predatory practices and prohibitively expensive products.

To complement case studies conducted by consumer advocacy groups such as Consumers for Auto Reliability and Safety (CARS), the Department of Defense conducted an informal, non-scientific polling of military installation Personal Financial Managers, legal assistance officers, and DoD-contracted Personal Financial Counselors about practices they had encountered when counseling military clients such as 'bait and switch' financing, falsification of loan applications or other documents, failure to pay-off liens on trade-in vehicles, 'packing' loans with items whose price tag bears little or no relationship to their actual cost or value, and discriminatory lending. Seventy-two percent of the 659 counselors and attorneys who responded to this question said that they had counseled Service members in the past six months on one or more of these issues when covering auto financing with the client" ¹

The data call referenced in the DoD letter cited above is provided, in its entirety, below:

U.S. Department of Defense (DoD) Data Call Summary

"DoD asked questions of 841 officers who do financial counseling for the 4 main branches of the armed forces. This was not a formal survey and should be referred to as a "data call."

The vast majority (79%) of military counselors are seeing clients with auto financing problems.

- Only 21% of respondents had not seen a client in the past 6 months who had a problem with auto financing.
 - 41% of respondents said 1-10% of clients in the past 6 months had come about auto financing problems
 - 35% of respondents said 11% or more of clients in the past 6 months had come about auto financing problems
 - 16% said 11-20% of clients had such problems
 - 9% said 21-30%
 - 4% said 41-50%
 - 3% said more than 50%

Nearly half of counselors said that half or more of their clients are concerned that they cannot make car payments.

- Regarding counseling sessions in general (% reflects respondents of who answered the question (609 of 841 total)):
 - 45% said about half the time or more frequently clients could not make car payments

¹ Letter of Clifford L. Stanley, Under Secretary of Defense, United States Department of Defense, to Michael S. Barr, Assistant Secretary for Financial Institutions, United States Treasury, February 26, 2010.

- 3% said almost every time clients could not make car payments
- 22% said frequently clients could not make car payments
- Only 12% of respondents said that clients not being able to make car payments was not a concern

Counselors cite loan packing and yo-yo financing as the most frequent auto lending abuses.

- Regarding sessions in which auto financing was an issue, respondents said clients had the following concerns (% reflects respondents of who answered the question (657 of 841 total)):
 - 32% said loan packing was a problem about half the time or more frequently (7% said almost all the time)
 - 20% said "yo-yo" financing was a problem "frequently" or "almost all the time"
 (12% said "about half the time")
 - o 11% said falsification of loan docs was a problem half the time or more
 - o 15% said failure to pay off liens was a problem half the time or more
 - 13% said discriminatory lending half the time or more frequently

25% said other abusive practice half the time or more frequently" 2

U.S. Secretary of the Army

"Over the years, many of our soldiers have fallen victim to predatory lending practices and have entered into contracts for prohibitively expensive financial products promoted by some unscrupulous car dealerships and lenders....

In an era of persistent conflict and multiple deployments, our Soldiers and their Families are under increasing stress. In surveys conducted by the Department of Defense, finances rank among the primary causes of stress for most military families. As auto loans are often the most significant financial obligations of our Soldiers -- particularly within the junior enlisted grades -- we believe that greater government oversight of auto financing and sales for our Soldiers will help protect them and reduce unnecessary financial strain on our already overburdened Army Families.

Soldiers who are distracted by financial issues at home are not fully focused on fighting the enemy, thereby decreasing mission readiness. Protection from unprincipled auto lending enables our Soldiers to concentrate on their primary mission -- protecting our great Nation."³

U.S. Secretary of the Air Force

"Over the years, many of our Airmen have fallen victim to predatory lending practices and have entered into contracts for prohibitively expensive financial products promoted by some deceitful car dealerships and lenders....

² Ibid.

³ Letter of John M. McHugh, Secretary of the Army, to former U.S. Senator Christopher Dodd, May 12, 2010.

As you certainly know, we are in an era of constant conflict and multiple deployments, and our Airmen and their Families are under increasing stress. It is no surprise that finances rank among the primary causes of stress for most military families. As automobile loans are often the most significant financial obligation, we believe that greater Government oversight of auto financing and sales for our Airmen will help protect them and reduce unnecessary financial strain on our already overburdened Air Force families.

I'm sure you agree that Airmen who are distracted by financial issues at home decreases readiness. Protection from unprincipled automobile lending enables our Airmen to concentrate on their primary mission -- fly, fight and win in air, space and cyberspace."⁴

Marine Corps. Report

Relevant excerpts from the Marine Corps' Final Report on Financial Fitness are provided below:

Financial Fitness The importance of financial fitness to the United States Marine Corps' Mission

A Final Report

Prepared for and Funded by:
The United States Marine Corps
In cooperation with
Cooperative State Research, Education, and Extension Service,
United States Department of Agriculture

Prepared by:
The Financial Fitness Evaluation Team
University of California, Riverside
Karen P. Varcoe, Ph.D., Project Director
August, 2000

Findings:

"Owning New Cars. Buying a new car as soon as possible after reaching the first duty station is number one on the typical young Marine's list and also numbered first on the list of top financial problems at many of the state-side installations in our sample.

Car dealers and lending institutions are in unintentional collusion to make Marines buy new cars instead of more affordable used ones: the car dealers entice the Marine to buy on credit with little or no down payment and the lending institutions, as one staff NCO explained, are unwilling to give loans for used cars except over the long term at high rates of interest.

⁴ Letter of Michael B. Donley, Secretary of the Air Force, to former Senator Christopher Dodd, May 13, 2010.

'And the guy's going to be leaving before that. Or they can't afford the short-term loans the banks and credit unions will give them for used cars.' A great many young Marines begin their careers by shouldering thousands of dollars worth of debt in this way.

Conclusions:

We found widespread agreement that when Marines have pressing financial problems, their performance in the field can be significantly compromised, even to the point of endangering themselves, their unit, and the mission itself. Buying cars causes more problems than any other single financial factor."

Navy Marine Corps Relief Society Issues Similar Findings

"The Navy-Marine Corps Relief Society, an Arlington, Va., non-profit charity that assists families in financial trouble, said the single biggest financial problem military families face involves car issues. The charity provides nearly \$10 million in car repair assistance to families and individuals in the military each year, its largest category of assistance, said spokesman John Alexander. Because of continuing concerns about repair fraud, the group requires recipients to obtain two repair estimates before assistance is provided.⁵

Update from Navy Marine Corps. Relief Society

"Though not our number one, vehicle repair is generally in the top three categories of assistance in terms of dollar amount. Going back in our files three years to July 1, 2008, I show that car repair assistance has been pretty steady at about 13.3% of our annual total assistance. For the past 36 months we show a total of 14,544 assists for \$19,516,425."

Army Intelligence Base: Command Statements

"Citing a need to protect troops from abusive auto sales and financing practices, the military command at the Army Intelligence base at Fort Huachuca declared certain auto dealerships --Wildcat Mitsubishi in Tucson and Ideal Automotive, which operates Mitsubishi and Suzuki franchises in Sierra Vista — off limits, barring soldiers from conducting business there. Roughly 80% of the soldiers stationed at Fort Huachuca serve in Iraq or Afghanistan. ...

"We were concerned that our service members are being taken advantage of," a spokesperson for the base told *Automotive News*. Officials cite complaints that the dealerships cheated or at least misled soldier customers and threatened them with arrest or a tarnished credit history when they complained. Many soldiers who complained asked not to be identified out of 'fear of retribution' by the dealerships. In one incident, one of the dealer's sons, who worked at the dealership, rammed a soldier's car, grazing him and dragging the car 50 feet. The dealer's son was convicted and received 4 years probation over the incident...

^{5 &}quot;Car Dealers Rip Off Our Troops," Los Angeles Times, April 2. 2003

⁶ Jan Gaudio, Rear Admiral, USN (Ret.), Executive Vice President, Chief Operations Officer, Navy Marine Corps Relief Society, message of July 25, 2011.

In February 2006, a soldier stationed at Fort Huachuca bought a used 1995 Pontiac Firebird from Ideal Automotive. He soon returned the car to the dealership, due to mechanical problems. When he attempted to cancel the purchase, financed by a \$10,760 loan he had taken from Ideal Automotive, in order to purchase a different car at a competing car lot, the dealership refused to return his trade-ins, a 1994 Isuzu Rodeo and a motorcycle. The dealership threatened to identify the Firebird as repossessed, which would have trashed Tuman's credit report and remained on his credit for 7 years, affecting his job prospects and ability to obtain housing or credit. A bad credit rating can also affect a soldier's security clearance."

Legislative Testimony before California Assembly

"Last month, the [California] Assembly Committee on Banking and Finance heard testimony about financial scams aimed at members of the military. John Irons, director of the Navy-Marine Corps Relief Society in San Diego, told lawmakers his informal survey of Navy lawyers found "the number one issue they are confronted with is used car dealers who are taking advantage of military personnel." Among the alleged problems: loans with excessively high interest rates; sale of "certified" junkers; expensive add-ons with questionable value; and so-called "yo-yo financing," in which dealers try to change financing terms after a buyer has taken the car. Irons told me this is especially problematic among the junior enlisted members, who "may be purchasing their first car and just aren't familiar enough with how the transaction (works)"

National Consumer Law Center Report

"Military legal assistance officials in the San Diego region told NCLC that high-priced used car sales are "the single largest consumer (contract) problem that we see in Legal Assistance."9

California Military Task Force Report

"Under military law, service members can be discharged or even jailed for running up excessive amounts of debt. And chronic debt-to-income imbalances can jeopardize their national security clearance. According to a California task force report, the number of U.S. Navy discharges due to debt increased a whopping 903%, from 194 in 2000 to 1,999 in 2005."

U.C. Riverside Research

"Military men and women are singled out near bases all over the country for fraudulent car repairs and unfair lending practices, according to consumer groups and military assistance organizations. The problem affects many thousands of Southern California families at Navy, Marine, Air Force and joint services installations...Operating just outside the gates of

^{7 &}quot;Army Puts dealership off-limits," Automotive News, August 12, 2008.

^{8 &}quot;After car breaks down, Iraq vet wages new battle -- with dealer," Sacramento Bee, April 14, 2005.

^{9 &}quot;In Harm's Way -- at Home: Consumer Scams and the Direct Targeting of America's Military and Veterans," National Consumer Law Center, May, 2003.

^{10 &}quot;For soldiers, money is a minefield," Sacramento Bee, August 3, 2008.

major bases, some... dealerships prey on military families, particularly when a husband has been shipped out of the country, said Karen Varcoe, a consumer economics specialist at UC Riverside who has written academic studies on the financial problems of military personnel."¹¹

Statements by Judge Advocates General at Camp Pendleton and Naval Air Station

"These days at Camp Pendleton and the [Naval] Station, used-car dealerships are the No. 1 money pit for service members, Camp Pendleton's Maj. Daniel P. Harvey said. Harvey estimated that 450 Marines a year come to his legal-assistance office seeking relief from [auto] contracts riddled with high fees and interest rates. "Marines walk into a place that advertises \$99 down and you can leave with a car, but they don't consider the interest rate or the length of the loan, which can be 84 or 96 months," Harvey said. "There was a Marine who bought a 1995 Neon, and between the cost of the car and the interest rate, that car was going to cost \$45,000." The vehicle is worth \$2,000 to \$3,200... Harvey said the Marine is bound to pay the \$45,000 unless the used-car dealer decides to let him off the hook. Some car dealerships also [engage in] so-called yo-yo sales, said Harvey and Somerville, the naval station attorney. What galls Somerville is that often the same used-car dealerships taking advantage of service members are the ones hanging banners that proclaim they support the troops." 12

Additional News Reports

Additional news reports, including links to major investigative reports published by *Huffington Post, Mother Jones, Parade Magazine*, and other news organizations, are posted on CARS' website, at: http://www.carconsumers.org/military_ripoffs.htm.

Thank you again for the opportunity to participate in this important process. Should you have any questions regarding statements made at the Roundtables, or these comments, we would be most willing to provide more details upon request.

Respectfully submitted,

Rosemary Shahan President Consumers for Auto Reliability and Safety

^{11 &}quot;Scamsters preying on military families; dishonest repair shops, dealerships and lenders often take advantage of those in the armed services." *Los Angeles Times*, April 2, 2003.

^{12 &}quot;Holidays are open season on military wallets," San Diego Union-Tribune, Dec. 12, 2005.