

>> Male Speaker: I will. I think I still have a number where I can get to you.

>> Female Speaker: I'll give you my card.

>> David C. Vladeck: Okay. If people will take their seats, let's get started. Part of the reason why we wanted to start out on time is this proceeding is being Webcast. So, my name is David Vladeck. I'm the director of the Federal Trade Commission's Bureau of Consumer Protection. And I'm happy to welcome you all to San Antonio this morning. And I'm glad to see so many of you here today. I want to start out by thanking St. Mary's University School of Law for their hospitality. They were gracious enough to loan us their building today. It's a wonderful facility, and we're really thankful to St. Mary's for providing us this forum. I also want to thank my FTC, colleagues, led by Malini Mithal for putting together this roundtable. There's an awful lot of work that goes into putting one of these things on. As everyone here today knows, cars are a vital part of the lives of most Americans. Indeed, for many consumers, the purchase and financing of their car may be their single greatest expense. The FTC's Bureau of Consumer Protection is committed to ensuring that consumers do not face unfair or deceptive acts or practices when financing or leasing a car. To meet this commitment, the FTC is conducting a series of roundtable discussions to see whether and what extent consumer-protection issues exist in the sale, financing, or leasing of cars. We held our first roundtable in April in Detroit. I know many of you were there. I see many familiar faces. We spent a productive day examining the experiences consumers face financing the purchase of a car -- interest rates, markups, whether the experience differs for consumers offered prime or subprime loans, and related issues, such as spot delivery, contract add-ons, vehicle title problems, and dealer bankruptcies. We also look at consumer privacy issues, including the emerging use of locator devices. Now, as I said, I recognize some familiar faces in this audience, folks who were with us in Detroit. It's good to see you again, as well as many new participants, both here and watching on our Webcast. Today, we come to San Antonio to focus on how motor-vehicle sales affect members of the military and their families, a topic of great importance in this city, which is home to a number of military bases and many military families. We will also discuss consumer financial literacy and ways it can be improved, especially relating to the auto -- the financing of autos, a process, particularly for first-time buyers, that can be fraught with complexity. Tomorrow, we will focus on lending -- fair lending issues that may be associated with dealer-

assisted finance. We have a lot of ground to cover, and we have a lot to learn. We are fortunate today to have with us panels of experts who know these issues backwards and forwards. And they're a diverse group, representing many different points of view, including auto dealers, other industry experts, military specialists, state regulators, educators, and consumer advocates. We greatly appreciate their participation and the fact that many of whom have traveled great distances to be here with us today. I also want to extend a warm welcome to our new colleagues from the Consumer Financial Protection Bureau, which I think is now in its third week. Happy birthday. We really appreciate their collaboration, and I want to especially thank Holly Petraeus, the head of the CFPB's military outreach program, for making the journey here today. Thank you, Holly. This is an important event for the FTC and the CFPB. It marks our first real formal collaboration, and I'm happy to get that process started. Before I turn the podium over to Malini and my colleagues, I want to stress that these roundtables are critically important to the FTC. They will help inform us about what, if any, future actions we need to take. And we have many options, including increasing consumer and business education, targeted enforcement actions, promulgating rules or guidance, or other measures that we can take to ensure that this marketplace is fair. We welcome all points of view and any information that you may care to submit. I hope the panelists will have spirited discussions, and I urge members of the audience to participate, for those of you who are here, by asking questions to our panelists, and for those of you who are on the Web, by submitting comments through the FTC's Website. The more information we can obtain, the better equipped we will be to protect American citizens going forward. Malini, wherever you are, I'd like to turn this over to you. Thank you so much. Oh, one quick -- one quick point of information -- there is coffee. [Light laughter] You have to leave the building. You go out that way, you head left a little, and then to the right, there's a café and cafeteria, which has coffee, snacks, and other food. Thank you.

>> Malini Mithal: Good morning. As David said, I'm Malini Mithal with the Federal Trade Commission, I'm an assistant director in the Division of Financial Practices, and I'm going to be moderating the first panel -- "Military Consumers and the Auto Sales and Financing Process." I'll be asking the panelists questions that will focus on whether the car-buying and financing process differ for military and nonmilitary consumers. At the end, we are gonna try to save some time for questions from the audience. If you have a question, just raise your hand, and Jim and Robin will

have microphones. They'll come to you so you can ask a question. If you prefer to ask a question anonymously, there are cards in your packets that -- you can just write down a question and pass it to Jim and Robin, and they'll ask it for you. I'm gonna introduce the panelists and give you a short description of who they are. Their bios are in the packets that you have, so if you want more detail, you have it there. On my right is Marc Cross, the co-owner and general manager of Jordan Ford here in San Antonio. He started his career at Ford Motor Company as a marketing manager and continued his career working on -- in Ford dealerships in San Antonio. Next to mark is Holly Petraeus. Holly is the director of the Office of Servicemember Affairs of the Consumer Financial Protection Bureau. She previously served as the director of BBB Military Line, which provides consumer education and advocacy for servicemembers and their families. Next to Holly is Keith Whann. Keith is outside general counsel to the National Independent Automobile Dealers Association. His automotive and legal career has spanned over 27 years, beginning as an assistant Ohio attorney general. And finally, we have Mike Wood. Mike is the chief of Transition Support Services at Army Headquarters Installation Management Command. His portfolio includes managing and overseeing employment, financial, and relocation readiness, Army Emergency Relief, and the Military Spouse Employment Program. As you can see, we have a very distinguished panel here. Any panelist who would like to respond to a question, please place your name card vertically, and then I can just know to call on you. And please remember to speak into the microphone. I'm going to start with questions about the types of dealers that may be situated near military bases, whether they are franchise, independent, or "buy here, pay here," and whether they tend to employ former military members. Is there anyone who wants to tackle that first issue? Now I'm gonna call on Keith. [Laughter]

>> Keith Whann: Well, in that case, I'll volunteer to go first. [Laughter] I really don't think that there's any one type that tends to be toward or located near a military base. I think what you find in most communities is the dealers tend to be located where the customers are. So I think you probably, depending upon the city you're in and depending upon the number of consumers who are there, you probably will find a mix of all those things. The unfortunate thing is when you ask not necessarily are they franchised, independent, "buy here, pay here," but the type of practices they may engage in. As I've traveled the country over the last, as you said, 27 years, it seems to me that, no matter which military base you go to, there's a couple of schlocky car dealers that happen to be

there, there's a title-loan place, there's a pawnbroker, and perhaps what we need to do is focus on some of the businesses that are there. But I think what you will find around military bases and military communities is pretty much a mix of everything.

>> Malini Mithal: Okay. And, also, Keith makes a good point, that there are going to be certain practices at certain dealerships. To the extent we have any information about widespread practices, that would be helpful from the panelists. Please, Marc?

>> Marc P. Cross: Good morning. Our dealership is right here in San Antonio, so I only had to drive 20 minutes to get here this morning, and I'm used to 110 degrees. Our dealership is located just a few miles from Randolph Air Force Base. In the case of most manufacturer, OEM dealerships, the manufacturers decide where they want representation. So, in our case, our Ford dealership is located right by Randolph Air Force Base, basically, because Ford Motor Company needs representation in that part of San Antonio. We also have a used-car facility right down the road from Randolph on Pat Booker Road, right just a couple miles from the main gate, so we see quite a few military customers.

>> Malini Mithal: And how do servicemembers get to the dealerships? Holly?

>> Hollister K. "Holly" Petraeus: Well, I want to address this one, because there have been some notorious questions around how they get to the dealerships.

>> Malini Mithal: [Chuckles]

>> Hollister K. "Holly" Petraeus: One technique that, sadly, is still used occasionally is to offer a ride to the dealership, and strangely enough, the van disappears when you need a ride back. We just heard about one that was pretty egregious -- a young soldier at Fort Bragg, North Carolina, an E-1 -- that's about as junior as you can get, who accepted a ride to a dealership. What he didn't know was the dealership was in Virginia Beach -- that's four hours from Fort Bragg. And, of course, they were halfway there before he thought to ask that question. And the guy disappeared about half an hour after they got to the dealership, you know, sort of, "No, I'm going off duty now."

There's no ride back." This soldier had to get back in time for formation the next morning, so he didn't have a whole lot of options, at least in his mind, but to buy something that he could then drive back in. So that's something that has happened in the past, and there's still some -- I certainly won't say it's a general practice, but it still does exist out there, some really egregious examples of pretty much hijacking the customer and not letting them go until they've bought something from you to drive away in.

>> Malini Mithal: And, Mike, did you have something to add?

>> Michael A. Wood: Yeah, I just wanted to add to -- first of all, thank you for giving us the opportunity to be here this morning. I think it's important that you are aware of some of the issues that face our military population. I'll agree with Keith, as well as Holly, in terms of there are different types of dealerships that are located in and around our military installations. I think -- And that's why our focus is on prevention, primarily, and in the psychology of buying cars. In terms of commenting on Holly, there are also dealerships right on the installation, particularly in some of our overseas areas. So it really -- the location, again, is irrelevant. I think the psychology behind buying a car and the education and the tools that you need prior to going to buy the car are what the main focuses are.

>> Malini Mithal: Thank you. And, Keith, you had something to add?

>> Keith Whann: When you listen to this, I mean, I guess we're going back a couple of decades to throw in the keys to the trade up on the roof so the customer can't leave. You've got Marc Cross here from Jordan Ford -- obviously, looks like a great dealership, looks like doing things right, selling to the military right there. And we've got somebody hopping in a van because they're being given a ride. That practice is just flat-out wrong. And I think we're probably failing as a group if, in fact, we don't find a way to educate -- I'm going to say "kids," because I think what we're dealing with a lot of times are younger people who have enlisted, maybe it's the first or second car they're buying, and they're not sophisticated in the process. They don't know enough which dealer to go to. And if they're gonna go to the dealer that's gonna give them a four-hour ride and not give them the opportunity to get back, we've got a problem. But the problem there is in the -- not the practices

of the good dealer. The problem there is we need to focus on the dealers that will take advantage of probably the military or any customer.

>> Malini Mithal: Thank you. Marc?

>> Marc P. Cross: There's no question in my mind that, in every industry -- our industry, your industry, the industry of anybody who's in the audience and watching -- there's gonna be some bad apples -- no question. We're not gonna prevent that, ever, I don't think. But even if a car dealer didn't have a moral compass, even if their game plan was without a moral compass, it wouldn't even be smart business to go load up a bunch of E-1s, okay? Because when an E-1 or an E-2 comes onto a car dealership lot, the truth of it is, is that the sales force, in the back of their mind, is wondering if they can even get financing -- okay? -- which I know this is a topic of this. So they don't look at this level of customer as prey. They look at this level of customer as, "Well, I'm gonna try to fit their needs." And generally, you know, at that level, as you can imagine, I mean -- I have a 19-year-old. Their wants are a little bit different than their abilities, financially. And so the question in the salesman's mind, in our case is, you know, "In 110-degree San Antonio weather, am I gonna spend three hours with this young person and then find out that I can't get him approved for a loan?" So it's almost the opposite. They're not looking at this customer as prey. They're looking at him as a customer and not much different at all than any other civilian customer of the same age, same background, same employment history, same credit history, same education level -- things like this.

>> Malini Mithal: Okay. And a couple of people have mentioned kind of E-1s and E-2s. If Holly could maybe describe what, you know, what years that corresponds to, that would be great.

>> Hollister K. "Holly" Petraeus: Sorry, we love acronyms in the military, and I forget that not everybody knows them.

>> Malini Mithal: [Laughs]

>> Hollister K. "Holly" Petraeus: So, the enlisted ranks start with -- the most junior rank would be E-1. That's plain old private. It goes all the way up to E-9, which would be a sergeant major. And then the officer ranks would be O-1 all the way up to O-10, which is my husband -- that's a general. So, E-1 to E-9, just figure, the lower the number, the more junior the person is and the smaller their salary, frankly. But I will add one thing that makes the military a little bit different as a customer is that their salary is absolutely rock-solid. It will be paid twice a month. And there's a lot of folks that are very aware of that, and when you have big installations like you do around here, collectively, that's a very large payroll, and it does attract businesses -- good ones that will treat a customer fairly, but, sadly, some that will not.

>> Malini Mithal: And I think Keith was suggesting maybe that a lot of the military consumers that tend to buy cars are more junior, more in the E-1, E-2 ranks? Is that right? Or what can you tell us about the demographics of the military consumers that are buying cars?

>> Keith Whann: Well, a lot of the demographic information that I have come from talking to Holly, so I'll just parrot what we've discussed at numerous times. I think what you find is a lot of the military seems to be younger, and you've got this demographic of almost a bunch of first-time buyers. So, if you look across the board, they're not sophisticated in terms of buying a car. They oftentimes, I think, in talking to the many independent dealers that the NIADA represents across the country, you get essentially kids -- for our age "kids," anyhow, who go in to buy cars, and they're not sophisticated in the buying process. They probably fall in love with something they really can't afford, so then they're trying to just get financed, and what they're thinking about is, "Can I handle this monthly payment?" They're not thinking about gas prices, as many consumers don't, but they're also not thinking about insurance and other things that are gonna happen in their life. And as a result of that, they leave. They probably have served in the military. Maybe they have re-upped. They've got a bonus check. They think they're rich, and for a short period of time, they are. And they go buy a car, and they realize they can't afford it, and then they wind up in financial straits with a repossession or a problem. And this is somebody who's barely into their 20s and they're already looking at, you know, a bad financial plan for their life. And we just -- we seem to see that over and over. And I appreciate the fact -- you know, rock-solid pay is a good thing. So if you know someone's gonna come in, you ought to be able to know what their pay is, and if

they've got some sort of budget in place, know exactly what they can buy and exactly what they can afford, but, unfortunately, it often doesn't turn out that way.

>> Malini Mithal: And Mike, you had something to add?

>> Michael A. Wood: Yeah, thanks. Our target population is somewhere between 18 and 25, 18 and 24. Our nation is at war. So we have these young soldiers, young airmen, young Marine Corpsmen, that are downrange, they're in their foxholes, and for 12, 18, 24 hours, they're thinking about the things that they want to experience when they return to the States. And among those things are the slickest, the nicest, the BMW, the Mercedes -- not to leave out...

>> Marc P. Cross: Ford. Ford. [Laughter] Where's Jim? Jim told me this morning he just got a Mustang. [Laughter]

>> Michael A. Wood: ...and, of course, the Mustangs and the Chargers. So, it doesn't matter, because what happens is, when you're in that type of environment, there's a lot of, shall we say, extra income in terms of Savings Deposit Program incomes, bonuses, re-enlistments. So they have the cash when they come back. And it's sad that the good dealerships are infected by the bad ones. The good ones don't receive the publicity that they deserve. It's the bad ones -- it's the ones who charge that interest rate, who load the kids up in the vans to take them down to wherever, take them out to dinner, and then whatever other tactics that are used, and there are plenty out there, to get that guaranteed 15 and first or a part of that paycheck that they receive.

>> Malini Mithal: And Marc had something to add.

>> Marc P. Cross: Yeah, you're exactly right. I mean, I actually discussed this yesterday morning with -- I'm a Boy Scout leader, and one of our other leaders is an Air Force Academy graduate. And I told him what was gonna be going on this week and asked his opinion on the troops, and he said just that. I mean, he said that that's all they can think about when they're over there. And they come back with money, because they haven't had to pay for anything, basically, and sometimes, that they have a false sense of what they can afford -- no question about it. And then -- But he did

tell me about -- and I wasn't fortunate -- I wasn't -- I was not in the military. But he told me about the training. And they have some financial planning training. He told me about the Family Support Center -- I think is the right word -- where they counsel them on financial training -- not just for buying a car, for all kinds of things. And he said that it's really crucial that, you know, these young people -- some of this is mandatory, I understand, and some of it is voluntary. And he even said to me -- he said, "You know, it seems to me that guys like you would be perfect for, you know, giving your time towards, you know, on some of the bases, towards financial planning, towards, you know, how to buy a car, how to lease a car, how to -- should you, shouldn't you -- you know, things like that." So, and it -- My experience with young military is that, if you compare them -- I mean, none of us -- I'm 54. I mean, none of us, you know, at 18 had the experience that we have today, and whether it's civilian or military. And so -- and, I mean, that just kind of goes with the territory. And -- But my experience with the young military is that they come in a little bit more prepared, because they have some -- unless the young person was in a family where they talked about financial planning and they were pretty studious about it -- if they weren't, then they're -- and they're in the military, they have at least some background. They belong to credit unions. They go through financial planning class in the military. They've got a support system, like this Family Support Center. They've got some education before they come in. So, I mean, certainly, there's -- none of these are as sophisticated as most of us that have been around for, you know, 50 years, but they're probably more sophisticated than a civilian in the same age group.

>> Malini Mithal: Is that something that other panelists would agree with -- that, generally, military consumers walk in with a little bit more understanding of the process than other consumers?

>> Michael A. Wood: Well, I would tend to agree. Some of the things that we offer our new recruits are mandatory first-term training, and that's eight hours. That's across services. We do it again at their tech school, if -- I guess that's their MOS -- a lot of people refer to -- or their specialty. We do it again when they get to their first installation. And we like to take a cradle-to-grave approach. So from the time they're into the military till the time that they retire, we offer them that training. Some of it's mandatory, and, again, some of it's voluntary. Where we need help is reinforcing that training that we give them through the dealerships. If the troop can't afford the

car, let them know that. Don't bend the rules. Don't lower the payments. If they can't afford it, tell them they can't and send them back so that they can receive whatever other training that they need in some of the other areas, like life insurance, like new children that they have and they brought into the world that need to be -- to have a secure family, like investing, like some of the other important things other than that flashy Ford. [Laughter]

>> Marc P. Cross: Thank you.

>> Malini Mithal: And, actually, that's something that Mike is gonna be talking more about on Panel 5, as well. That's one of our "Financial Literacy" panels. So I'm gonna actually move us off to another topic that I think came up earlier. Mike, you were kind of making the point that there are a lot of military consumers that are overseas, and then they come back to get their cars. How does that process work? Are there any issues there?

>> Michael A. Wood: Well, yes and no. And, again, basically, you can either afford a car or you can't. What happens is, a lot of the major car dealers are pre-positioned on the installation, and that's a good thing because, most of the time when we're in the overseas environment, we get a local car or secondary car or a hooptie or however you want to refer to those cars that are located in-country. So, you save up your cash. You go over, you get financing typically from either your own institution back in the States or the local financing at the banks or credit union on the installations, you qualify, and, of course, there is a certain debt-to-income ratio that you must meet prior to getting the financing, and you buy the car. You know, the difference is, there are some really nice cars parked out there in the parking lot on some of those installations, and they're there for a reason. They're there -- In fact, I'm not ashamed to say that one of my -- that my last car was bought overseas and we shipped it back. There are some underlying factors, though -- for example, sales tax, value-added tax, import tax. You don't necessarily consider all of those things when you buy that flashy new car. But when you get back to the States and attempt to register it, that's when the real cost is involved in the entire purchase of that vehicle.

>> Malini Mithal: And, Holly, you had something to add?

>> Hollister K. "Holly" Petraeus: I actually wanted to mention on the whole issue of cars and going overseas -- And I'm not talking about deployments -- combat deployments now, but just going overseas -- I want to go the other direction, which is servicemembers don't always realize if they buy and finance a car here in the U.S., they can't take it out of the country unless they have a letter of permission from the lienholder to do so. And some of the lienholders won't give that permission. So we, also, when we were seeking input for this roundtable, we did hear from a JAG in Germany saying, "I see a number of people who end up having to do what you would call 'voluntary repossession' on their car because they bought this car, they're excited about it, and unfortunately, you know, the person who made them the loan didn't say 'Oh, by the way, if you go overseas, we're not gonna let you take it with you.'" And the other issue that goes with that is, sometimes, they'll find that their warranty is no good overseas, either. So that's that overseas kind of issue that I think is important to put out there. They are allowed to do it, but they have to have authorization from their lienholder, and they don't always get it.

>> Malini Mithal: And, Keith, you have something?

>> Keith Whann: I think -- [Clears throat] Excuse me. I think that's a prime example where the military isn't treated differently, but it should be, because I think you know when a member of the military comes in to buy a car, there is a likelihood that they're going to be moving from state to state -- there is a possibility they may be going overseas. So what you see in virtually every finance contract out there, and that is that the customer cannot move from state to state or leave the country, is now being applied to the military. So it's really not a discriminatory practice, but I think, in reality, if you're financing a member of the military, you should know this going in. So to act surprised when a member of the military is now moving, you almost have to move that up front to say, "If there is a member of the military, they've got to be able to be able to move with the car." To have a voluntary repossession because a lienholder will not give permission for someone to move when they knew that they're a member of the military and likely to move, to me, seems backwards. But by the same token, I appreciate the lienholder's necessity to try and protect their interest in the collateral. So there is a valid interest they have from a business sense, but we're not recognizing the needs of the military members in the process.

>> Malini Mithal: Is there a way to fix that process? Is there anything that could be done differently, so that this wasn't as much of a problem? Marc?

>> Marc P. Cross: I mean, I don't know if you can fix it. We would love, as car dealers, for the lienholders to allow them to take them overseas -- no question. It would make our lives easier. It would make the military's lives easier. Our experience is, two of my five guys that arrange dealer-assisted financing at our dealership are former military. And so I think we do a pretty good job, in our case, anyway, of educating young military about all of the terms of the retail contract.

>> Malini Mithal: Keith.

>> Keith Whann: Just... [Clears throat] Excuse me. ...one quick follow-up, if I might. Part of this is not necessarily an unwillingness on the part of the lenders. This is a very complicated process. And, Mike, you made a really good point -- when somebody buys a car and you think, "I'm gonna bring it back to the States," and you get hit with all these things, and you went all of the fee-based ways -- there's also situations where you may buy a car that isn't going to meet the necessary requirements to be on the road, and you may have to do accommodations to the car. So part of this is, we just live in a society where moving a car from one jurisdiction to another -- you think would be very simple, but it's not. And I think, you know, from a dealer's point of view -- I know I speak on behalf of independent dealers and Marc from franchise dealers -- the dealers would like nothing better. The car has been sold. They would like to give greater flexibility to the military member. But now you have a lender there, and if you've never dealt with this from a lending perspective, it's very complicated. "When the car goes, what do I do? Do I have a security interest? How do I go perfect that?" let alone state to state, absent a foreign country. So I think -- and I know from discussing with some of the lenders -- they just say, "No, we're just not gonna do it." "Why?" "Cause it's easier that way."

>> Malini Mithal: And then, just to switch topics for a moment again, I think Mike earlier was mentioning that the quote -- bad dealers are the ones that get attention. Is there any kind of process by which military consumers are put on notice that there are certain dealers who have engaged in certain practices? Holly?

>> Hollister K. "Holly" Petraeus: In extreme examples, the military does have the power to put a dealership off limits to military personnel. It means they literally are not allowed to walk in the door. There's something called the Armed Forces Disciplinary Control Board that is a local -- it's usually a garrison commander and some of his staff -- for instance, his military police chief -- and it can be local organizations, as well, that bring something to the table. For instance, the Better Business Bureau sits on some of these Disciplinary Control Boards as a nonvoting member. And basically, if they hear stories about someone that is consistently doing bad stuff to their military customers, they can, after quite a lengthy process, say that the company is off limits. And there was an example of a car dealer in Sierra Vista, Arizona, right outside the gates of Fort Huachuca -- big Army post -- who was pretty unrepentant about what he was doing and blew off the Disciplinary Control Board, and eventually, they put him off limits, and not that long afterwards, he went out of business, partly because he had basically, through what he did, cut off access to his customer base. So that is a weapon. It's a powerful one. It's not used that often. It does require a lengthy due process, but that's one thing that can be done.

>> Malini Mithal: Marc?

>> Marc P. Cross: It's also an example of how a young military servicemember has somewhat of an advantage over a civilian because in -- again, in the -- that same 19-year-old or 20-year-old or whatever in the civilian world, working for -- whatever -- Macy's Department Store or whatever -- they're not gonna put the dealer off limits, company-wide. So I think it's -- you know, it's a great thing. It's something that the military should do, and it's an advantage that a young military serviceperson has over a civilian.

>> Malini Mithal: And how -- So, you would say that process is effective, the off limits process, or how effective is it? Does it actually work? Do dealers -- I mean, do military consumers then avoid those dealerships, like...

>> Hollister K. "Holly" Petraeus: Oh, they can't go in without -- you know, they will be -- they're punishable under military regulations if they walk in them.

>> Malini Mithal: Okay.

>> Hollister K. "Holly" Petraeus: So, if it gets to that point -- Mike would agree there -- they won't -- they will not be in there. But it's not used that often.

>> Michael A. Wood: It's not used that often. Additionally, our many, many financial counselors and consumer advocates that are located within your Family Support Centers at each and every one of our installations -- there's an additional process in place where, just like that, a member would come in and receive one-to-one or family-type financial counseling. There's also a process in addition to the one that Holly mentioned earlier, where that person can fill out a complaint -- more or less, a complaint. First, we ask that that customer try to resolve that particular complaint with the management. And if management can't resolve it, this is when this process that Holly was referring to earlier starts going into play. So we would take the details of that complaint to that particular commander and request that that particular establishment is placed off limits. The sad part about that is some of our military members are hesitant to come in to use that process of filling out the complaint for whatever reason -- be it the fact that they are afraid that they got into a situation that they couldn't get out of or just embarrassment that, "I wasn't comfortable coming in. I didn't want to get in trouble with my supervisors. I probably shouldn't have done this, anyway, because I knew that I couldn't afford it." But the military has put some processes in place, and, again, our focus is back on that education. The issue is the fact that we need to educate them more and more and more and more. And we need help the other way, as well. We need you to help us to let them know that this isn't the right decision.

>> Malini Mithal: Let's switch to advertising a little bit. Do dealers that are located near military bases change their advertising in any way? Are there particular ads that are aimed towards servicemembers? Marc, can you answer that or...

>> Marc P. Cross: I mean, my knee-jerk reaction is "no."

>> Malini Mithal: [Laughs]

>> Marc P. Cross: We certainly, a couple of weeks ago, sent out an e-mail to all of our customers announcing the fact that Ford had offered a \$1,000 rebate for all military and, in fact, extended it to veterans, and we were pretty proud of that. And so, certainly, these days, in the electronic world, that's an example of advertising. And certainly, we were hoping to attract -- we're in a military town. You know, we're hoping to attract all customers. And so, again, I mean, quite frankly, if I sell my sister a car and I sell a military person a car, the military person will get a better deal because of that rebate. And I own the place. And it's my sister. So, you know, it is an advantage. So it's certainly -- We certainly market, but, you know, I wouldn't want anybody to be confused with looking at that in a -- in the wrong way. For example, right now in August, probably every retailer in America has got back-to-school sales going on. Why? Are they trying to take advantage of families? No. They got back-to-school sales going on because they know that there's people out there shopping for pants and shirts and shoes for school, for their kids. So, if you're in a military town and you market to the military, I mean, there shouldn't be anything wrong with that, as long as the marketing is creditable.

>> Malini Mithal: Is there any -- besides print and Internet and TV and radio, is there any other kind of advertising that dealers do for military consumers? Do they come in person to bases? Do they meet them at the airport? Holly?

>> Hollister K. "Holly" Petraeus: I will say there's what we call "affinity marketing," where there are dealerships that will use retired military pretty much to pitch their products. A young troop is dazzled by somebody who's a former -- who may be a retired E-8 or E-9 -- you know, "This guy says this is good -- it must be good." So there's definitely affinity marketing going on. And I think, also, certainly, anybody who's driven by a military post sees the little kind of used-car dealerships with -- in fact, there's one right in Arlington, Virginia -- "Military E-1 and up," you know, "no credit, no problem." You definitely see that sort of thing on the windows. So they're looking for them. But the affinity marketing can be a real issue. Some folks, I think, get, you know, get money for every troop they bring in. And if they're former military themselves, it makes the servicemembers that much more susceptible to them.

>> Malini Mithal: And, Keith, did you have something to add?

>> Keith Whann: I think the comments made by both Marc and Holly are really insightful on this. I would expect the dealer, like any business, to use whatever marketing is going to be effective. And if you're around military bases, I would think someone who's retired military would obviously work. And on top of that, I think, if you're dealing in a community, like with the military, where you have a lot of first-time buyers, then you're gonna see payment advertising and you're gonna see the -- no different than being somewhere in an economically depressed neighborhood, where you see, "Slow credit, no credit, bankruptcy -- no problem," you're probably going to see, "E-1, E-2," or whatever it is, "no problem." But I think -- I'll -- You have two questions that are hanging there, so I'll answer both. First and foremost is, if we had a program at our dealership -- and let's call it Marc's Dealership -- where he's there with military members, servicemembers who are retired, working there, and Holly's come up with some educational program how to buy a car, and we put it in together with Mike with a back-end process, and I treated military people differently, and I had had a couple of lenders that allowed them to move, heck, yeah, I'd advertise that. That would be a positive thing to go ahead and do, and I would do that if I had it in play. If I don't have that in play, then I'm gonna do essentially what everyone else would do and try and reach that constituency in whatever legal means it would be possible. And I think what you're gonna see more and more now -- amazingly, I did some work with AutoTrader at the NIADA Convention, and they were -- I was privy to a lot of the research that they had done and shared with us. And you'd be surprised at the Internet being the number-one thing for buying both a new and used car, where, essentially somebody spends 17 or 18 hours shopping, and roughly 11 or 12 of that, depending if it's a used car or new car, are online. But despite all that, two-thirds of the people who shop online just walk right in, and you've still got roughly 17% or 18% of consumers out there, in these studies, who are just driving by a dealership, they see that Mustang with the balloons on it or whatever it may be, or they see the dealership and decide to drive right in there. So what we're seeing here -- it hasn't hit the car business yet, but we're seeing social media have an impact in all other types of business and really having the impact in terms of where retail sales are going. And I think we're just starting to see social media, and that's a really, really broad term, but we're seeing social media now being used in the car business. And if you understand at all what social media is, by nature, binding a

group of like-minded people together, having a conversation, I would think that would be a very effective means of marketing to the military.

>> Malini Mithal: Okay, great. Let me start asking some questions about military consumers' credit and financing. So, do military personnel tend to have certain types of credit scores? Are they, you know, prime, near prime, subprime? Are they new recruits that often don't have much of a credit history? Who wants to start with this?

>> Michael A. Wood: Well, I mean, just by looking at the age bracket, we can kind of make some assumptions. The younger E-1s through E-4s, I would step out and say, would probably have not as good of credit as an E-5 through an E-9. Or an O-4, which would be a major or so equivalent, up to an O-10. So it's -- it depends. It depends on the education and training that that troop had, because you can come in with a bad score and learn how to fix it. So, if you look at the military being a microcosm of society, we've got some who are -- who have just as bad of a credit rating as some of the demographics on the -- in the civilian sector. So I wouldn't say that it was one particular credit or one particular range of a credit score.

>> Malini Mithal: Okay. Marc?

>> Marc P. Cross: It -- I mean, it -- I totally agree with you, Mike. And it total parallels the civilian world. It really does. You look at educational background, and, you know, that O-4 you're talking about, which I believe is my nephew. He did his second tour in Iraq. He ordered an F-150 King Ranch pickup from me before he got back -- little shameless plug there for Ford.

>> Malini Mithal: [Laughs]

>> Marc P. Cross: And it was waiting for him when he got back. He could buy anything on my lot, credit-wise -- anything. But those young servicemembers, E-1, E-2, E-3, they -- most of them have charge-offs on their cellphone, you know? They get a cellphone, and somehow, that goes bad. They have a laptop that they financed somewhere. That went bad. You know, there's issues there. But that also parallels the 18- or 19-year-old in the civilian world, as well. I totally agree with

Keith on this. If I were trying to figure out how to help these young people, I would be looking at an education, and I would be asking dealers as community servants to help with that -- to help educate -- help all of you educate, because at that combo, and then -- I don't know that you'll get the lienholders to do it -- I would love to see it as you suggested, Keith. But if the lienholders would let it go overseas, that would be wonderful, but that combo would be excellent.

>> Malini Mithal: Holly?

>> Hollister K. "Holly" Petraeus: I wanted to mention one thing that is unique to the military about having a bad credit report. The number-one cause now for military to lose their security clearance is a bad credit report. So that can have an impact that can cause them to not be able to do the job that the military spent a lot of money to train them to do. So it's a big issue, which makes it even more vital, frankly, that they do clean up their credit score, if they can, to avoid pretty much -- if they can't do their job, eventually, they're not gonna be able to stay in the military. So it's a huge issue for them. It's an important one. The other thing I wanted to mention, 'cause we have kind of gone that direction, is on the education issue. The Department of Defense does have something called the DOD Rule on Commercial Solicitation. And because of some abuses in the past, basically, it severely restricts who can go on military installations and do financial education. What happened was, back in 2003, 2004, there was a big series of stories in "The New York Times" about investment folks who were going on installations to do what were billed as financial classes, and they were walking in with allotment forms in their pockets and walking out with a series of new customers and putting them in, you know, questionable products. And when that story broke, the response was, "We are not gonna let this happen anymore." So the DOD rule severely restricts who can do financial education. It's limited to basically the military offices, like the ones Mike oversees, and a few folks that are vetted by presidential-level appointees. So, although I know there's great knowledge out there in the auto community, it's not quite as simple as it might sound for them to come on an installation and help teach, sadly, because there would be people who would take advantage of that opportunity to get a list of new customers.

>> Malini Mithal: And actually, this is something for the off limits process, the making sure that, you know, certain groups only come on to the bases to do education, complaints. These are

different processes we've been talking about with military bases. Has there been any kind of analysis of trends and complaints from military consumers or any kind of, you know, statistics or any widespread practices that we have any information about? And just let's keep thinking about that as we answer the questions. And maybe if it -- you know, one of my questions jogs your memory on that, please feel free to jump in with that at the time. Okay, so, going back to the credit and financing, do -- Mike -- or Marc -- I'm sorry -- you mentioned earlier that, you know, dealers are very careful about not selling a car to someone who can't really qualify for financing. So do military consumers experience any problems in trying to qualify for a car when financing at a dealership? Can anyone talk about this? Marc?

>> Marc P. Cross: Sure they do. Sure they do. Anybody, again, of that age and lack of credit or some poor credit, but mostly lack of credit, and income level is always gonna have some challenges -- again, civilian or military.

>> Malini Mithal: And, Keith, did you have something to add?

>> Keith Whann: When you have people with no credit, slow credit, they're always gonna have a challenge for financing. I think that the one difference here is, Mike, when you were saying before -- if you've got somebody coming back where they have the ability to make a large down payment, that probably changes the game. But, very clearly, when a dealer sells a car -- and let's assume it's going to be whether it's direct or indirect financing, as being financed by a third party, other than the dealer -- the dealer does not have an incentive to put somebody in a car that clearly can't afford it, that, in the first 60 or 90 days, is gonna have trouble paying. It's gonna end up in a repo 'cause they'll charge the dealer back. So the dealer should be of the same mind-set as the customer here in making sure, you know, as Mike said, you get them in a car they can afford. Not everybody can afford to buy the car they want. You know, buying a new car is supposed to be fun, it's a cool thing, but when you go pick out what you want to have, versus what you can afford to have, it's often different. But that big down payment tends to change things. But aside from that -- and you mentioned consumer complaints, going back to the '80s, when I was Assistant A.G. till today, I think you wouldn't see any differences in military complaints than you would across the board. Cars tend to be at the top -- car buying, the auto-repair process, and now you've got the Web and

the Internet -- I don't think there's any difference with respect to that. I think it has more to deal with the financial sophistication they may have and the educational background about buying a car in terms of what their experience is.

>> Michael A. Wood: And the difference is flash over substance. If my eyes are very wide in terms of, "That car -- I've got to have it. That's the dealership I'm going to go to to get it," it takes an honest broker to say, "No, this isn't what you want. We have to negotiate the purchase price, the trade-in, the financing," and some of those unnecessary warranties that are often offered by some dealers. So, it's a unique game that is played, and the unfortunate few dealerships are the ones that catch our military population.

>> Malini Mithal: Marc?

>> Marc P. Cross: Yeah, Mike, the only thing is I'd want to add you've got to be careful about -- warranties are unnecessary until you need them.

>> Michael A. Wood: Absolutely.

>> Marc P. Cross: And I'm certainly not complaining because I haven't been able to use my life insurance that I've been paying on, right? So, I've had customers hug me on the showroom floor for convincing them three years before to buy an extended service policy because they were presented with a \$5,000 bill that cost them a \$100 deductible. I think that whole education thing -- and I totally respect, Holly, what you're saying -- You know, maybe there's some way to allow certain dealers or certain people who are knowledgeable to help the military educate those troops. But I think that's what it's all about, is educating them. Certainly, you can regulate a lot of things, it builds a lot of fences. Instead, you know, it kind of -- it's almost like giving them the fish instead of teaching them how to fish. I would be trying to teach them how to fish and, as I said at the outset, I mean, every industry, everybody in this room is part of some industry. And you're going to find some bad apples in every industry.

>> Malini Mithal: Keith.

>> Keith Whann: Well, we've been on the slippery slope, and we just went off the deep end, and this is when it always happens. You can have some of the most knowledgeable, educated people out there in the world who are professionals to go buy a car, and many of them are our friends and neighbors, and they make the worst car deals out there. It's because we're not sitting here just dealing with the car. You took us here, so you get the credit for it, Mike. We're not just dealing with the car. I've got the car. And then I've got the trade-in. Then I've got the decision, do I purchase or lease? And if I'm leasing, do I really understand the cap cost reduction or the capitalized cost with the cap cost reduction, depreciation, the money factor, versus the purchase price of the car and the trade-in to have the amount I'm going to finance? And is it extended warranty or service contract? It might differ from state to state. And in some states, you have to have a dealer obligor service contract. You can't have a third-party contract. Credit life and credit disability is probably the worst decision you'll ever make to purchase. It's expensive, unless you can't get it elsewhere and you have somebody that gets sick or dies. And then you get into gap. Is it good or is it bad? Is it warranty? Is it insurance? It depends on the state you're in. So, now we have a very, very complicated process, and here is where I think it gets worse for the military, because if you're going state to state and you thought you knew the rules in one state, you now don't necessarily know the rules in another state. And I'm not saying that's a difference between right and wrong. It's a difference between even knowing what I'm looking at and how the products are presented. I know if I go to Marc's dealership, he's going to present the products and F & I honestly and ethically. He's going to tell me what they are. I'm going to know what I'm buying. He's not going to give me a packed payment. I'm probably going to sign or initial a form indicating I'm buying those products. I'm going to see the applications that are there, I'm going to see the warranty documents, and that's the right way to do it. And, you know, I probably need a service contract if I don't have a whole lot of money, provided it's a good one, backed by somebody that's insured and it's got some coverage for me. And I may want gap. But I probably don't want etch and I may not want ding and dent and tire and rim and everything else that's out there. So, buying the car is easy. Now we're into the financing, the paperwork, and state law, and it becomes very, very complicated and perhaps more complicated due to the mobility of the military.

>> Malini Mithal: Holly?

>> Hollister K. "Holly" Petraeus: I just want to weigh in to give you a sense of how complicated it can be. I've been married to my soldier for 37 years, and we've moved 24 times. So, you know, having a service contract was great with the dealer you bought it from, but if you -- you know, if you move on to another state, does it even still apply? It's definitely something to consider, and, again, I'm -- we've been in it a little longer than most people. That just gives you an idea of how much we all move.

>> Malini Mithal: Marc.

>> Marc P. Cross: Thank you to your soldier, by the way, for everything he's done for our country. First of all, the answer is, yes, most extended service policies, every single one we sell for the last 92 years, apply in every state because they're backed by the manufacturer for the extended service policy. So, there's another example of how, if we educate these young people, they can be prepared to ask the question, "Hey, is the extended service policy that you're selling me, Mr. Car Dealer, good nationwide? What -- or is it good barely by you? So when I -- when I move, you know, am I covered or am I not covered?" And so, in other words, I don't know that that's something that we can just, you know, draw a line and say, "Okay, you do it, or you don't," but if we teach them to ask those questions, you know, then I think everybody benefits.

>> Malini Mithal: Okay. So, Keith, you were making the point that buying a car is easy. It's the financing that's difficult. So, can someone kind of describe the process once a military consumer gets to a dealership, the car-buying and then financing process, particularly noting if there are any differences with the process for nonmilitary consumers? But if someone could just give a kind of quick overview of that, and then I have a more specific question.

>> Marc P. Cross: You want me to answer it? I mean, I thought about that before I came here this morning. I would hope there's two differences at our dealership. One difference is I would hope that our salespeople thank them for their service with a handshake. I would expect that that should happen. It better happen. We all do it in airports and everywhere else in our daily life. The second thing that should happen on the sales side is that the salespeople should tell the military consumer

that they qualify for whatever military benefits the manufacturer -- in our case, Ford -- is offering, like that \$1,000 I mentioned. On the service side, at our dealership, our service people -- not, you know -- our service people that fix cars, not servicemembers. Our service people should tell the military consumer that they get double reward points at our store, because we offer to senior citizens and all military double -- I mean, for lack of a better term, frequent flier points in our service department. So, they should tell them -- to me, that should be the only difference. At that point, it's exactly the same process as any other civilian in our particular case. And, I-I mean, that's the way I think that most dealerships should be doing it, and most of the dealers that I know operate that way.

>> Malini Mithal: And, Marc, if someone's not in uniform, how would you know that they're -- or when would you become aware that they're in the military?

>> Marc P. Cross: I mean, it varies. You know, it's no different, again, than when a civilian comes in. You don't know if he's in oil. You don't know if he's got oil wells or he's pumping oil at the gas station, you know? So, after a few minutes, or, you know, it comes up -- "What do you do for a living, blah, blah, blah?" -- and it wouldn't be any different if they were out of uniform than it would be a civilian. It just depends on case by case and how the conversation goes.

>> Malini Mithal: But is that something you generally learn before you get to the financing stage?

>> Marc P. Cross: Oh, absolutely. I mean, selling a car -- I think, you know, Keith mentioned it. I mean, it's supposed to be fun, isn't it? I mean, you know, all the research says it's the second largest purchase of the person's life, and so it's supposed to be fun. And there's no question, like I've said now two or three times, that in every industry, there's going to be some problems. But bottom line is it's supposed to be a fun thing. I mean, when a young couple gets a new car, you know, the first thing they do, generally, is go back and show it to the parents, and the young couple -- you know, usually the boy is anxious to show it to the girl's parents so he can kind of show off what he was able to do with the two of them. And then they go out to dinner and celebrate. And so it's supposed to be a fun occurrence. And that's, you know, really what the game plan needs to be. And, hopefully, it is at our store, our process.

>> Keith Whann: Marc, being a franchise dealer, and franchise dealers like your dealership might have some benefits from a manufacturer for the military. If you switch to an independent dealer, obviously, that doesn't exist. And if you were to speak to independent dealers across the country, as I have, if they walk in in uniform, I think you do the same thing you do in airports and everyone else. I think we all feel a debt of gratitude for their service. But when that military member comes in, he or she may not be wearing a sign that says, "I'm a military member." But if you're a salesperson who's been around a while, has some personality, you're going to know about the husband, the wife, the kids, what they do anyhow, so that ought to come out in conversation. But aside from the fact of having some relationship with a military credit union that may give a service member certain perks or benefits, there would be absolutely no differences buying the car, the financing. They are treated and should be just like any other customer. If they qualify, they're approved, and if they don't, you need to look at something else.

>> Marc P. Cross: I just want to add one more thing. I mean, I have literally, in my 20-- no, sorry -- 32-year career, I have literally scolded salespeople for not knowing what the customer does for a living. And I'll tell you why -- because it's rude. Not only is it not smart from a business standpoint, it's rude. You know, people buy from people they like. They're selling them a car. They should know about the person. People are generally proud of what they do for a living. And, you know, how dare the salesperson spend an hour with somebody and not know about their life, about something about their life that's important?

>> Keith Whann: Just one quick follow-up. I have a tendency to tell stories, and I won't do it, so I'll make it short. It is rude, and it's also not smart. I mean, if you've got somebody who's there -- and I've seen this happen. These go back to my -- One of the first complaints I ever received as assistant attorney general was a husband and wife that went out, trying to be economical, bought a small car, two-door car, subcompact, two kids under 3, two car seats. They're hard to put in. I've got the lady who decided that everyone else had an S.U.V. She wanted to have an S.U.V., and her chief complaint was it drove like a truck. You've got to find out about who the people are and what their wants, needs, desires are to be able to make sure you're putting them in the right vehicle. So, that conversation should be happening. You should know all that about the customer.

>> Malini Mithal: Holly?

>> Hollister K. "Holly" Petraeus: I'd like to ask the two car guys here at the table about the practice we continue to hear about -- it's really not from, I don't think, new-car dealers as much -- the practice of saying, "Go ahead and take the car. We'll finalize the financing later." And then you get the call back. "Ah, couldn't get you the financing that we talked about. You have to come back in, and it's going to be more." I'm curious to hear your take on that, because we certainly continue to hear about it.

>> Malini Mithal: Keith?

>> Marc P. Cross: Go ahead, Keith.

>> Keith Whann: Okay. Two things that that can be essentially dealing with, one of which can be just giving someone a car, saying, "Take it home," and, you know, we've all heard the stories -- take it home, like Marc was saying, show the parents, park it in the driveway, get somebody to fall in love with it, and then call them and say, "Hey, we're going to embarrass you. The price just went up." Typically, that should not happen, and that car should not be leaving the dealership premises without one of two things. Either it's leaving on some sort of test drive and there's written documentation allowing the consumer to take the car home, where their obligations and responsibilities are very clearly stated, or it's being done contingent on some sort of financing we refer to in the industry as a spot delivery. We've heard them called everything from "yo-yo sales" to "spot deliveries" to all sorts of different terms applied to it. They serve a purpose -- not the purpose that Holly is saying, because, quite candidly, if, in fact, the dealer's legitimately spot-delivering the car and they don't qualify for financing, what's probably going to happen in that case is the dealer's going to wind up making less money on the car. If the lender hasn't approved it, they're either going to have to cap them at the bank, which means it only goes to "X" amount, or what's going to happen is their credit wound up, because they forget about the laptop, the cellphone bill, whatever, and they didn't qualify on the right tier. Now, the more we deal with automation today and the more we have the relationships and the guidelines from the lenders in the industry,

we ought to be able to know a little clearer, if we have all the information, who should qualify for what rate. And, in fact, somebody leaving with that car -- because there's a whole source of things that can go wrong. That car gets into an accident and you deal with insurance and what can happen while they have it on a test drive. You really don't want that car leaving unless it's for a legitimate test drive or, in fact, it's a spot delivery. Someone who is doing what Holly has just indicated is likely breaking the law in a couple different cases, and it's not a dealership you would want to visit.

>> Marc P. Cross: Holly, I don't have time to sell the car twice, you know? And that's what that amounts to. It's selling the car twice. At our store, if by the end of close of business today we haven't sold 20 cars, new and used, we've lost ground because we're a big organization. So, I don't have time to sell it twice. Plus, it's not even the right way to do things. Again, it's not smart, it's not efficient, and it certainly doesn't promote, you know, long-term customers. It doesn't -- it doesn't promote. And then, you know, the next thought -- and maybe somebody's thought in this room is that, well, if you've got a recycling base, you know, then what do you need long-term customers for? I don't know if anybody is thinking that. But you -- if your game plan is to have long-term customers and good customer loyalty, then, you know, you're trying to treat everybody as good as you can so that those people will tell their friends, tell their neighbors to come in, and in the case of the military, tell all the guys on base. The practice that you're describing, I'm sure -- I'm sure it goes on somewhere. But, again, you know, if I were allowed to be on a base to give a few words of advice to young people, I would say, "Okay, when you go into a car dealership and they present you with the contract and they say, 'Well, go drive it for a few days and then we'll talk to you about the financing later,' you know, the instruction -- the education should be, 'No. No, I'm not going to do that, actually. Actually, what I'm going to do is I'm going to sit here until you tell me I'm approved at XYZ bank and this is my payment and this is my term.'" And, you know, that's what I would be telling these young ones, you know? So, again, it seems like it all circles back to the education.

>> Malini Mithal: I actually want to return to financing, so, Keith, unless you have something quick that you want to add --

>> Keith Whann: Very quick.

>> Malini Mithal: Okay.

>> Keith Whann: The practice we're talking about here -- Remember, if, in fact, somebody has left with a car and for whatever reason they cannot fulfill those terms, they're not obligated to buy the car. They come back, they drop that car off, they are not obligated to do anything with respect to the new deal whatsoever.

>> Malini Mithal: Okay. So, do military personnel ever come to dealerships having arranged their own financing -- I'm talking about credit unions and things -- earlier? Do we have any kind of statistics or just general widespread practice information?

>> Marc P. Cross: I don't have statistics, but I can tell you that 71% of our customers -- Well, I don't have any statistics specific to military, okay? [Laughter] I really believe the military parallels a civilian world, okay? So, I can tell you that all customers, 71% of our customers, buy their car through dealer-assisted financing, financing that we do at the dealership and arrange it through Ford Credit, Security Service Credit Union, all kinds of different lenders, okay? So, that leaves 29% don't, okay? Now, those 29% -- Some of them pay cash, and, actually, there's a lot of them lately, and I'm not even really sure why, but I'm glad they have the money, pay cash. And then others walk in -- we're in San Antonio, you know? Everybody who's associated with the military knows USAA. And USAA extends loans. They are a great company. And a lot of the military come in with drafts from them, from Randolph-Brooks Federal Credit Union here in San Antonio. So, they come in with their own bank draft. That's a wonderful thing for a car dealer, because now I've got a customer that not only wants my product, but the bank draft says they can afford it.

>> Malini Mithal: And if they don't walk in with their own financing, do they ever negotiate the financing? How often do military consumers tend to do that?

>> Keith Whann: Again, it's probably no different than all the other consumers, the well-educated consumer that knows you're negotiating the purchase of the car, you're negotiating, to some extent,

the trade-in value for the car, you're negotiating the financing and the related products and service with respect to that. Dealership is going to need to make so much money. As you said, I think, Marc, if you're not selling 20 cars today, you're losing ground. When he's operating his dealership or any person, man or woman, operating their dealership, no matter how big or small, you know how many cars you have to sell, how much profit you have to make to keep the people employed and keep the lights on and be in business. So, with respect to that, it's all negotiated, and depending upon what you're doing on the price of the car or the trade or the financing, then someone's going to make a business decision, "Can I sell the car or not, and are you going to purchase it and can you afford it or not?" So, I think it's the same for everybody.

>> Marc P. Cross: Exactly. Most military belong to credit unions, so, as I've said now a couple of times, they're a little bit more prepared than somebody of the same age group and same employment level and education level. So, when they come in, a lot of times they've shopped at their credit union. Sometimes if they have their bank draft in their hand, that's great. But sometimes they don't have the bank draft in their hand, but they know that they can get 2% or 3% or 6% financing at the credit union. And so our people are aware of that, too, because they hear it all day long from the consumers, both military and civilian world. And so, you know, do they negotiate it? Absolutely. Dealer-assisted financing is more convenient, and so if you're a military person and you know that, you know, 3.9% is a reasonable rate for this particular car and your particular credit situation, you know, you probably say to our businesspeople, "Tell you what -- I'll just do it right here. It's a heck of a lot easier for me if you do it at 3.9." In fact, they probably say, "If you can do it for 3.7," you know, but they come in relatively knowledgeable about that and probably a little more so than a civilian just because more of them belong to a credit union.

>> Malini Mithal: Mike?

>> Michael A. Wood: Yeah, just a quick comment. The military member that comes in with the financing, with the check -- I mean, that's great. That's the one that came to the class. That's the one that actually listened to us. The problem is are the ones that don't and the ones that perhaps haven't cleaned all up all of their credit yet and can't get that premier financing from some of our local institutions or the ones that are on the installation. The fear is, how much more of a

percentage is that military member paying at the dealer as opposed to bringing in his or her own financing? I mean, I don't know the answer to that, but I do know that the ones that are getting in -- in the most trouble without the statistics are the ones that came to class, listened to us, and were able to obtain that premier financing.

>> Malini Mithal: And does anyone have any information on the difference in the rates, with dealer-assisted financing versus financing that's arranged through the lender? Okay.

>> Marc P. Cross: I mean, I can just tell you my assumption is they're one and the same, because we're acting as an arm of the bank. So, if the bank didn't have us helping, they'd have to go build a bank, build another branch, hire more people, buy more furniture. So, instead, they've got car dealers that use, you know -- that assist in the financing. You think back to what happened after the tragedy on 9/11, okay? The manufacturers came out with, if you remember, 0%. And I remember that one TV reporter asked me, "Well, how does a customer know if he's really getting 0%?" I said, "Well, you just take the amount of money and divide it by 60 or whatever the term is, you know? If it doesn't come out to that to the penny, they're not getting zero." But if you look at what happened, if we didn't have dealer-assisted financing, God knows what would have happened to our economy. You know, if Ford Motor Credit didn't exist and, at that time, GMAC didn't exist and things like that, what would have -- what would have happened? So, the infrastructure of dealer-assisted financing provides more access to, again -- I'm always careful to say civilian and military, because we don't look at them really any different. But it provides more access. It definitely lowers the cost. No question it lowers the cost. If you took away all the dealer-assisted financing and all the banks could charge whatever they wanted because they don't have competition, supply and demand, what would they charge?

>> Malini Mithal: Holly?

>> Hollister K. "Holly" Petraeus: I just have to bring up when you were asking about sort of the difference, something we've certainly heard about, which is dealer mark-ups, where a dealer can mark up the interest rate higher than what the lender has come to them and said, you know, "This is what we'll give it for," and the dealer has the option to bump that interest rate up. I know that's --

In the meetings I've been to, that's certainly been a cause of real concern for people, that it is raising the price for the consumer who is unaware that it's even happening. So, I'm certainly not an instant expert here, but I did want to throw that out there, because it is something that we have heard about.

>> Malini Mithal: Keith?

>> Keith Whann: That was actually the point that I was going to raise and follow up to what Mike said. Remember, the financing is negotiable, and I would think that any lender, as Marc has pointed out, is going to have their bottom-line rate, whatever their zero percent rate would be. Finance mark-up does exist. It is not typically the 5 or 6 percent or points that you hear. A dealer might earn 2 to 2.5% finance reserve, some less than that, depending on what's there. If you're working hard in this economy with a shortage of used cars to sell cars, finance reserve is probably not as important to you as selling the car. And it's like everything else. If you've got, Mike, to your point, that well-educated consumer who's gone to his or her credit union or his or her bank and they're dealing with their customer and giving them the best rate, yeah, that could be a little bit lower than somebody who just walked in off the street and negotiated. Or it could be different from someone who negotiated a different price on a car as opposed to the financing because it's all part of the car deal. But it is a profit center, and an informed consumer will know that it is negotiable, and one who has a relationship with a bank or credit union may be better off to go there first.

>> Malini Mithal: Marc?

>> Marc P. Cross: I want to add it's an expense center, also. It's a high-expense center. First of all, there's a risk. The people, including this guy that's been with me for 20 years -- it's a former military. He's my director of my business office. They've got to provide information to the lender that's credible. They've got to investigate the particular customer, because we have a relationship with that bank. He's presenting information about the person, the customer, and the car to the bank, and the bank is relying on this information, okay? The bank doesn't want to find out later that it's an older car or the equipment is different or the customer really wasn't on the job as long as -- So, we've got risk associated with that. We have to make sure that we keep all these documents

private. Everybody is aware of all of the security now and all the rules that we have to follow. So, you know, as a practical matter, we're in -- you know, installing locks on doors that weren't locked before and buying file cabinets that weren't -- that we didn't have before, because we have to keep customer information private. So, there's costs associated. These people that arrange the financing -- You know, these guys are working 10 hours a day, six days a week. They're not volunteers. They are employees. They're doing it to make a living, okay? So, you know, at the end of the day, you hope that your revenue exceeds the expense, because last time I checked, that's what a business is supposed to do, okay? But there's a lot of expense associated with -- We just had a company come in maybe a week and a half ago and present to us a new -- you know, the technology's changing so quickly -- a new electronic pad. And it's for presenting customers with extended service policies and for presenting the menu of items. It is ridiculous how much they're asking for this computer pad. You know, it's a -- just basically a large version of something like you might sign in the grocery store when you sign your name for your credit card. But -- So, there's a lot of expenses associated with dealer-assisted financing, as well, and it's important that everybody know that. But I really believe that it lowers the overall cost and provides more access to the customer.

>> Malini Mithal: And since we're on the topic of dealer mark-ups, is there anything specific with military consumers where that process is different? Keith, can you speak to that, or did you want to make another point?

>> Keith Whann: Well, let me just follow up quickly, because Marc made a good point there. If you look at it for, let's just say, 2 points on a \$10,000 loan, for a couple hundred dollars, if you really thought through everything -- the filing, the safeguard rule, and the disposal rule and all of the other stuff that goes there -- you might not go down that road but for the fact that what he's indicating is 7 out of 10 buyers don't have financing. And we need to remember to be able to look at this from a balanced approach -- that even though we're not dealing with nonrecourse or recourse financing, so we have a recourse situation if the customer doesn't pay, Marc's dealership or my dealership would buy back, you still have on every one of the lender agreements representations and warranties. And you're going to have to make sure that you follow and you're able to comply with those reps and warranties. If you don't, you're buying the deal back. So, sometimes you really need to make an informed decision of what happens there. In tying in the military consumers,

some of the reps and warranties and some of the limitations, again, on the financing would make it more difficult to be able to finance a military member versus a nonmilitary member, but they should, in theory, be treated the same.

>> Malini Mithal: And are there ever situations where dealers would offer an interest rate to a military consumer with no mark-up?

>> Marc P. Cross: I would say it happens.

>> Malini Mithal: Do you know often?

>> Marc P. Cross: I don't.

>> Malini Mithal: Since we've been talking a lot about extended warranties, let me just kind of ask a few questions about that. So, once a consumer has made the decision that they want to -- or a military consumer has decided they want to purchase a car, they go back into the financing office, and then are they presented with a menu of options that looks the same as the menu that civilian consumers get?

>> Marc P. Cross: Absolutely. You know, it really is important that -- I mean, let me just back up. My son has a 2005 Ford Super Cab. I bought an extended service policy for that truck off myself, okay? I mean, think about it, okay? I could bring his truck in and have our dealership just fix it and probably go up to any one of my 40 technicians and say, "Hey, can you fix my son's car?" You know? But I bought an extended service policy off myself. Now, one of the reasons I bought it is because he goes to college seven hours from here. So, I know that if there's a problem -- okay? -- he can get it fixed at any Ford or Lincoln Mercury -- Lincoln dealership nationwide, okay? But he can get it fixed at our place, also. And, for me, it was part of the education process for him, too, so he understood about extended service. But, yeah, absolutely. We present a menu of those items. You ask the customer questions, like "How many miles do you drive?" and "How long do you plan on keeping the car?" Certainly, you know, because you can tailor the extended service policy to

the particular needs of the customer. And, really, that's what you need to be doing all the time. Everything is pretty much about the needs of the customer. You've got to find these things out.

>> Malini Mithal: Okay. And given that you can tailor kind of what's offered each of the consumers, is there any tailoring that should be or is done with military consumers? Is that something, Mike, you can speak to?

>> Michael A. Wood: Actually, I'd like to, and I'm not suggesting that extended warranties aren't good, because in some instances they are. The concern that we have is if you went to the average soldier today and asked whether or not you've been deployed or whether or not you've been out of the country, 8 times out of 10, that soldier is probably going to say yes. Now, as soon as the soldier buys that vehicle, probably within the next 12 to 15 or 18 months, they're probably going to be deployed. They don't even want to take their car with them. So, if I were to tweak a warranty for the military, and this is Mike speaking, I would say, "Let that warranty also be valid at the" -- and I just want to use Ford, because that's where you're representing -- "Let that be also available at the Ford dealer in Germany. Let that be a reciprocal agreement between the big corporation, where we can get our car fixed over there, as well, and not just in the States."

>> Marc P. Cross: You know, the other -- It is a good suggestion. The other thing -- the other side of that that we see at our story is, you know, this guy goes off to Iraq and his wife is here with the car and something breaks down on the car. Now, you're, you know, describing that guy sitting in his foxhole over there, and what a comforting feeling -- think about it -- of knowing that she's going to go in and pay a \$50 deductible or \$100 deductible or \$0 deductible and get a repair done and it's going to be easy for the spouse.

>> Malini Mithal: Keith?

>> Keith Whann: We've had issues in the past with warranties and just merely taking a Canadian vehicle and having a Canadian vehicle and being manufactured -- and I'll stick with this point -- a car manufactured in Canada coming over here going to Canada and had warranty issues in terms of coverage. So, Mike, I don't know. Obviously, that would make sense, because I can tell you

virtually all of the products that would be sold by independent dealers, where you would want to have a service contract or extended warranty, depending upon the state and the label that should be used, applicable wherever you would move, most of that's going to be the Continental United States. You might get into Canada. I don't know of any of them that would predispose being able to go to Germany, for example. We also want to be careful, because we said earlier when a customer buys the car, they go to the F&I office. They're presented a menu. There's a lot of small mom-and-pop dealerships out there -- some are franchise dealers, some are independents -- where you're not going to be looking for the F&I tower. You may have the same people who are selling you the car offering the financing. You may have someone whose so-called menu sells and puts it on their menu with prices, but, at a minimum, you should have, at some point in the process, being offered the products, and what should be happening is, in my dealership and everyone that I've worked with, big and small, for the last 27 years, you present all the products to all of the customers all the time. So, if in a dealership you've got a service contract, a gap product, and you do credit life and A&H, then you should offer all those products to all the consumers all of them and have them make their choice if they want it or not. You're not smart enough to pick and choose what they need. And by that, you also have them signed off so there's no discrimination against anybody and everybody gets to make an informed decision.

>> Malini Mithal: And, actually. we're going to open it up for questions. So, Jim is over here. He's got a mike. And Robin's back there with a mike. So, it looks like Rosemary has a question. Maybe Robin's closer.

>> Rosemary: Thanks very much. Question for any of the panelists -- There's a lot been made of the fact that military has access to the possibility of a dealer being declared off limits, but one problem we've seen is that you declare a dealer off limits, they go out of business, and then they're back in business again, and it's very easy to get a dealer bond, and it's like revolving-door criminality. And my question to you is we're a nation at war. Doesn't our military have better things to do? Don't we have a duty to protect military? Shouldn't we not burden them with that?

>> Malini Mithal: Who'd like to tackle that? Keith?

>> Keith Whann: I would agree that we shouldn't burden them with that, and, quite candidly, we shouldn't burden any consumer with that. If the solution here is to go to a base commander and have them declared off limits to not go there, that's no different than having to go to the A.G. and having the A.G. bring an enforcement action. We've probably failed if the structure in our enforcement system is someone has to be really bad before we're going to be able to stop it. And I think, you know -- I don't know how to do that, how to identify the bad actors before they do it, but I do know through education and trying to help, and, in particular, the military. I don't want somebody in the foxhole -- I want them thinking about the good car and what they're doing and having fun and dodging bullets. I don't want them thinking about their wife or husband back home stuck with a car that they can't pay for or they've moved and now they don't know how to do the title work. They cannot be thinking about that. But other consumers shouldn't have that trouble, either. But I think we owe, perhaps, a higher duty to the servicemember.

>> Malini Mithal: Holly?

>> Hollister K. "Holly" Petraeus: I'll just mention you've kind of brought up the dilemma, I think, of every enforcement agency, which is it's impossible to play Whac-a-Mole and beat down all these bad actors with big ideas who just pop up again in a new place. So, although you do want to enforce whenever you can and hopefully put these folks out of business permanently, I think a big part of the component has got to be education on the other side to try to help the customers -- in my case, the military customers -- recognize the red flags and just do a U-turn at the door of that dealership and walk right out again. So, it's got to be the two things, because, unfortunately, nobody's got enough people to shut all these folks down, sadly. And you can't rely on the conscience of these people to stop doing what they do.

>> Marc P. Cross: Totally agree.

>> Malini Mithal: Any other questions?

>> Male Speaker: Good morning, and thanks to all the panelists. Ms. Petraeus has identified a problem we've seen at our installations in the Marine Corps, which is the yo-yo sale or the spot

delivery. And a previous panel, one of the A.G.s, mentioned that they prohibit spot delivery there, and now we have an industry, a representative saying, essentially, you shouldn't leave the lot unless you have the financing finalized. Why don't we just prohibit spot-deliveries, then? What's the problem with that?

>> Malini Mithal: Marc?

>> Marc P. Cross: Well, there's different definitions, first of all, of a spot delivery. At our dealership, we're going to deliver a customer, with a contract in their hand, with financing arranged, and if they're a previous customer that we know, which a lot of them are, or if their credit score is such that it's totally obvious to us that it will be no problem obtaining financing, then we deliver the car. Now, I don't think that's the definition of spot delivery that you're talking about. But there's -- I do believe -- and I think it's state-regulated, anyway, in different states. But I do believe that the real way to sell a car is to obtain the financing and all the terms before the customer leaves.

>> Malini Mithal: We might have time for one more question.

>> Hollister K. "Holly" Petraeus: I was just going to add 50 different states, 50 different sets of laws. That's why it would be difficult to say, "Let's just not have this." In fact, I was surprised, as we did a little research before I came today, to discover that, for example, in Colorado, that is a state where you can drive away with a car legally without the financing having been approved. But the down side of that is apparently there's a \$50 a day, 50-cent-per-mile rental fee if the financing isn't -- when the financing isn't secured by the car dealer, so not something you'd want to get into but just an example of how states can differ and how challenging it can be to do something across the board.

>> Female speaker: This is somewhat of a follow-up to that, as well. I can see where you would not have too much trouble getting paperwork in place with a new car, but in the used-car industry, if a buyer wants to take a vehicle to a mechanic to have it checked or to another individual and their family to get approval or something like that, then can someone address how those differences would affect the spot-delivery issue?

>> Marc P. Cross: I can. I mean, even though I'm looked at as a new-car dealer in this room, we sell 225 used cars a month, and that happens all the time. That happens all the time. Why wouldn't you want to allow the customer to take it to their personal mechanic? All that's going to happen, if you're selling a good car, is they're going to come back and buy it. And so we have a little form that assigns their insurance to the car, if something happens, if they get in a wreck, God forbid, on the way home, and an agreed-upon time they're going to come back. But they haven't bought the car yet. They're just showing it to their mechanic. It's like an extended test drive.

>> Keith Whann: And that's exactly the point, and to Holly's point, you've got umpteen different ways of doing this state to state. A spot delivery is essentially the sale of a vehicle being given to the customer contingent upon finance approval. What we're describing here is more of a test drive. So, you would have some form of test-drive agreement. And every dealer I know that's a quality dealer with quality cars would love you to take it to the mechanic and have you confirm what they already know. So, that would be encouraged, but there would be documentation to do it, because, remember, if you get stopped, if there's a problem, what authority do you have to be driving the car? So, you'd expect to have something that says, "I have permission to drive this car for five hours or a day" or whatever it may be.

>> Malini Mithal: Well, thank you so much to our panelists for discussing a lot of issues with us and giving us a lot of information, and thank you the audience, as well. We'll take a short break now and convene again at 10:15 for Panel 2. [Applause]

>> Marc P. Cross: It was great to meet you.