The Auto Buyer Study: Lessons from In-Depth Consumer Interviews and Related Research

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[*] https://www.ftc.gov/system/files/documents/reports/buckle-navigating-auto-sales-financing/bcpstaffreportautobuyerstudysuppappendix.pdf

I. Introduction

In this report, we describe the results of an in-depth interview study of recent auto buyers. The objective of the study was to examine the car-buying process through detailed consumer interviews about participants' experiences in purchasing and financing a vehicle through a dealer, as well as the participants' perceptions of different stages of the process. As part of the study, we also examined the participants' purchase and financing documents, which provided additional information and helped assess consumers' understanding of the details of the transaction. All participants purchased a new or used car within six months prior to the interview and obtained financing from the dealer. Some of the participants traded in used vehicles as part of the transaction.[1] The study is qualitative and exploratory, with a sample of 38 in-depth interviews and associated purchase and financing documents. Because this is a qualitative study of a small, non-representative sample of consumers, the data generated are not useful for forming quantitative or generalizable conclusions.

Consumer understanding of the automobile buying process is important because cars are expensive and often involve financing commitments that last for many years. However, because automobiles are purchased infrequently and the buying process can be complex and opaque, consumers may have a poor understanding of the process. There is also asymmetric information, in that the dealer knows much more about the process and its own costs than does the consumer.

There are several reasons for this complexity and opaqueness. First, deals are highly customized. Even if consumers know the model and make of car they want before going to the dealer, they might not know what additional product features (e.g., sun roof, leather seats) or contract add-ons (e.g., extended warranties, GAP insurance) will be offered or the details of the available financing until these options are presented to them on the spot.

Second, consumers and sellers typically negotiate the price of a car. As a result, advertised prices may not reflect the price a consumer actually pays. Consumers may vary in their understanding of their ability to negotiate different components of the deal, or in how to negotiate effectively.

Third, there are several stages in an automobile transaction, which may overlap. The buyer typically does not learn the prices of the contract add-ons before negotiating the price of the car. In addition, if the buyer has not researched financing prior to purchasing the car, he or she might not know what financial terms to expect in this phase of the transaction.

In this report, we describe what we learned from the participants' experiences researching and buying a car, and financing it through the dealer. Our analysis of the interviews suggests several areas where consumers did not understand the process. The following lessons from the study provide a foundation for development of consumer education or for further research into potential modifications of the buying process.

[1] The study methodology was described in Federal Register notices, January 7, 2016, v. 81, #4; and September 14, 2016, v. 81 #178.

- Most participants engaged in some search for the car and dealer. The amount and type of research that participants performed regarding the car and the dealer varied, but the interviews suggest that some participants did not collect the information that is most useful in negotiating the price or the financing.

- When arranging financing with the dealer, many participants were most interested in the monthly payment, and some dealers focused discussion on this term as well.

- Most participants did not attempt to or did not know that they could negotiate terms of the transaction other than the price of the car and the trade-in, and some did not negotiate at all.

- The interviews identify sales of contract add-ons, such as GAP insurance or extended warranties, as a portion of the car buying process that consumers often did not understand.

- While some participants understood their transactions, many participants did not know or understand all of the details of their transaction, as revealed in the paperwork review component of the interviews.

The results suggest the potential for improving consumer understanding through consumer education and better disclosures, especially for contract add-ons. However, any recommendations to change or add to the current disclosures would need to consider the effect on the duration of the transaction or the already large amount of paperwork to review.

We begin with a brief section that explains the contribution of this study in the existing literature. In section three, we describe the interview methodology. In the sections that follow, we present a set of qualitative observations to summarize the participant experiences reported in the interviews, with some discussion of how these relate to other research. We examine how the participants searched for their vehicles, dealers, and auto financing. We summarize the participants' descriptions of buying process at the dealerships, including car price negotiations, financing, contract add-ons, and document review and signing. In the final section, we conclude with implications for consumer education and the buying process.

II. Related Literature

To our knowledge, this is the first study to use individual in-person interviews to examine how consumers search for a vehicle and their experiences with the dealer in purchasing and financing the vehicle.

Several studies have utilized data from individual automobile transactions to examine aspects of the car buying process. Scott Morton et al. (2001) and Zettelmeyer et al. (2001) combine data from individual automobile transactions with data from an Internet car referral service to examine how obtaining online quotes affects transactions prices. Zettelmeyer et al. (2006) and Scott Morton et al. (2011) supplement data on individual automobile transactions with matched survey data to investigate how consumer search habits and willingness to bargain affect transactions prices. Busse et al. (2010) use data from individual vehicle transactions to examine dealer margins on trade-ins, the vehicle itself, and financing to determine whether consumers who pay low (high) margins on one part of the deal pay low (high) margins on other parts of the deal or, alternatively, whether the negotiation process results in a negative correlation between the margins. Lee and Venkataraman (2016) match data on individual vehicle transactions and repair records and warranty details to examine warranty purchase decisions.

Several studies have examined consumers' automobile financing decisions. The Consumer Financial Protection Bureau (CFPB (2016)) uses data from focus groups to describe consumers' experiences with automobile financing. Adams et al. (2009), Einav et al. (2012), and Jenkins (2008) use data from a subprime automobile lender to examine liquidity constraints in the automobile market, the effect of down-payment requirements on high-risk borrowers, and defaults on subprime auto loans. Agarwal et al. (2008) use data on direct automobile loans to examine loan default and prepayment in the auto loan market. Attanasio et al. (2007) and Argyle et al. (2019) analyze the importance of monthly payments to consumers in financing automobiles.

Unlike the previous studies, we used the long-interview format to collect qualitative information from consumers' experiences that is difficult to obtain through structured quantitative surveys (Lacko and Pappalardo (2007)). The format conveys detailed real-life experiences of consumers who recently purchased a vehicle and financed it through a dealer. The format permits the interviewer to ask follow-up questions to elicit fully and understand each participant's experience buying and financing an automobile. This flexibility is an advantage of the long-interview format as it allows for the collection of information that might not be obtained through a structured, quantitative survey.

The individual in-person interviews that we conducted for this study allowed us to examine the transaction as a whole, from the time consumers began searching for a car until they signed documents and took possession of the car. The consumers' accounts of the buying experience provided detailed accounts of dealer practices in the various parts of the transaction. By requiring participants to bring documents, we were able to consider what consumers related about their experiences as well as the specifics of their documents in the transaction.[2] The long-interview format was essential in evaluating the participants' awareness of the key terms of their transactions.

III. Methodology

To conduct the study, FTC staff engaged a survey contractor to conduct in-depth qualitative interviews of a sample of consumers who recently purchased automobiles and

[2] Similar to the present study, Lacko and Pappalardo (2007) found that participants in the long interviews, who were required to bring their mortgage documentation, were often surprised by the terms to which they had agreed. Their report states that "many respondents were unaware of, did not understand, or had substantial misunderstandings about important features of their recently obtained loans" (Lacko and Pappalardo (2007).

financed them through automobile dealers. We also examined the participants' sales and financing documents, which they were required to bring to the interviews.[3]

Because this is a qualitative study of a small, non-representative sample of consumers, the data generated are not useful for forming quantitative or generalizable conclusions. Instead, the study's purpose is to provide insights into consumer understanding, including their comprehension and thought-processes in the complicated task of vehicle purchase and financing that would be impractical to probe with the same depth using a more scalable research method.

FTC staff developed the criteria for the sample of participants and the topics for the interviews. A survey contractor located the participants, refined the questionnaire, and conducted the interviews.

1. Questionnaire design and pre-testing

In developing the questionnaire, FTC staff created a list of topics to be covered during the interviews. The major topics covered were: [4,5]

- the consumer's experience in shopping for and choosing an automobile;
- the process of agreeing to a price for the automobile;
- the process of trading in the consumer's old automobile, if applicable;
- the consumer's experience in obtaining financing;
- additional products or services the dealer may have offered;
- contacts between the consumer and the dealer after the purchase; and
- the consumer's overall perception of the purchase experience.

The interviews concluded with a review of the consumer's documentation. The walk-through of the consumer's documents included:

- the consumer's overall understanding of the documents;
- a review of the available documents;
- a review of the terms of the deal;
- the consumer's views of the documents and terms;

[3] The methodology was described in Federal Register notices, January 7, 2016, v. 81, #4; and September 14, 2016, v. 81 #178.
[4] The detailed list of interview and documents walk-through topics are listed in Appendix A.
[5] See the topic description in Federal Register notice September 14, 2016, v. 81 #178.

- other points raised by the consumer about the documents.

FTC staff developed a draft "moderator's guide" or questionnaire from these interview topics to assist the moderators in the interviews. FTC staff worked with the survey contractor to ensure that all of the questions were clear, understandable, minimized bias, and addressed all of the topic areas. The contractor tested the draft moderator's guide in five pre-test interviews, after which FTC staff further refined the guide. The final moderator's guide used for the interviews is included in Appendix B.

2. Participant recruitment

The survey contractor designed a recruitment screening questionnaire in coordination with FTC staff. The contractor's recruiters used this screener to qualify participants for the study. The screener is included in Appendix C.

Participants were recruited using databases maintained by the contractor. The databases contain contact information for tens of thousands of residents of the Washington, DC metro area. The databases are updated at least annually by calling and e-mailing contacts to obtain the most recent information about them. Those who do not respond are dropped from the databases. The databases are continually refreshed through calling campaigns as well as online through the contractor's website. The contractor also used social media advertisements to recruit some participants who were not yet enrolled in the contractor's databases for the study. The contractor did not reveal to participants who was sponsoring the study.

The participants in the study had to be at least 18 years old and have purchased and financed an automobile through a dealer in the six months prior to the study for personal, family or household use. Though the sample is not representative of the U.S. population, the contractor made efforts to include a reasonable cross-section of U.S. demographics and credit scores in the sample of consumers interviewed. A minimum of at least two interview participants were recruited for both the above sub-prime and sub-prime segments for the ethnicities that exceeded 10% of the U.S. population according to the 2010 U.S. Census.[6] The sub-prime classification followed Experian's categorization of consumers with scores below 601 as subprime. (Experian 2018). In addition, the recruiters sought a mixed sample based on participants' age and gender as well as the type of dealership where the purchase took place (i.e., franchise dealer, independent dealer, buy-here pay-here dealer). Participants were required to be fluent English speakers. They could not have participated in a marketing research study within the last year, and could not have worked in advertising, public relations or market research, or in the automotive industry for a manufacturer, dealer or financing company.

In addition to satisfying these criteria, participants were required to provide their credit scores. They also had to be willing to bring to the interview and leave copies of their vehicle financing documents, which the contractor redacted for personally identifiable information. FTC staff did not receive any PII.

[6] These segments and percentages are: White 72%, Hispanic 16% and African American 13% (Census (2010)).

The contractor conducted the interviews in April 2017, after the pre-test in February 2017. The recruiting process resulted in five participants for pre-test interviews and 38 participants for interviews. The original plan was to interview 40 participants, 20 with sub-prime credit scores and 20 with above sub-prime credit scores. The 38 participants actually interviewed included 16 with sub-prime scores and 22 with above sub-prime scores. The shortage of four participants with sub-prime scores may have been influenced by the low incidence of participants with sub-prime scores among those who completed the recruiting screener and submitted their credit scores, as well as an unexpectedly high no-show rate. Participants and back-up participants were paid $125 in the form a gift card for their participation. Appendix D contains a series of tables that report information on participant demographics and dealer type.

3. Interview process

All participants brought copies of their vehicle financing documents with them to the interview. The contractor worked with them to remove all personally identifiable information from the documents to ensure participant privacy. Participants either brought copies of their credit score or self-reported it during the screening interview.

The interviews were conducted in a facility in the DC area that has built-in recording equipment, an interviewing room and an observation room where FTC staff watched and listened to the interviews behind a one-way mirror. The contractor's experienced moderators conducted the interviews. Each interview lasted no more than 90 minutes.[7]

The interviewers employed a questionnaire designed by the contractor and FTC staff. Not every question was asked verbatim of each respondent because not all questions were applicable to each participant. For example, some participants did not have a trade-in vehicle and some participants did not buy additional products or services from the dealer. In addition, some questions were adapted based on the particular respondent's experience in a topic area, including regarding their paperwork.

All interviews were audio recorded and transcribed by the contractor. These recordings and transcripts were then submitted to the FTC via a password protected electronic database.

4. Data management and privacy

The survey utilized rigorous protections for privacy and security of consumer information. The participants and their personal identifying information were anonymized in material received by the FTC, and was protected by the contractor. The contractor helped the participants remove all personally identifiable information from their transaction documents to ensure participant privacy. The FTC only had access to a database that included a random ID

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[7] The redacted interview transcripts are included in the Supplemental Appendix available online at [LINK].

number assigned by the contractor for each participant with his or her anonymized information and redacted purchase and finance documents.

IV. Consumer Experiences and Perspectives

In this section, we report our observations from the interviews, and discuss related findings from existing research where appropriate. We divide this analysis into the same topic area sections that were used in the interviews themselves.

1. Shopping for and choosing a car to purchase and choosing a dealer

The information consumers collect while searching for a car affects the price they ultimately pay. (Zettelmeyer et al. (2006), Scott Morton et al. (2011)). Dealers have a considerable information advantage over consumers because they know their own costs and the market conditions. Because other studies have examined some issues involved in the FTC study, we review some findings from the economics literature on consumers' vehicle search behavior. These findings reveal certain patterns and tendencies in consumers' approach to the search and negotiating process, as well as their effects on prices.

For a given car, consumers with a high willingness to search tend to pay lower prices (Scott Morton et al. (2011)). When consumers collected information that could potentially be used in negotiations, this resulted in lower prices. Knowing the dealer's invoice price – the price on the invoice from the manufacturer to the dealer – can enable consumers to negotiate a lower price from the dealer (Zettelmeyer et al. (2006)). Visiting several dealers that carry the car of interest and obtaining multiple price quotes allow consumers to get lower prices (Scott Morton et al. (2011)). Obtaining a quote from an online buying service is also associated with lower prices (Zettelmeyer et al. (2006)).[8]

These findings from the existing literature provide a background for participant responses in the FTC study. Many participants in the FTC study conducted some sort of Internet research to help select a dealer and particular car model. They searched a variety of internet resources, including dealer websites, *Edmunds, Kelley Blue Book, Reddit, Capital One Navigator, USAA* car buying service, *Consumer Reports*, and *Carvana.com*. One participant obtained a price quote from Costco car buying service.

In addition to Internet research, some participants obtained recommendations from family and friends for dealers and/or cars. One participant chose a dealer where a friend worked. Some participants chose the dealer based on the dealer's reputation.

Some participants chose a dealer based on the dealer's location. Typically, these participants selected a dealer that was located near their homes. One participant drove down the street and stopped at dealers along the way to look at their cars.

[8] In the next section, we discuss how these factors are affected by a consumer's willingness to negotiate with the dealer. See Section IV. 2. below.

Other participants selected a dealer based on other dealer characteristics. Some chose a dealer that had a particular car that the participant wanted (e.g., particular model or color, or a used car that was certified preowned). Some participants selected a dealer based on the dealer inventory or price. Others based their choice of dealer on financing terms. For example, one participant chose a dealer that did not require large down payment, and another chose a dealer that did not reject the consumer because of low credit score.

Some participants looked at several dealers and chose the one with the lowest price. Often the participants collected price information from dealer ads. A number of participants were attracted by promotional offers in ads that they did not qualify for, but did not realize that they did not qualify until they got to the dealer. Some did not learn that they did not qualify until they got to the financing stage of the transaction. In a few cases, the sales rep gave them one price, but the finance rep said they could not have that price.

Some participants conducted research to determine the value of their trade-in vehicle prior to going to the dealer. Several participants searched sources such as *TrueCar*, *Edmunds*, and *Kelley Blue Book* on the Internet for the resale value of their trade-in vehicles. Several participants obtained an offer for their trade-in vehicles from one dealer. Some participants sold their cars prior to going to the dealer.

2. Agreeing to a price for the car and trade-in

The process of buying a car usually consists of several separate stages, some of which may overlap.[9] First, consumers select the car and negotiate the price. The price of the trade-in is also negotiated early in the transaction, usually just before or after the car price is negotiated. Once the prices of the car and the trade-in are determined, financing is addressed.[10] During this stage of the transaction, the dealer may offer contract add-ons to be sold with the car and often rolled into the financing. At the end of the process, the consumer signs paperwork and takes the car. This section of the report concerns the first two parts of the transaction – establishing a price for the car and the trade-in vehicle.

Manufacturers set a sticker price for cars, and the final price is typically determined through negotiation with individual buyers. When price is set through negotiation, some consumers get a better deal than others do. As discussed above, the prices that consumers get often depends on the information they collect about the dealer's costs, and on whether they obtain price offers from other dealers or from internet buying services. The price also depends on consumers' willingness and ability to engage in negotiations, or knowledge that they can engage in negotiations.

[9] This general description of the car buying process is supported by most of the recent car buying experiences of the participants.
[10] During the dealer financing process, dealers offer financing terms, including the amount financed, length of financing, and annual percentage rate ("APR"), to the consumer as part of the same transaction as the vehicle purchase.

Given the importance of negotiation in car buying, the multi-stage process raises the question of the extent to which consumers are successful at negotiating in the various stages of the deal. Busse et al. (2010) provides evidence on this question by examining the correlations of dealer profit margins from different stages of the car buying process.[11] The study finds that the average correlation between purchase price and trade-in margins is negative (-0.85) but less than -1. This suggests that consumers have some success in negotiating with dealers, as dealers are willing to provide discounts on one part of the deal to obtain higher profit margins on another part. However, since the correlation is less than -1 in magnitude, these results suggest that consumers are not able to completely offset higher profit margins on the price with lower margins on the trade-in (or vice versa). Interestingly, they also find considerable heterogeneity across consumers in the ability to negotiate. For consumers who obtain low prices for their trade-ins, the correlation between the trade-in margin and the purchase price margin is closer to zero (-0.134), suggesting that they have less success in negotiating.

In contrast, the Busse et al. (2010) results suggest that there is much less negotiation in the financing stage. The study finds that the correlation between the dealers' profit margins on the purchase price and the financing is small, but positive (0.064).[12] Apparently, consumers are unable to offset high profits margins on the purchase with low margins on the financing (or vice versa). In fact, the results indicate that, on average, when dealers make a high profit margin from the purchase, they also earn a higher margin from the financing.

Studies have found that consumers who are more willing to engage in price negotiations for a car pay lower prices (Scott Morton et al. (2011), Zettelmeyer et al. (2006)).[13] However, even consumers who do not like to negotiate benefit from collecting price information. Zettelmeyer et al. (2006) shows that learning the dealer invoice price and obtaining quotes from Internet buying services and from competing dealers results in lower prices for consumers who do not like to negotiate.

Although we cannot determine how the individual participants in the FTC study fared in their price negotiations, what we observed is broadly consistent with results of these studies. There was variation in the participants' willingness to, or understanding when they could, negotiate with the dealer to obtain a lower price for the car, and many participants did not attempt to, or understand when they could, negotiate the financing or contract add-ons, although

[11] The analysis was conducted by creating groups of similar transactions, based on the new car make, model and year and the actual cash value of the trade-in. Within each group, they created matched pairs and computed the differences in new car margins and the used car margins by pair. To compute the correlations, they regressed the difference in the trade-in profit margins on the difference in the new car margins.

[12] In the study, the financing profit margin includes profits the dealer earned from financing markups, life and accident insurance, and service contracts. The analysis is similar to that described in footnote 11, with the trade-in profit margin being replaced by the financing profit margin.

[13] Surveys on consumers' bargaining disutility included questions measuring this disutility by the extent to which they agreed with statements such as a) I am afraid that I will be taken advantage of by a dealer when negotiating the price of a new car, or b) It is hard for me to find time to shop for a car.

there are exceptions. Most participants did not negotiate the "out-the-door" price of the vehicle.[14]

While many of the participants bought their cars from dealers that negotiate the price of the car, some bought from dealers that do not negotiate price. Several participants bought used cars from a dealer that uses no-haggle pricing. One participant obtained a price through a store's buying service. Another participant bought a car through an online used car dealer.[15] Several participants bought cars from Buy-Here-Pay-Here ("BHPH") dealers and, based on the interviews, it appeared that the BHPH dealers would not negotiate on price, although it is not clear whether this was the dealer's policy, or whether the customer did not try to negotiate.[16]

The participants who bought from dealers that negotiate price differed in their approaches to negotiation. First, one group of participants did not bargain. Some simply did not like to bargain. Others had a low credit score, and thought they had no ability to bargain. Some participants approached the purchase with a monthly payment budget in mind and focused on negotiating the monthly payment to within this budget, sometimes with little or no concern for the out-the-door price of the car or the other financing terms. One participant did not try to negotiate after the sales rep said the car was priced at cost.

Some participants used external information about the vehicle to negotiate with the dealer. A number of the participants researched car prices online and chose dealers based on the price. Some got prices from competing dealers and pitted one against the other. Some participants bought a car near the end of the model year, knowing that the value of the car would fall when the next year's models came out.

The participants who did negotiate used different techniques. Some of the participants went to the dealer with a spouse or other relative who assisted the participant in negotiating. Some of the participants threatened to walk out if the dealer did not meet certain terms. One participant, who negotiated a deal on behalf of his son, did walk out when the dealer said that he could not receive a discount unless he agreed to certain financing terms. The dealer called back and they eventually reached a deal. In a couple of other cases, one spouse wanted the car and the other exercised veto power over the price and other terms.

The price of the car sometimes depended on other terms of the deal. For example, a few of the participants said that in order to obtain rebates, they had to accept a higher interest rate on the financing. One participant said that the price of the car depended on how she financed (highest price for cash payment, medium price for a 6-month deferment of payments, and the lowest price for normal financing). At least one participant said he/she got a lower price for the new car for agreeing to a lower price for the trade-in.

[14] The "out-the-door" price includes the price of the car, the contract add-ons, mandatory fees, such as the processing fee, state and local taxes, and Department of Motor Vehicle fees.

[15] Customers of the company select cars, finance them, and trade in their used cars online. Generally, the company delivers the cars to customers at the company's vending machine locations. As to the study participant, the company delivered the car to the customer's home.

[16] BHPH dealers often provide direct financing to their customers. Other dealers typically sell the financing to a bank, finance company, or credit union that then services the account and collects payments.

Several participants suggested that the dealer engaged in unfair negotiation. One said that the dealer tried to get him or her to focus on the monthly payment and divert his or her attention from the price of the car, the cost of the add-ons and additional fees, and the length of the financing. However, this sales approach is also consistent with the finding that many participants prioritize the monthly payment over other terms of the deal. Two of the participants said that the salesperson agreed to a good price, but the financing rep/manager overruled and said that price was not possible. One participant complained about non-transparent pricing. Specifically, she said that the pricing depended on the choice of financing. If they took the 0% financing offer, then they got one price (presumably higher) and if they brought their own financing, they would get a different price. She also complained that when the dealer rep tried to explain the price, starting with the final price and working backwards, this led to a different price than the sticker price.

3. Financing

In the financing section of the FTC study interviews, we explored the participants' experiences with obtaining financing through the dealer, including searching for financing and determining the financing terms with the dealer's representative. Recruiting participants with a range of credit scores provided information about consumers' experiences in different market segments. In particular, the FTC staff selected a certain number of participants with subprime credit scores and above-subprime credit scores. Analysis of these two groups is particularly relevant for the financing portion of the interviews, because consumers with subprime credit scores have less access to credit than consumers with above subprime credit scores, and this could affect their search for financing and their decision to accept credit.

The financing terms that a consumer obtains depends on several factors, including but not limited to the consumer's credit score, the amount financed, the down payment, and the financing maturity (CFPB (2016)). Searching for financing can help consumers obtain better terms, particularly if consumers obtain loan preapproval from an independent source prior to going to the dealer. Dealers solicit financing offers for their car buyers from various third-party finance companies and some offers may be better than others. In addition, dealers sometimes add a margin to the interest rate offered by the third-party finance companies. If the consumer has an offer from an outside source, the dealer will have the incentive to find a competitive offer from its third-party finance companies and will have less latitude to add a margin to the interest rate. In its study of the consumer car-shopping experience, the CFPB (2016) found that some car buyers believed that the terms they would get from competing financial institutions would be similar to those they got from the dealer, and this could deter car buyers from searching for financing offers.[17]

In the FTC study, many of the participants considered dealer financing to be a large convenience overall. A number of the participants either conducted research on auto financing interest rates or obtained offers from independent sources before going to the dealers. For some

[17] CFPB (2016) summarizes the results a focus groups study that the CFPB conducted in 2014 to learn about consumers' experiences in automobile financing. The report also examines consumer complaints concerning vehicle financing.

of the participants who obtained offers in advance, the financing amount for which they were approved was less than the amount needed to finance the actual transaction. Because it was inconvenient to go back to the financial institution, the participants tended to accept the financing offered by the dealer. Some participants got lower rates from the dealer than they were offered by independent sources. Some participants with low credit scores could not get an offer from a bank or credit union. One participant was planning to pay with cash, but did not have enough to cover the entire transaction, and the dealer said that the minimum amount financed was $10k. Some participants were attracted to an offer of 0% financing, but did not qualify for it due to too low a credit score.

When discussing the terms of the financing with the finance manager, most of the participants were primarily concerned with the amount of the monthly payment. Surprisingly, this was true for many participants in the above subprime group, as well as for the participants in the subprime group, who are more likely to be cash constrained. A number of participants accepted longer financing terms to lower the monthly payment. This is consistent with other research finding that borrowers are much more sensitive to the loan maturity than to interest rates because they can use loan maturity to target a specific monthly payment (Argyle et al. (2019), Attanasio et al. (2007)). These studies, like ours, found that this result held for almost all consumers, not only those with low credit scores. In reviewing their paperwork, some participants were surprised at the total cost of the transaction, including total financing costs, as they had focused more on other components of the deal, such as the monthly payment or sale price of the vehicle (before financing and add-ons).

Most participants thought they could not negotiate interest rates, consistent with findings of the CFPB's (2016) study. However, some refused to accept offers with rates that were higher than they wanted to pay, and the dealers responded with offers with lower rates. It is possible that the dealers continued contacting additional finance companies and eventually found one with a lower rate.

Several participants considered negotiating financing to mean that they would accept the dealer's trade-offs among the various terms, rather than bargaining for better terms. For example, they could get a lower rate if they agreed to put down a larger down payment, finance for a shorter term, or forgo dealer incentives. Interestingly, one participant was told that he would get a lower rate only if he financed for six years. Some consumers selected from a menu of financing terms offered by the dealer.

Four of the participants in the subprime category bought cars from BHPH dealers, which often provide financing themselves, rather than obtaining financing through third-party finance companies. In two of these deals, the dealer did not explicitly charge interest as it is typically applied in auto financing. However, the documentation showed that one of the dealers set a "cash price" that was lower than the "finance price," and the difference was essentially a finance charge. These participants did not attempt to negotiate price or the terms of the financing.

Some of these participants searched other dealerships before going to the BHPH dealer and were turned down for financing due to their credit or because they could not make a large enough down payment. Research has found that for consumers who are cash constrained, the decision to purchase a car is heavily dependent on the required down payment (Einav et al. (2012)). Car buyers with subprime credit scores are particularly sensitive to down payments. In a study of subprime auto buyers, Adams et al. (2009) found that increasing the required down payment by $100 reduced car demand by nine percent, and that it would take a price increase of about $3,000 to reduce demand by the same amount. From the perspective of a finance company, higher down payments reduce the volume of loans but increase loan quality, defined as the likelihood that a loan is repaid. Adams et al. (2009) found that for a given amount borrowed, borrowers who make smaller down payments are more likely to default.

Some FTC participants accepted an interest rate that they thought was high, and said that they planned to refinance later. The CFPB (2016) study also found this to be a frequent consumer reaction. Some of the FTC participants with low credit scores said they planned to refinance after making a few payments or otherwise trying to improve their credit scores. One participant said that he/she was in the process of refinancing. Some participants reported that the dealer told them they could later refinance their purchase. In a few of those cases, the dealer meant that the participant could trade in the vehicle for another purchase. In others, it was clear that the dealer was referring to outside refinancing. In some cases, the means of refinancing to which the dealer was referring was unclear. Relatedly, some participants were not concerned with unfavorable financing terms because they planned to pay it off quickly, either by making larger payments or trading the car in before the financing was paid off.

In addition to the above observations, a couple of other aspects of participants' financing experiences are worth noting. Two participants rolled negative equity into their financing. One appeared to be aware that this was happening, but the other was surprised to see during the interview that the dealer had rolled $870 of negative equity into her new financing. Finally, some participants claimed that the dealer ran their credit so many times that it lowered their credit scores.

4. Additional products and services

For most participants in the FTC study, contract add-ons such as Guaranteed Auto or Asset Protection ("GAP") insurance[18] or extended warranties were offered during the financing stage of the transaction after the price of the car was negotiated. Sometimes dealers presented the price of each add-on,[19] sometimes they presented the add-ons in a bundled package, and sometimes they quoted the price in terms of how much it would increase the monthly payment.

Offering add-ons after the price of the car is negotiated is a form of drip pricing. The broader literature on drip pricing shows that this practice can result in higher prices to consumers (Ellison (2005), Gabaix and Laibson (2006), Huck and Wallace (2010)). Learning additional fees only after the base price is known can reduce the likelihood that consumers will search for alternative suppliers compared to a setting where the fees included in the base price of the product (Huck and Wallace (2010)).

[18] GAP insurance covers the difference between the value of an automobile and the amount the consumer owes on the automobile financing in case the automobile is totaled or badly damaged.
[19] In addition to the price of a contract add-on, any taxes on the add-on would also add to the total out-the-door price of the car.

Several factors present in car buying raise concerns that drip pricing could increase prices and reduce search. Selling add-ons later in the buying process, rather than when the price of the car is negotiated, may obscure the total cost of the add-ons during search and discourage consumers from searching for other dealers after they learn the costs. If dealers do not advertise the prices of add-ons on their websites, one would have to repeat much of the car buying process with another dealer to determine how the add-on prices compare.[20] Consumers may assume that add-on prices are the same at all dealers. In addition, consumers interviewed in the FTC study tend to think they cannot negotiate add-on prices.[21] Another factor that reduces the transparency of add-on prices is that dealers sometimes quote the prices of the add-ons in terms of the effect on the monthly price. This can de-emphasize the effect of the add-ons on the out-the-door price of the vehicle. Moreover, the dealer can extend the maturity of the financing to reduce the effect of the add-on on the monthly payment, obscuring the total cost of the add-on. Finally, consumers often become mentally fatigued during the long buying process and may not be as attentive when the dealer is discussing add-ons as they are during the negotiation for the car.

Most FTC study participants did not think that add-on prices were negotiable. Only one participant said he got a discount on the add-ons, although one participant said he got some add-ons free of charge because he did not negotiate the price of the car. His paperwork, however, indicated that he had actually paid for these add-ons. Some participants said they could buy extended warranties from sources other than the dealer, and several participants knew that GAP insurance was available through other sources.

Several participants who thought that they had not purchased add-ons, or that the add-ons were included at no additional charge, were surprised to learn, when going through the paperwork, that they had in fact paid extra for add-ons. This is consistent with consumers' experiencing fatigue during the buying process or confusion with a financially complex transaction, but would also be consistent with dealer misrepresentations. Sometimes there were items listed in the buyer's order that the participant was not aware of and had not noticed during the transaction, or that the participant could not identify. In the CFPB (2016) study, some consumers reported paying for add-ons they had not wanted, and some consumers reported that lenders insisted that the purchase of add-ons were necessary for the financing to be approved.

A few of the FTC participants bought add-ons, but canceled them later, after the transaction was completed. Several participants ruled out buying any add-ons, saying that they were a bad deal. Several participants did not know what GAP was, or they believed it was something that it was not (e.g., that it insured the car before the consumer's insurance was transferred from the old car to the new one).

Participants' reasons for wanting an extended warranty or service contract varied, and there were issues with either the purchase or later use of these contracts for many who purchased

[20] Note that Scott Morton et al. (2011) found that consumers' knowledge of the dealer invoice price did not help consumers negotiate the prices of ancillary services, which suggests that even consumers who search for price information in advance do not obtain lower add-on prices.

[21] This is consistent with the Busse et al. (2010), the results of which suggest that there is relatively little price negotiation for add-ons that are sold with financing.

them. Some participants mentioned that extended warranties cost less with higher deductibles. Several participants justified purchasing extended warranties because the "electronics" are expensive to repair. Some participants purchased service plans because of the convenience. Many participants who wanted these contracts purchased them without understanding the terms of purchase. At least some participants purchased extended warranties or service plans without knowing what services or repairs were covered, and a few of them were later surprised to find that they had to pay out of pocket for repairs or service that were not covered.

It would be useful for consumers to have information about the costs and benefits of extended warranties and service contracts before deciding whether to buy them. Some research suggests that the cost of extended warranties exceeds the savings in out-of-pocket repair expenses for many consumers (Consumer Reports (2014), Lee and Venkataraman (2016)).[22] Even if extended warranties do not always pay off financially, this does not necessarily mean that extended warranties are a bad deal for everyone. For example, a consumer who is credit constrained may prefer purchasing an extended warranty and amortizing it with the automobile financing rather than risking the need to pay cash for future repairs. Some cars need more repairs than others, and extended warranties may be a better deal for these cars. Consumer Reports (2014) found that consumers who owned relatively unreliable brands were more satisfied with their extended warranties than were consumers of reliable brands. Consumers who have a high demand for extended warranties tend to be risk averse (Kelley and Conant (1991)). They may be able to meet the added cost of the warranty, but face difficulty in paying large, unanticipated repair costs. In any event, based on the interviews in the FTC study, it seems that most participants did not carefully evaluate whether extended warranties, service contracts or other contract add-ons were worth the money, and may not have had adequate information to do so.

5. Contract and post-purchase and review of documents

The last portion of the interviews was devoted to a brief discussion of the overall experience followed by review of participants' transaction documents. Comparison of information on the documents with participants' accounts of the buying process as recalled during the interview revealed additional insights into consumer understanding of the process and its limitations.

The deals took a long time to complete – often 5 hours or more. Some extended over several days. By the time the participants got to the paperwork, they tended to express being fatigued from a long process.

Participants were asked whether they discussed a vehicle tracking device with the dealer, and their paperwork was checked for any indication of one. Tracking devices can include a remote shut-off mechanism to prevent use of the car in the event of missed payments. Most of the participants were not aware of any vehicle tracking device or a remote shut-off mechanism on their vehicle, nor did their paperwork suggest the presence of one. When asked about this,

[22] These studies would be more useful if they had controlled for whether the factory warranty was still in effect at the time of the study and how much time was remaining on the extended warranty. Controlling for these factors is necessary for a true cost-benefit analysis.

participants tended to think the interviewer was referring to GPS or Lojack. One participant said that the dealer installed a tracking device on the car as a sort of "baby-sitter."

The participants were mixed on their knowledge of spot delivery. Spot delivery is the practice of delivering a car to a consumer before final approval for the financing is received from the financing source. Some participants knew what spot delivery is, but many did not.

As mentioned above, during the documents review some participants misunderstood or did not know the financing terms of their transactions, and several were surprised to learn that they had paid extra for add-ons that they either had not remembered getting or thought were included in the price of the car.

During the document review component of the interviews, many participants were unable to explain apparent discrepancies between line items in the buyer's order or invoice and the retail installment sales contract.

The processing fee/documentation fee, which were not discussed until the document review portion of the interview, varied significantly across dealers. A few of the participants complained about the processing fee.

V. Overall Lessons from the Study

Our analysis of the interviews suggests several areas of the process where consumers did not understand the process. The lessons from the study provide a foundation for development of consumer education or for further research into potential modifications of the buying process.

- Most participants engaged in some search for the car and dealer. The amount and type of research that participants performed regarding the car and the dealer varied, but the interviews suggest that some participants did not collect the information that is most useful in negotiating the price or the financing.

Existing research indicates that information that is helpful in negotiating the price includes the dealer invoice price, price quotes from competing dealers, and price quotes from online buying services. For trade-ins, consumers who know the book value of the trade-in vehicle and obtain an offer from another potential buyer will be better equipped to evaluate the dealer's offer. While advertising can inform consumers about special promotions, consumers may not qualify for promotional offers. Researching interest rates and obtaining an offer from an independent finance firm before going to the dealer can also help consumers obtain better financing terms. This information can help consumers obtain a better deal, even for those who do not like to negotiate. While some participants had engaged in such search activities prior to visiting the dealer, many went to the dealer without knowledge of what prices and financing terms to expect.

- When arranging financing with the dealer, many participants were most interested in the monthly payment, and some dealers focused discussion on this term as well.

Most consumers approached the process focused on establishing a monthly payment that fit the household's budget, but many appear to have spent less time considering how the overall cost of the financing depends on other factors such as the interest rate, down payment, maturity, and amount financed. Consumers often seemed less focused on the fact that extending the maturity to reduce the monthly payment increases the cost of the financing and requires the consumer to make payments for a longer period of time.

- Most participants did not attempt to or did not know that they could negotiate terms of the transaction other than the price of the car and the trade-in, and some did not negotiate at all.

Negotiating with the dealer can help consumers obtain better terms. The participants may not have negotiated interest rates and contract add-on prices due in part to a belief that they are not negotiable. However, the lack of negotiation in these areas may have also been influenced by the way dealers framed the discussions. The interviews show that dealers often approached financing negotiations offering a lower interest rate only if participants made a larger down payment or accepted a higher car price. However, the interviews indicate that it is possible to negotiate financing terms. Some participants did obtain lower rates by not accepting the first offer from the dealer or by making other concessions.

- The interviews identify sales of contract add-ons, such as GAP insurance or extended warranties, as a portion of the car buying process that consumers often did not understand.

Many of the participants had little information about contract add-ons before entering discussions with the dealer about add-ons and most did not attempt to negotiate add-on prices. Most participants appeared to have little prior knowledge of add-on prices and did not seem to have a good understanding of the benefits and limitations of the add-ons. Moreover, there was considerable confusion even after the transaction about add-on purchases. Some participants bought add-ons without understanding what services were included, and some were surprised to learn that they had to pay out of pocket for repairs that were not covered. Several participants who thought that they had not gotten add-ons, or that the add-ons were included at no additional charge, were surprised to learn, when going through the paperwork, that they had in fact paid extra for add-ons.[23]

- While some participants understood their transactions, many participants did not know or understand all of the details of their transaction, as revealed in the paperwork review component of the interviews.

Many participants were mentally fatigued by the time they signed the paperwork. Perhaps due to this fatigue, many consumers did not appear to pay attention to all of the contract line items that have prices attached to them, including the price of the car, add-ons, mandatory fees, as well as

[23] We considered the possibility that these participants received rebates or other credits in the transaction that offset the cost of the add-ons. In some cases, there was no offset. In other cases, we could not determine whether there was an offset.

all of the financing terms. There would appear to be potential for improving consumer understanding through better disclosures, especially for contract add-ons. However, additional disclosures could further increase the duration of the transaction or the already large amount of paperwork to review.

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Appendix A: Interview and Document Walk-Through Topics

Interview about the automobile buying and financing process

1. Shopping for and choosing an automobile to purchase, including:
    a. Most recent purchase; process of shopping and choosing an automobile, including any advertisements; views on the experience of shopping for and choosing an automobile
2. Agreeing to a purchase price, including:
    a. Process of obtaining a final price for the automobile; views on the experience of obtaining a final price for the automobile
3. Trading-in a vehicle, including:
    a. Whether the vehicle was traded-in at purchase; how trade-in price was determined; paying off the trade-in; views on the experience of trading-in an automobile
4. Obtaining financing at the dealership, and discussion of any GPS or tracking device installed in connection with the financing, including:
    a. How financing was obtained; how monthly payment and APR were obtained and negotiation of any terms; views on the financing experience; understanding of any GPS or tracking device placed on the automobile in the financing process, its purpose, and how it works
5. Offers for additional products and services, including:
    a. Existence of any additional products or services; the process of obtaining them; views on the process of being offered additional products or services; when consumer was told or realized that additional products or services were included
6. Contract(s) and post-purchase experience, such as that related to review and signing of paperwork, including:
    a. Review of any paperwork and the signing process; views on the paperwork or signing process; contact with the dealer since purchasing the automobile
7. Other points raised by the consumer about the process
8. Overall experience

Walk-through of consumer’s financing documents

1. Consumer’s overall understanding, including:
    a. General impression of the process; whether it’s difficult or easy to understand the paperwork or any part of the paperwork
2. Review of available documents, including:
    a. Review of retail installment sales contract or other credit agreement; credit application; other documents the consumer may have
3. Review of the terms of the deal, including:
    a. Review of monthly payment; amount financed; APR; term of payments; income information; add-on products; etc.
4. Consumer’s views of documents and terms, including:
    a. How consumer would describe what the terms of the deal mean
5. Discussion of any other documents

Other points raised by the consumer about the documents.

Appendix B: Moderator's Guide for Auto Buyer Interviews

Shopping For and Choosing a Car to Purchase

What is the most recent car that you purchased? When did that occur?

What did you like, if anything, about your experience shopping for and choosing a car?

What did you not like, if anything about your experience shopping for and choosing a car?

What influenced your decision on what car to buy, and who to buy from?

[If ads are not mentioned] Did you see any ads?

Once you reached the dealership, how long did the entire process take, from the time you arrived until you left with, or without, a deal?

Agreeing To a Price for the Car

How did you go about getting to a price for your car? Did you negotiate?

What did you like, if anything, about your experience obtaining a final price for your car?

What did you not like, if anything about your experience obtaining a final price for your car?

What was the original price, and what was the price you agreed to finally for the car (the final price)? How did that process go? Did the dealer indicate you could get a better price if you agreed to certain conditions? Which ones?

[Note: If consumers want to talk further about specific add-ons, say we will discuss that further in a minute.]

Did you trade in a prior car when you bought this car? If so, how was the trade-in price determined?

Did you owe money on your prior car at the trade-in? If so, how was the balance owed paid off?

Obtaining Financing

How did you pay for your car?

What did you like, if anything, about your financing and experience getting it?

What did you not like, if anything, about your financing and experience getting it?

How did you decide to finance through the dealer? Did you consider getting financing with another company (like a bank) before you went to the dealership? Were you aware you could do that?

What was the process for obtaining financing at the dealership? Where did you discuss financing (F&I office?).

What terms did you discuss when talking to the dealer representative about financing?

Did you negotiate any of the financing terms?

[If yes] Which ones?

[If no] Were you aware that you could negotiate these terms?

[If respondent mentions the possibility of refinancing the vehicle, or renegotiating the APR or monthly payments after the purchase:]

Could you tell us what happened?

- [If not already answered]
    - Who told you this information?
    - Where would you refinance the car or renegotiate the contract terms?
    - Would you be keeping the same vehicle or trading it in for a different one?

Additional Products and Services

Did the dealer offer you any additional products or services to purchase? What kinds?

[If respondents don’t remember or start talking about unwanted options or packages included on the car itself, such as a sunroof, then say, what about something like an extended service contract, rustproofing, or GAP coverage?]

What did you like, if anything, about the dealer offering these additional products or services?

What did you not like, if anything, about the dealer offering these additional products or services

When did this occur in the financing process?

What information, if any, did the dealer give you about the items offered?

[If no substantial response is received, ask]

- What about the price of each item offered?
- What about the coverage of each item offered?

Did you purchase any of the additional products?

[Note: Follow up with questions]

- What was the process for deciding whether to purchase add-ons?
- [If consumer purchased additional products or services that they did not want] How did you end up purchasing them?
- [If add-ons were included without consumer’s knowledge and consumer realizes it later] When did you realize that you had purchased them?
    - Did you do anything about this after you realized it?

Contract and Post-Purchase

Did you have an opportunity to review your paperwork before signing? Did you review it?

What did you like, if anything, about the paperwork or signing process?

What did you not like, if anything, about the paperwork or signing process?

Have you had any contact with the dealer since purchasing the car?

Did the dealer contact you or did you contact the dealer?

- Why did you contact the dealer?
- Why did the dealer contact you? How did the dealer contact you (phone, email, mail)? What did the dealer say?

[If problem with financing]

What happened as a result of this problem?

[If credit terms changed] What was your annual percentage rate (or other terms) before and after the change? Why did you agree to the new financing?

Do you believe that you needed to sign a new deal? Why or why not? What did the dealer tell you about your rights under the original deal?

Did you try to cancel the original deal?

- [If yes] Did the dealer offer to return your trade-in or down payment? Did you end up paying any fees?

Did you return the car at any point? What did the dealer tell you about whether you needed to return the car?

Was placement of a tracking device required or discussed? If discussed was it before or after you signed the contract?

Can you describe what was said?

Was the device installed on your car? Did you choose to have it installed?

Was there a cost to you for having the device?

Was a tracking device ever activated to shut off your car?

[If yes]

What happened? [If they don't specify, ask where and what time of day?]

Were you instructed to contact someone if you have issues with the device? Who?

Were you able to get the car restarted? [Probe]

[Note: When respondent arrives the contractor's staff will collect paperwork and client will review/walk through financing documents to highlight areas for moderator to probe below during the interview. These documents include but are not limited to the retail installment sales contract or other credit agreement.]

Overall Understanding

We are interested in whether the paperwork in car sales and car financing is easy or hard for consumers to understand. How would you describe the paperwork you received from the dealership? Do you think it is hard or easy to understand? What, if anything, is easy or hard to understand?

Review of Documents and Terms of the Deal [For each document, ask if it was hard or easy to understand, and why.]

Can I look through your paperwork and ask you a few questions about it?

[Show them several pages from the paperwork, one by one, and ask them questions about their understanding. One key component here will be to show them the paperwork that lists any add-ons purchased, but this should not be the first thing we ask about (even if it is on the first document), and it should not be obvious that it is a primary concern. Other key components include any information relating to the terms of the deal not being final, dealer compensation in the APR, basic terms like the monthly payment, and on the application, income information. For each document ask the following]

What is this document? [For example, start with the RISC or other credit agreement(s), followed by any spot delivery agreement and the credit application.]

- [For each form] Was any information left blank when you signed the form?
    - [If blank, and information was filled in afterward] Did you or the dealer fill it in?
        - [If dealer filled it in] Is it correct?
- [For each form, if any information is still blank now, make a note]
- [For each form] What, if anything, was easy to understand about this document? What, if anything was difficult to understand about this document? Please elaborate. [Probe]

[On the RISC: Find and point to the monthly payment.] What is this? Did you have a different understanding when you bought the car? Did you review this at the purchase? How did you get to that amount?

- [If no substantive response is received, ask] Did the dealer initially suggest it? Did you negotiate?
- [For each form] What, if anything, was easy to understand about this document? What, if anything was difficult to understand about this document? Please elaborate. [Probe]

[Find and point to the APR] What is this? Did you have a different understanding when you bought the car? Did you review this at the purchase? How did you get to that rate?

- [If no substantive response is received, ask] Did the dealer initially suggest it? Did you negotiate?

- [For each form] What, if anything, was easy to understand about this document? What, if anything was difficult to understand about this document? Please elaborate. [Probe]

[Find and point to the length of the payments] What is this? Did you have a different understanding when you bought the car? Did you review this at the purchase? How did you get to that number?

- [If no substantive response is received, ask] Did the dealer initially suggest it? Did you negotiate?

- [For each form] What, if anything, was easy to understand about this document? What, if anything was difficult to understand about this document? Please elaborate. [Probe]

[Point to down payment] What is this? Did you have a different understanding when you bought the car? Did you review this at the purchase? How did you get to that amount?

- [If no substantive response is received, ask] Did the dealer initially suggest it? Did you negotiate?

- [For each form] What, if anything, was easy to understand about this document? What, if anything was difficult to understand about this document? Please elaborate. [Probe]

[Check to see if there is a spot delivery agreement, if so, ask] What is this? Did you have a different understanding when you bought the car? Did you review this at the purchase? Was the car to be purchased changed during the negotiation, or did any of the credit terms change, like the down payment, monthly payment, length of the payments, APR, etc.?

[Check to see if there is an add-on “menu” or other documents about add-ons (offers of additional products or services at further cost); these could include: rustproofing, extended service contact, anti-theft device, etc.; if so, ask] What is this? Did you purchase the items? Why did you purchase the items? If you purchased the items, how did you get to the amount paid? Has your understanding changed since you purchased the items?

- [If no substantive response is received, ask] Did the dealer initially suggest it? Did you negotiate?

- [For each form] What, if anything, was easy to understand about this document? What, if anything was difficult to understand about this document? Please elaborate. [Probe]

[Check to see if there is a credit application. Point to key information and ask] Did you or the dealer fill it in

- [If dealer filled it in] Is it correct? [Key aspects include income, employment other credit, and the signature]

- [For each form] What, if anything, was easy to understand about this document? What, if anything was difficult to understand about this document? Please elaborate. [Probe]

[Check to see if there is a tracking device notice or agreement, if yes, ask] What is this? Did you have a different understanding when you bought the car? Did you review this at the purchase?

- [If no substantive response is received, ask] Did the dealer initially suggest it? Did you negotiate?

  - [If no, ask] Did you watch a video or receive other written information about a tracking device at the dealership?

    - [If yes] What was it? Did you understand the video or information provided?

- [For each form] What, if anything, was easy to understand about this document? What, if anything was difficult to understand about this document? Please elaborate. [Probe]

Is this the only contract or documents that the dealer gave you for this deal? Were there others? Do you have them? If not, what happened? Did you bring them?

Discussion of Other Documents or Other Points/False Close

Are there any other credit-related documents? [If yes, go through them with the probes in "Overall Understanding" section above. We are not looking for: car registration forms, requests for license plate, odometer statements, powers of attorney, or the FTC Used Car Rule disclosure with boxes about the warranty]

Is there anything else about the documents that we haven't discussed that you would like to talk about (including whether you understood or didn't understand something)?

Overall Experience

After our discussion and reviewing all of the documents and materials, do you have any final views on your overall experience of purchasing and financing your car? Please elaborate.

Conclusion/Final Comments

Appendix C: Recruitment Screening Questionnaire

Design:

- Recruit 5, 90 minute pre-test in-person interviews (2-3 “Above Subprime” / 2-3 “Subprime” credit scores) (**Feb. 16th, 2017)**
- Recruit 3 pre-test floaters (2 floaters 3 hrs / 1 floater 1.5 hrs)
- Recruit 48 to seat 40 (one extra per day), 90 minute in-person interviews (24 “Above Subprime” / 24 “Subprime” credit scores)

Specifications for both pre-test and regular interviews:

- Must be 18 years of age or older
- Must have purchased and financed an automobile through a dealer in the past 6 months, for personal, family or household use; this excludes business transactions, and leases.
- Must be fluent English speakers, articulate and comfortable expressing themselves in an interview
- Recruit a mix of age, gender and ethnicity

Additional specifications for the regular interviews:

- Recruit at least 2 Caucasians, 2 Latinos/Hispanics and 2 African Americans for BOTH the “Above Subprime” and “Subprime” quotas (at least 4 of each ethnicity **total**)

ALL SCREENERS MUST HAVE THE FOLLOWING FIELDS COMPLETED:

RESPONDENT FIRST NAME: ____

RECRUITED BY: ________________________ DATE RECRUITED: __________________________

CONFIRMED BY: ______________________ DATE CONFIRMED: _________________________

Hello, this is ______________ from XXXX, a marketing research firm. We are conducting an important study about auto financing in your area and would greatly value your opinions. This is strictly research. Your participation is voluntary, and you will receive no sales pitch or follow-up calls based on your participation. I’d like to ask you a few questions.

1. First, have you purchased any of the following for personal, family or household use in the past 6 months: (READ LIST)

	CIRCLE ONE PER ROW		
	Yes	No	Don't Know
A home	1	2	3
A car (including minivans, SUVs, and light trucks; please exclude motorcycles and motor scooters)	1	2	3
A condominium	1	2	3
A boat	1	2	3

MUST SAY "YES", CODE 1, FOR "CAR" TO CONTINUE, OTHERWISE THANK & TERMINATE.

2. Please think about the car you purchased in the past 6 months. Did you purchase it from a dealer?

	CIRCLE ONE	
Yes	1	→(CONTINUE)
No	2	→(THANK & TERMINATE)
Prefer not to answer	3	

3. Was the dealer you purchased the car from: (READ LIST)

		CIRCLE ONE	
	A franchise dealer, which has a contract with an automobile manufacturer that allows them to sell its products (e.g. Brown's Car Stores, Koons Automotive, Sheehy Auto Stores)	1	→ (ATTEMPT TO RECRUIT A MIX OF DEALER TYPES)
	An independent dealer, which has NO affiliation or contract with an automobile manufacturer (i.e. CarMax)	2	
	A buy here pay here dealer (BHPH), where the dealer is also the finance company and does not need credit approval from an outside source (e.g.) Car World Inc., or Jimmy's Auto INC)	3	
OR	Something else (Specify): ________________	4	→(CHECK WITH SUPERVISOR)
(DO NOT READ)	Don't know	5	

4. What is the name and location of the dealership from which you purchased the car?

INSERT DEALERSHIP NAME: ____________________________

INSERT CITY AND STATE: _______________________________

5. Did you purchase your car with cash, with a check, or through a wire transfer? (DO NOT READ)

	CIRCLE ONE	
Yes	1	→(THANK & TERMINATE)
No	2	→(CONTINUE)
Not sure	3	→(THANK & TERMINATE)

6. How did you pay for your car? (READ LIST)

		CIRCLE ONE	
	Dealership financing, where you obtain financing through the dealership	1	→(CONTINUE)
	Direct lending, where you obtain a loan directly from a bank, finance company or credit union outside of the dealership	2	→(THANK & TERMINATE)
(DO NOT READ)	Don't know	3	

7. For this study we will be asking you to provide us with your credit score and a copy of your retail installment contract and other documents that you may have from the purchase of your car. We will work with you to remove all personally identifiable information from the documents to ensure your privacy. Are you willing to provide us with this documentation?

	CIRCLE ONE	
Yes	1	→(CONTINUE)
No	2	→(THANK & TERMINATE)

8. We're talking to people of different ages in this study. Which of these groups includes your age? (READ LIST)

		CIRCLE ONE	
	Under 18	1	→(THANK AND TERMINATE)
	18 to 24	2	→(RECRUIT A MIX)
	25 to 34	3	
	35 to 44	4	
	45 to 54	5	
	55 to 64	6	
	65 and over	7	
(DO NOT READ)	Refused	8	→(THANK AND TERMINATE)

9. When was the last time you participated in a market research study? (DO NOT READ LIST)

•	CIRCLE ONE	•
Within the last year	1	→(THANK AND TERMINATE)

More than a year ago	2	→(CONTINUE)
Never	3	
Don't know	4	→(NOTIFY YOUR SUPERVISOR)

10. Do you or does anyone in your immediate family currently work: (READ LIST)

	CIRCLE ONE PER ROW	
	Yes	No
In the field of advertising, public relations or market research	1	2
In the automotive industry for a manufacturer, dealer or financing company	1	2
	↓ (IF EITHER SELECTED, THANK AND TERMINATE)	

11 Using a scale of "1" to "10," where a score of "10" means that the statement describes you extremely well and "1" means that the statement does not describe you at all, how well does the following statement describe you? (CIRCLE ONE NUMBER BELOW)

	CIRCLE ONE NUMBER									
	Extremely Well									Not At All
I feel comfortable expressing my opinion in an interview	**10**	**9**	**8**	**7**	**6**	5	4	3	2	1

INTERVIEWER NOTE: 6-10 MUST BE CIRCLED, OTHERWISE THANK AND TERMINATE.

12. Please briefly describe your experience obtaining financing for your vehicle. (PROBE AND CLARIFY. PLEASE BE SPECIFIC.)

____

____

ANY SCREENER WITHOUT A VERBATIM ANSWER DOES NOT QUALIFY.

IF RESPONDENT IS UNABLE OR UNWILLING TO GIVE AN ANSWER IN ENGLISH, THANK & TERMINATE.

IF RESPONDENT HAS HEAVY ACCENT OR CANNOT MAKE HIM OR HERSELF CLEARLY UNDERSTOOD IN ENGLISH, THANK & TERMINATE.

IF RESPONDENT ONLY GIVES ONE OR TWO WORD ANSWERS AND IS UNWILLING OR UNABLE TO EXPRESS THEMSELVES FURTHER THANK & TERMINATE.

13. Which of the following categories best describes your ethnic or racial background? (READ LIST)

		CIRCLE ALL THAT APPLY	
	White/Caucasian	1	→(RECRUIT AT LEAST 2 OF EA ETHNICITY FOR ABOVE SUBPRIME AND 2 OF EACH ETHNICITY FOR SUBPRIME QUOTAS)
	Hispanic or Latino	2	
	Black or African American	3	
	Asian	4	
	Native Hawaiian or Other Pacific Islander	5	
	American Indian or Alaska Native	6	
(DO NOT READ)	Prefer not to answer	7	

14. Which of the following best describes your annual household income? (READ LIST)

CIRCLE ONE

	Less than $25,000	1
	$25,000 to $49,999	2
	$50,000 to $74,999	3
	$75,000 to $99,999	4
	$100,000 to $149,999	5
	$150,000 to $199,999	6
	$200,000 to $299,999	7
	$300,000 or more	8
(DO NOT READ)	Prefer not to answer	9

15. RECORD, DO NOT ASK: GENDER

	CIRCLE ONE	
Female	1	→(RECRUIT A MIX)
Male	2	

INVITATION

We are conducting one-on-one interviews in our office with people like you to talk about auto financing. This is not a sales meeting of any kind. As we mentioned previously, prior to confirming you for your interview we will need you to provide us with your recent credit score. Do you know your credit score?

	CIRCLE ONE	
Yes (Record:_________)	1	→(300-600 QUALIFIES AS SUBPRIME, 601-850 QUALIFIES AS ABOVE SUBPRIME)
No	2	

Do you have documentation of your credit score that is dated within the last 6 months?

	CIRCLE ONE	
Yes	1	→(CONTINUE TO Q.A)
No	2	→(CONTINUE TO Q.B)

A. Would you be willing to provide us with a copy of your recent credit score documentation within 24-48 hours? This may be available from your bank, your credit card statement or elsewhere.

	CIRCLE ONE	
Yes	1	→(SKIP QB)
No	2	→(THANK AND TERMINATE)

B. (ONLY ASK IF RESPONDENT DOES NOT HAVE DOCUMENTATION OF CREDIT SCORE) Would you be willing to obtain your credit score for the interview and provide us with documentation within 24-48 hours? You can obtain your credit score, or an estimate of your credit score, at no cost through various websites, your bank or your credit card company. We do not endorse any particular site for obtaining your credit score or estimate of your credit score. However, you should be aware that if a website asks for your credit card or debit card number, it is likely they will use it to charge you.

	CIRCLE ONE	
Yes	1	→(CONTINUE)
No	2	→(THANK AND TERMINATE)

C. (ASK ALL) During this interview we will be reviewing a copy of your vehicle financing documents (sometimes called your retail installment contract or credit agreement, which usually has the Annual Percentage Rate (APR) on it), and the other documents you may have from the purchase of your car. We will work with you to remove all personally identifiable information from the documents before we use them in the interview to ensure your privacy. At the end of the interview, we will want to retain a copy of the documents without your personal information for further review.

Do you have your retail installment contract or credit agreement and any other documents from your car purchase, and are you willing to bring them to the interview?

	CIRCLE ONE	
Yes	1	→(CONTINUE)
No	2	→(THANK AND TERMINATE)

(**FOR IDIs**) The interview will last 90 minutes. (**FOR FLOATERS**) We are currently looking to schedule floaters, we would ask you to arrive at (INSTERT TIME) on (**PRE-TEST)** February 16th, 2017 and remain at the facility for ____ HOURS should one of our scheduled interviews cancel. Can I schedule an interview at your convenience?

	CIRCLE ONE	
Yes	1	→(ASSIGN DATE/TIME SLOT)
No	2	→(THANK AND TERMINATE)

NOTE FOR RECRUITERS: Tell respondents to send us documentation of their credit score within 24-48 hours of the screening call. They can either fax it to us (INSERT NUMBER) or upload it to a secure web portal (INSERT LINK).

INTERVIEWER: RECORD APPOINTMENT DATE AND TIME ON FRONT OF SCREENER

NOTE TO RECRUITER:

- Valid proof of identification for all participants is required.
- Do not schedule anyone who is at all reluctant about the time, is reluctant to bring their credit score and financing paperwork, is hesitant about participating in a discussion, talks too low or speaks unclearly. That person will definitely not be considered a valid respondent and will not be paid for.
- Remind respondent to bring glasses if needed because we will be going over documentation.

Appendix D: Participant Demographic Information and Dealer Type

A. Pre-Test Interviews	Above Sub-Prime	Sub-Prime	Total
Total Recruited	9	2	11
# of Cancellations	3	0	3
# of no-shows	1	0	1
# of paid and sent due to over-recruit	2	0	2
Total Completed Interviews	**3**	**2**	**5**

B. Interviews	Above Sub-Prime	Sub-Prime	Total
Total Recruited	38	23	61
# of Cancellations	12	1	13
# of no-shows	2	6	8
# who disqualified when rescreened at facility	2	0	2
Total Completed Interviews	**22**	**16**	**38**

C. Credit Score			
	Above Sub-Prime	Sub-Prime	Total
Count	22	16	38
Percentage	57.9%	42.1	100%

D. Gender			
	Male	Female	Total
Count	20	18	38
Percentage	52.6%	47.4%	100%

E. Type of Dealer				
	Franchise	Buy Here Pay Here	Independent	Total
Count	28	4	6	38
Percentage	73.7%	10.5%	15.8%	100%

F. Age Distribution							
	18-24	25-34	35-44	45-54	55-64	65+	Total
Count	2	8	9	4	8	7	38
Percentage	5.3%	21.1%	23.7%	10.5%	21.1%	18.4%	100%

G. Ethnicity					
	White/ Caucasian	Black/African American	Hispanic/ Latino	Asian	Total
Count	26	8	3	1	38
Percentage	68.4%	21.1%	7.9%	2.6%	100%