

WANADA Bulletin # 18-07

May 17, 2007

## PUBLIC AFFAIRS ALERT

### NADA Responds to Auto Financing Discrimination Study *Dealer Talking Points Address Financing Issues*

NADA responded promptly to a recent Associated Press (AP) story headlined, "Blacks Pay Higher Auto Loan Rates." The article cites a 2004 study by the Consumer Federation of America (CFA) that is based on data from the Federal Reserve. The negative AP story has been picked up by a number of news outlets around the country, including The Washington Post, which in a May 10 "Color of Money" editorial by financial writer Michelle Singletary, published the article "Minorities, the Auto Loan Losers."

According to CFA, blacks paid a typical auto loan rate of 7 percent for new cars, compared with a rate of 5 percent for whites and 5.5 percent for Hispanic borrowers in 2004. "And blacks were more likely than auto buyers in general to have auto loan rates higher than 15 percent. For used car loans, 27 percent of blacks who buy cars were charged interest rates of 15

percent or more. And blacks were three times as likely as whites — 27 percent to 9 percent — to have auto loan rates at least that high," the AP reported.

The study also found that Hispanics only paid 5.5 percent for new car loans as opposed to whites who paid 5 percent on average. In addition, the study noted that 19 percent of Hispanics had used car loans greater than 15 percent, versus 9 percent of whites with higher rates.

The views of NADA

and the American Financial Services Association were included in the story, providing some balance to the otherwise negative slant. However, NADA sent the following talking points to state and metro dealer associations to share with dealers who may receive a call from a news reporter following up on this story.

#### Talking Points

- You can't draw legitimate conclusions from the data

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## INTERNATIONAL AUTO INDUSTRY SUMMIT



International Auto Industry Summit panelists are, from left, Richard Colliver of American Honda Motor Co., Tom McGurn of BMW of North America, Irv Miller of Toyota Motor Sales U.S.A. and Dominique Thormann of Nissan North America.

### International Automakers, Dealers Join On First DC Summit

The American International Automobile Dealers Association (AIADA) and the Association of International Automobile Manufacturers (AIAM) came together last week to hold their *first* two-day International Auto Industry Summit in Washington, D.C., featuring

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because it's incomplete. It does not contain the necessary information regarding a host of variables that have direct and substantial impact on the rates, including, most notably, the borrower's creditworthiness and prevailing rates at the time the credit was issued. Without this data as part of the analysis, any conclusions or implications drawn could be misleading.

- What's important to keep in mind is that consumers should do their homework and shop around. It speeds up the process, makes for a smoother transaction and is more likely to result in a satisfied customer. Auto financing is a very competitive business. If a customer is not satisfied with the first interest rate offered, he or she may be able to refinance elsewhere without penalty.
- NADA has launched a national consumer education campaign aimed at increasing public understanding of auto financing. With this in mind, NADA has joined with the auto financing industry in a coalition known as AWARE (Americans Well-informed on Automobile Retailing Economics). We recommend that consumers go to the AWARE website [www.autofinancing101.org](http://www.autofinancing101.org) for comprehensive information dedicated exclusively to understanding auto financing.

### **The Case for Sub-Prime Financing**

With media coverage of sub-prime lending also heating up lately, NADA also issued the following talking points designed to help dealers respond to media inquiries about sub-prime financing:

- Sub-prime financing has opened the door to car ownership for many people who otherwise couldn't afford it. In some cases, that vehicle is the only viable option for travel to the workplace, grocery store, school or other essential destinations.
- Consumers benefit from a highly competitive auto market that offers a wide variety of vehicle and financing options.
- Successful car buyers shop around and do their research, so they know what they can afford, to include vehicle financing. Informed consumers enjoy smoother transactions and are more likely to be satisfied. If a customer is not satisfied with the first finance offer, he or she often can refinance elsewhere without penalty. New car dealerships, of course, are likely to be among the most competitive of finance providers.
- The consumer education group AWARE provides car financing tips and information in English and Spanish on its website, [www.autofinancing101.org](http://www.autofinancing101.org).

## **Dealerships Did Nearly \$50 Billion in Sub-prime New-Vehicle Loans**

Auto dealerships initiated nearly \$50 billion in sub-prime new-vehicle loans in 2006, according to real-time retail transaction data from the Power Information Network (PIN), a division of J.D. Power and Associates.

Approximately 20 percent of the 9.6 million customers who leased or financed a new vehicle through dealerships in 2006 were in the "sub-prime" category according to PIN. Indirect loans and leases accounted for 74 percent of all new-vehicle financing in 2006.

"While it is unlikely that sub-prime auto lenders are exposed to the same level of risk as sub-prime home mortgage lenders because auto lenders do not have variable rates, the potential still exists for increased charge-offs on this paper," said David McKay, senior director of auto finance and insurance at J.D. Power and Associates.

"The economics that drove sub-prime consumers to default on their home loans—rising interest expense for credit cards and home loans, higher energy costs, lower home values and wage stagnation—will pressure these consumers to pay for their vehicle loans. Any tightening of the sub-prime market would leave the lenders and the automakers that have heavy portfolios of sub-prime customers exposed to increased losses and vehicle sales in the future business."

## INTERNATIONAL AUTO INDUSTRY SUMMIT



**AIADA Immediate Past President Don Beyer (left) moderates an industry panel. WANADA Chairman and AIADA Director Jack Fitzgerald (right) chats with fellow import dealer Ralph Chioto, Jr. at the International Auto Industry Summit.**

*(Continued from page 1)*

top executives from the wholesale and retail sectors of the international nameplates side of the auto industry. The meeting served as a forum for leaders of the international auto industry to discuss key import brand issues in Washington where members of Congress and Bush Administration operatives participated.

About 100 automaker representatives and politically engaged dealers attended the Summit, which emphasized free trade, import tax and energy issues.

"There are critical issues impacting this segment of the industry – from trade to energy and the environment – and united with AIADA we must work together to ensure that we have an equal seat at the table when decisions are made," said Mike Stanton, president and CEO of AIAM.

"This inaugural event marks the unification of executives from across the international auto industry, hearing directly from experts on the most important issues affecting our industry," said AIADA President Cody Lusk. "International dealers know first-hand how legislation impacts their bottom line, and this Summit is the start of a renewed lobbying effort that will begin at AIADA," he said, noting that international dealers are a "critical conduit" for communicating this message to members of Congress in their home districts.

Featured speakers at the two-day event included House Minority Leader John Boehner (R-OH); Rep. John Campbell (R-CA); Admiral Tom Barrett, acting deputy secretary at the U.S. Department of Transportation; Deputy U.S. Trade Representative Karan Bhaita, and Demetrios Marantis, chief international trade counsel, (for the Majority) Senate Finance Committee.

The manufacturer panelists were Richard Colliver of American Honda Motor Co., Tom McGurn of BMW of North America, Irv Miller of Toyota Motor Sales U.S.A. and Dominique Thormann of Nissan North America. Jim Press, president Toyota Motor North America also participated.

For more information on the Summit, go to [www.aiada.org](http://www.aiada.org).

## Latest in CAFE

Directly engaged in the CAFE debate, NADA and the American Truck Dealers (ATD) sent a letter on May 7 to each member of the Senate Commerce Committee, which was considering legislation to increase corporate average fuel economy (CAFE) standards for cars and light trucks, and for the first time, apply CAFE standards to medium and heavy-duty trucks. The bill, as passed by the Committee, does not take into account either the realities of the marketplace or consumer demand when setting these new CAFE standards.

The NADA/ATD letter also expressed concerns with the truck provisions in the bill because of its disregard of the economics of the truck market that already drive fuel economy in far more powerful ways than any CAFE mandate. Senate leadership has indicated that an energy security bill may reach the floor next month.

NADA's legislative office will engage dealers regarding contacts with key senators at the appropriate time. Additionally, ATD is working with the truck manufacturers, and encourages truck dealers to do the same, in presenting a united industry front to Congress.

President Bush issued an executive order directing administration departments to prepare regulations by the end of 2008 that would cut petroleum use and reduce greenhouse gas emissions.

**SAVE THE DATE****WANADA Kindred-Line Member Appreciation Reception*****6:00 p.m. - 7:30 p.m., Thursday, June 7, 2007******Congressional Country Club, 8500 River Road, Potomac, Maryland***

In appreciation of the support and invaluable resources provided to dealers by our kindred-line members, WANADA has scheduled the above reception to coincide with our regular board of directors meeting. "This gathering will bring people together who know and work with one another and provide the opportunity to meet people and make new acquaintances. The commonality among all attending will be WANADA membership and this is what we are looking to enhance," said WANADA Chairman Jack Fitzgerald.

All WANADA kindred line and dealer members are invited to attend. A registration form is enclosed with this WANADA Bulletin. *Note: jacket and tie are required for the reception.* For more information, call WANADA Events Director Kristina Henry at (202) 237-7200.

**DON'T MISS OUT!!!!****2007 WANADA Open*****Monday, June 4, Lansdowne Resort***

Can you image being left out of an extraordinary day of golf, or missing the annual fellowship that abounds over drinks, dinner and incredible prize drawings? Parish the thought, and *be there* Monday, June 4 for the 2007 WANADA Open rolling out once again at the spectacular new club and resort at Lansdowne!

We kick off with a shotgun start at 11:00 a.m., cocktails at 4:00 p.m. followed by dinner and prize drawings at 5:30 p.m. with MC Paul Berry.

A registration form and information sheet is enclosed with this WANADA Bulletin, or call WANADA Events Director Kristina Henry at (202) 237-7200.

Lansdowne is offering a special rate for WANADA of \$99 for overnight accommodations on Sunday, June 3, or the opportunity to play unlimited golf that day and stay overnight for \$149.

**COMING UP SOON*****Get on Board Now for This Premier Summer Event*****The Bobby Mitchell Hall of Fame Classic, July 8&9*****Sponsorship Opportunities Still Available, Auction Items Needed***

The *Bobby Mitchell/Toyota Hall of Fame Classic* sponsored by Washington Area Auto Dealers, at the Lansdowne Resort, July 8 & 9, is *the big summer event* for area dealers. Last year, over 40 sports legends drew more than 600 participants and raised a record \$700,000 for the Leukemia & Lymphoma Society. The fundraising goal is even higher this year, which has a good chance of succeeding given the high levels of participation in recent years by area dealers and our many vendor friends. For more information on participation and sponsorship opportunities for this year's Hall of Fame Classic, contact BMC Co-chairman Tamara Darvish at DARCARS, (301) 622-0300.

**Staying Ahead...**

*"Men are like wine - some turn to vinegar, but the best improve with age."*

**--Pope John XXIII**

**Enclosures:**

- WANADA Open Registration & Information Sheet
- WANADA Kindred-Line Member Appreciation Reception RSVP