THE WANADA® BULLETIN

NEWS AND INFORMATION FOR AND ABOUT FRANCHISED NEW CAR DEALERS IN THE WASHINGTON AREA

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2016 Auto Show prep in Washington underway

Auto shows everywhere show their value

As you're sweltering in the Washington summer, WANADA is hard at work preparing for the 2016 Washington Auto Show next winter. The theme is "The Power of Mobility," and the dates are set: January 20 is Policy Preview Day on Capitol Hill, and January 21 is Policy Preview Day at the W.E. Washington Convention Center, with a daylong schedule of events for government, industry and media capped off by the annual *Sneak Peek Reception* on the Auto Show floor. The consumer days for the Auto Show are January 22 to January 31. Start wishing now for some of summer's warmth to seep into January – or at least for a snow-free show.

U.S. Energy Secretary Ernest Moniz speaking at last year's WAS Media Day.

Housing registration is now open, with special discounts on room rates for industry, media and government officials. Reservations can be booked by clicking here.

As an extra incentive to encourage customers to attend the show, a new study details "the power of auto shows." The study, commissioned by Auto Shows of North America (ASNA), found that 57 percent of show attendees nationally were planning to buy a new car within a year, and one-fourth of that group left the show with their minds made up.

"Auto shows captivate people," Lou Vitantonio, chairman of ASNA, said in a statement. "They educate, entertain and amaze. Consumers know they can see a wide variety of new vehicle technologies, including those that will make them safer on the road, be kinder to the environment and provide them with a more entertaining experience. Plus, all of these can be found under one roof."

Showgoers spend an average of three and a half hours at an auto show. Sixty percent are men and 32 percent are millennials (ages 18 to 34). Other highlights from the study:

- Three-quarters of showgoers planned in advance which displays to visit.
- About 70 percent of those who were influenced by a show talked to a product specialist.
- Nearly half of attendees added or subtracted brands to their consideration based on what they saw at a show.
- More than half of showgoers cross-shopped vehicles before their purchase.

Next week's Bulletin: Report on the WAS Space Draw for OEMs.

Dealer associations target regulatory overreach of industry by feds

ATAE network marks 100 years

Dealer associations from across the U.S. and Canada assembled last week in Detroit for the Annual Summer Conference of the Automotive Trade Association Executives (ATAE). WANADA CEO John O'Donnell and senior staff joined counterparts along with major dealer contractor representatives from among the fifty states, Canada's provinces and any number of major metropolitan markets to interact among themselves and leadership from NADA, AIADA and NAMAD. A big part of the ATAE Conference focus was the national public policy and industry agenda for dealers.

Principal among the topics reviewed was overreach by U.S. regulatory agencies into dealership sales and finance practices by the Consumer Finance Protection Bureau (CFPB) and the Federal Trade Commission (FTC).

With an update on CFPB's ongoing crusade to restrict or eliminate dealers as credit arrangers in financed vehicle transactions, NADA's legal department, in tandem with NAMAD and AIADA, spotlighted unprecedented regulatory scrutiny and sanctions against banks and lending institutions working with dealers. CFPB's approach had remained fundamentally unchanged over the past year and a half where regulators allege that dealers systematically discriminate against minority vehicle buyers because they get less favorable credit offers then non minorities when dealers arrange financing. Thus, says CFPB, dealers and the lenders CFPB regulates are violating the law and dealers should no longer be in the credit arranging business.

NAMAD, with its minority dealer advocacy mission, has been especially helpful with NADA and AIADA in garnering bi-partisan support in Congress to halt CFPB's all-out attack on auto dealers, tangibly evidenced by growing support for H.R. 1737, the "Reforming CFPB Indirect Auto Financing Act." The recent consent order CFPB obtained from American Honda Finance Corporation on alleged discrimination against minority vehicle buyers was pointed out by NADA as underscoring the importance of H.R. 1737 and the urgency to check CFPB's unbridled regulatory power (see article, below, on the Honda Finance agreement with the CFPB.)

NADA lawyers took an opportunity to promote the dealer management guide that they collaborated upon with NAMAD and AIADA, entitled *Fair Credit Compliance Policy and Program*, which is grounded in fair credit and anti-discrimination law. NADA dealer members may click here for this timely publication.

In addition to regulatory challenges to dealers from the CFPB, dealer association CEOs heard from NADA Legal on fresh and unprecedented enforcement actions by the Federal Trade Commission, on vehicle advertising. Though FTC's actions are mostly separate from those against dealers from the CFPB, NADA compellingly showed the unmistakable connection of federal regulatory zeal against the auto retailing industry. Over the last three years, FTC has done seven rounds of enforcement actions in 15 states against 23 dealer organizations in each agency. In addition to the standard ad enforcement actions against dealers in such areas as Truth-in-Lending and bait-and-switch, FTC regulators are pressing actions on consumer vehicle purchase transactions involving negative equity, prize promotions and purchase versus lease ads. And new last March, FTC's launch of "Operation Ruse," in conjunction with other federal regulatory agencies, represents a more directed targeting of auto retailing, going beyond dealer to consumer transactions that include dealer service providers, such as auto parts manufacturers, title companies and, of course, finance companies.

Other federal regulatory matters reviewed at the ATAE Summer Conference included the National Labor Relations Board's proactive involvement in such non-union areas as the long standing overtime exemption on service sales reps, and the burgeoning, but especially daunting, involvement of NHTSA in the handling of safety recalls at the dealership level in the wake of the unprecedented safety recall actions against automakers.

The ATAE organization at 100 years

The Automotive Trade Association Executives, headquartered at NADA in McLean, VA., marked its centennial year at this year's Summer Conference, celebrating its founding among far fewer dealer associations in 1915 than the 85 or so that comprise the organization today. Though not around at the outset of ATAE, WANADA and its staff leaders have long been engaged with the dealer associations network. Since WANADA's founding in Washington, DC in 1917, three generations of Murphys – Dick, Mike and Gerry – have been ATAEs. Following Mike, Gerry is a past chairman of ATAE and remains an Honorary Member of the organization since "passing the keys" to John O'Donnell, WANADA's current CEO and active ATAE. "The dealer associations' partnership with NADA, AIADA and NAMAD through ATAE at the national level has never been stronger," said Gerry Murphy, reflecting on his 30 years in ATAE. Tangible evidence of this, he said, is how well the ATAE network is now operating, along with the recruitment of Peter Welch as president of NADA, coming on board from his former position as CEO of the California Motor Car Dealers Association.

Incoming chairman, Peter Gordon, Greater NY, presents outgoing chairman, Mike Murphy, WANADA, a Certificate of Appreciation at the 1969 ATAE Summer Conference.

Honda Finance agreement with CFPB: What's next?

NADA says dealer discretion in setting finance rates allows consumers to benefit from interest rate reductions on their auto loans. Photo by Brian Teutsch.

What does the well-publicized consent agreement between American Honda Finance Corp. (AHFC) and the Consumer Financial Protection Bureau (CFPB) and Department of Justice (DOJ) mean for dealers?

To recap: Without admitting any wrongdoing, AHFC agreed to pay $24 million to minority customers for alleged discriminatory pricing on auto loans. A statement from the CFPB said that thousands of minority buyers paid an average of $150 to $250 more for their loans from 2011 to 2015.

As part of the agreement, AHFC must lower reserve payments to dealer credit arrangers from 2.25 percent to 1.25 percent above the buy rate for loans of 5 years or less, and 2 percent to 1 percent for longer loans. More significantly, the head of the DOJ's Civil Rights Division, Vanita Gupta says, "We hope that Honda's leadership will spur the rest of the industry to constrain dealer markup to address discriminatory pricing."

It's not the push for flat rates that had previously been reported as a preference of some CFPB regulators. But the statement does put other captive finance companies on public notice of the agency's preference for lower limits on dealer reserve. The CFPB does not regulate dealers, but it does regulate lenders.

In explaining the concept of dealer reserve in a statement for the media, the CFPB says, "Markups can generate compensation for dealers while giving them the discretion to charge consumers different rates regardless of consumer creditworthiness."

NADA responds that dealer discretion in setting the consumer's finance rate is crucial. "This enforcement action artificially constrains the right of consumers to benefit from interest rate reductions of up to 1 percent of the APR on their next auto loan," says NADA Chairman Bill Fox.

Adds Damon Lester, president of the National Association of Minority Auto Dealers, "Today's restriction of consumer rights is entirely unnecessary because a better alternative exists – the *Fair Credit Compliance Policy & Program* recommended by our dealer associations. That alternative, which is modeled on prior Department of Justice consent orders, fully addresses fair credit concerns without displacing the ability of consumers to obtain discounted rates."

AIADA was also part of the joint association statement, saying "Everyone in our industry is mystified as to why the government continues to overlook its own common sense approach in favor of the anti-consumer methods forced on Honda Finance."

Honda will pay $1 million to fund a consumer financial education program focused on consumer auto finance and designed to benefit ethnic minorities.

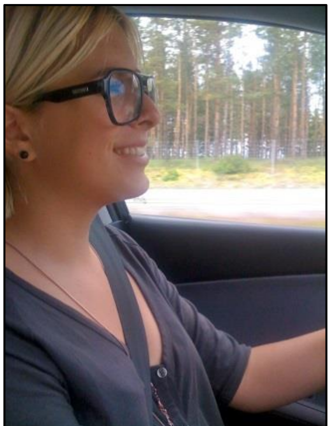
As DOJ concludes, "The settlement allows the lender to experiment with different approaches toward lessening discrimination and requires it to regularly report to the [Justice] Department and the CFPB on the results…"

First-time buyers still choose compact cars

With the headlines focusing on the growth in sales of SUVs and crossovers, it's easy to forget that one group still prefers compact cars: first-time new vehicle buyers.

A recent study by MaritzCX found that 27 percent of first-time buyers buy compact cars, 13 percent buy small SUVs and nearly 8 percent buy mid-size SUVs. Compacts and subcompacts together account for about one-third of first-time purchases.

Millennials typically earn less, borrow less than Gen X



Millennials' large college debt load may prevent them from taking out a car loan.

In the auto industry's continuing effort to understand millennials, the latest thinking is that they didn't buy cars right out of college because they weren't making enough money, not because they weren't interested in car ownership. Supporting that idea, a recent study from FactorTrust finds that millennials earn slightly less and borrow less than their elders, Generation X (no set dates, but ages about 40 to 50).

One reason millennials borrow less may be their high student debt load -- $29,400 on average for college graduates in 2012. The average monthly income of millennials who took out a loan in 2014 was $2,351. And 63 percent of millennials do not own a credit card.

"There is a great deal of opportunity surrounding alternative lending options for millennials, as studies show they are less loyal to financial institutions than previous generations," says Greg Rable, FactorTrust CEO.

Luxury brands top Prospect Satisfaction Index

For the seventh straight year, Mercedes-Benz dealerships ranked highest in the Pied Piper Prospect Satisfaction Index, which measured treatment of mystery shoppers at more 6,370 dealerships nationwide. Infiniti and Lexus ranked second and third. But Mini and Toyota were next, so luxury brands didn't grab *all* the top slots.

Brands that showed the most improvement from last year were Mini, BMW, Lexus, Chrysler, Dodge, Lincoln and Ram. Brands with the greatest declines: Volvo, Smart, Jaguar and Cadillac. Eight brands have ranked at or above industry average for each of the past five years: Mercedes, Infiniti, Lexus, Toyota, BMW, Volkswagen, Honda and Cadillac.

Almost all salespeople (94 percent) offered a test drive. Just over half provided reasons to buy from their dealership, and 83 percent suggested sitting down at a desk. All those behaviors were more likely in 2015 than any previous year.

Salesperson behaviors less likely in 2015 than in previous years: asked how vehicle will be used (72 percent of the time), asked why prospect considered that brand (59 percent) and offered printed materials for shopper to take home (47 percent).

Highway funding deadline is July 31

The House passed a transportation bill that President Obama said he would sign, a Senate committee passed a different bill, and all parties are well aware that highway funding runs out July 31. Just another summer on Capitol Hill.

The AAA, Transportation Secretary Anthony Foxx and the *Washington Post*, among others, have pushed for a hike in the gas tax, which hasn't been raised in more than 20 years and hasn't covered highway funding for a long time. Several states have raised their gas tax. But any federal gas increase is a nonstarter for Republicans.

The $8 billion House bill would extend funding only until December. Once again, everyone agrees that a longer transportation package is critical, but no one can agree on how to pay for it. Ergo, we will likely see a short-term patch – the 34th since 2005.

The Senate Commerce, Science and Transportation Committee approved its portion of a multi-year transportation bill that contained a rollback of several safety regulations, mostly affecting railroads and ports. Many Democrats were unhappy with the rollback.

In any case, the House has not moved to pass any long-term bill. House Republican leaders said the short-term bill is meant as a stopgap so members of Congress can have time to write a longer term measure.

It seems likely that some kind of stopgap funding will become law before the July 31 deadline forces the Department of Transportation to stop payment to states on infrastructure projects midstream.

Korean automakers move to top in Vehicle Satisfaction Awards

The Kia K900 won as "Most Satisfying Vehicle Overall" in AutoPacific's awards.

No one automaker dominated the results of AutoPacific's Vehicle Satisfaction Awards, but Kia and Hyundai came out on top in combined average score, with five winning vehicles. That position was previously held by Europeans.

The Kia K900, Kia's top luxury car, set an all-time high and won the President's Award, given only when the overall score tops the previous high score. The new aluminum-bodied Ford F-150 would have won the award if Kia was not in the running.

The average score for 2015 is 25 points higher than in 2014, showing that products and customer handling are improving markedly, said AutoPacific. The awards measure owner satisfaction with 50 attributes ranging from interior comfort and styling to fuel economy and performance.

"In many cases, an extremely satisfying vehicle is not the car or truck that has the best absolute build quality or the best safety rating," said AutoPacific President George Peterson.

The highest satisfaction popular brand was GMC and the highest satisfaction premium brand was Tesla.

Drivers want steering wheel, controls in autonomous cars

An overwhelming majority of drivers – 96 percent – said they prefer to keep the steering wheel, gas and brake pedals for emergency use in driverless cars, according to a recent study by the University of Michigan.

More than 40 percent of drivers said they want no self-driving features in their cars, and 40 percent said they would accept partial autonomy. About 15 percent said they would hand over all the driving. Safety is the primary concern.

Staying Ahead…

Today's government-imposed order will hamstring the ability of thousands of consumers to negotiate lower interest rates with their local auto dealership.

-- Bill Fox, chairman, NADA, on CFPB's consent agreement with Honda Finance