

The High Cost of Vehicle Finance

Auto dealers added an estimated \$100 million to their bottom line, with no additional value to consumers, after the 77th Legislature allowed them to significantly increase the cost of low value add-ons.



Purchasing a vehicle is a very expensive transaction—the vehicle itself can cost tens of thousands of dollars. But often it is the additional costs and add-ons that can turn a good deal into a bad one.

Costly add-ons like credit insurance give little value for consumers, but are highly profitable for dealers, giving them an incentive to push even those that are inappropriate for the consumer. For example, people with health conditions do not qualify for credit life and health

In Short

Auto dealers routinely add high cost, low value add-ons to the financing package. Some consumers are told that their lender requires such add-ons or sold products for which they don't even qualify. There's almost no limit to the charges and dealers pocket most of the money in commissions.

insurance, but many such consumers report that it was added to the loan even after they asked whether their health disqualified them. These consumers only find out they are not really covered after they file a claim.

Year after year, problems with new and used motor vehicle dealers rank among the top 10 complaints filed by consumers with the Texas Attorney General's office. In 1999, they ranked ninth and fourth, respectively, and in 2001 they had moved up to sixth and third.

Despite the dissatisfaction many Texans have with motor vehicle dealers and high cost add-ons:

- New legislation added an unregulated policy fee for dealers who sell credit life and credit accident policies to consumers when they buy cars on credit. But, such a fee is *already part of the rate for credit life insurance* and it may add millions of dollars in costs for Texas consumers.
- Other legislation allowed credit insurance companies to increase rates by 30 percent—even though the Commissioner had already determined that a *decrease* of 21 percent was needed. Since its implementation, almost every company in the market has asked for and received the full 30 percent increase authorized by this law.

With these two bills alone, we estimate that auto dealers added more than \$100 million to their bottom line, with no additional value to consumers.

Savvy car buyers obtain a lot of information about their top picks, including the dealer's cost so they can negotiate from that price.

But once in the showroom, consumers too often find themselves outgunned by experienced negotiators. Buyers sometimes walk out believing they've paid too much

for a vehicle, been stuck with unavoidable add-ons, and been pressured or convinced to buy add-ons that are a bad deal.

No longer are those add-ons merely a question of buying floor mats or "undercoating." Now dealers push many other extras, from extended warranties to window etching combined with insurance. Because these add-ons are a relatively small cost component of the overall purchase, and typically financed, they may escape consumers' attention altogether. Many consumers report that they did not intend to buy these products or thought they were "included" in the deal (free) when, in fact, they were "included" in their loan amount.

Without some assurance that the prices for these add-ons are reasonable, consumers waste money on overpriced and unnecessary, but extremely profitable, products offered by aggressive sales staff.

RECOMMENDATIONS

- Texas consumers should be assured that add-ons to vehicle sales are reasonably priced.
- Products that are equivalent to insurance should be regulated like insurance—to assure fair terms, reasonable prices, and company solvency.
- Auto dealers that finance vehicles should be subject to oversight like other consumer lenders.
- Legislation authorizing the 30 percent increase over the Insurance Commissioner's rate should be repealed.
- Prohibit double dipping fees. If a fee is already included in the insurance rate, it should not be charged separately as well.