FRED UPTON, MICHIGAN
CHAIRMAN

FRANK PALLONE, JR., NEW JERSEY
RANKING MEMBER

ONE HUNDRED FOURTEENTH CONGRESS

Congress of the United States
House of Representatives
COMMITTEE ON ENERGY AND COMMERCE
2125 Rayburn House Office Building
Washington, DC 20515–6115
Majority (202) 225–2927
Minority (202) 225–3641

February 5, 2015

The Honorable Fred Upton
Chairman
Committee on Energy and Commerce
2125 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Michael C. Burgess
Chairman
Subcommittee on Commerce, Manufacturing, and Trade
2125 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Tim Murphy
Chairman
Subcommittee on Oversight and Investigations
2125 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Upton, Chairman Burgess, and Chairman Murphy:

We are writing to request that the Energy and Commerce Committee hold hearings to examine the rise in the issuance of subprime auto loans to low-income consumers.

These hearings should focus on whether subprime auto lenders are creating loan terms that deceptively, unfairly, or abusively exploit Americans who cannot afford, and may not even fully comprehend the terms of, such loans. In addition, we should examine increasingly common requirements that purchasers' cars be outfitted with starter interrupt devices, which allow lenders to remotely disable ignitions. A Committee hearing would give members a better understanding of these developments and an opportunity to assess the need for appropriate legislation.

Subprime loans are defined as those loans issued to borrowers that have credit scores at or below 620-640, out of a maximum of 850. These loans can be issued for amounts that are twice the value of the cars purchased, with a total cost – including interest rates – that can more than triple the true value.[1] Today, 25 percent of new auto loans are considered subprime, up from 15 percent in 2009.[2] In the second quarter of 2014, lenders issued $20.6 billion worth of subprime auto loans, which is a doubling of subprime loan volume since the same quarter in 2010.[3]

While it is vitally important that people who need a car are able to acquire a loan, interest rates charged on many subprime auto loans could be considered usurious – in some cases, annual rates exceed 29 percent.[4] Those rates – and the inability of some borrowers to repay their loans – have put more and more drivers at risk of defaulting on their loans and losing their cars to repossession. There was an increase in delinquencies within 60 days of loan issuance of more than eight percent from the third quarter of 2013 to the third quarter of 2014.[5]

First, the Committee should explore investor demand in subprime auto loan securities. The packaging of subprime auto loans into securities has increased significantly in recent years – rising more than 300 percent since 2010.[6] Those securitizations – in which lenders pool thousands of these loans into bonds that are sold to mutual funds, pension funds, hedge funds, and insurance companies – could threaten every area of our economy, much like the mortgage-backed securities that led to the Great Recession.

To keep up with investor demand, lenders are extending their reach to more credit-challenged borrowers. This leads to some lenders lengthening the duration of their loans.[7] Stretching out the repayment period of loans increases the total cost to consumers. Twenty-five percent of new car loans in the months of October and November 2014 were 73 to 84 months-long, and 40 percent of new car loans were between 61 and 72 months-long.[8]

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[1] *In a Subprime Bubble for Used Cars, Borrowers Pay Sky-High Rates*, New York Times (July 19, 2014).

[2] *Auto Sales Increase Along with Subprime Loans*, Pittsburgh Post-Gazette (Aug. 14, 2014).

[3] *Loan Fraud Inquiry Said to Focus on Used-Car Dealers*, New York Times (Oct. 1, 2014).

[4] *Id.*

[5] *Investment Riches Built on Subprime Auto Loans to Poor*, New York Times (Jan. 26, 2015).

[6] *Id.*

[7] *Id.*

[8] *Honda Warns Against 'Stupid' Auto Loans Driving U.S. Sales Gains*, Bloomberg News (Jan. 20, 2015); *Long-term Car Loans Popular But Pricey in Long Run*, Detroit Free Press (Jan. 29, 2015).

Second, we should examine why borrowers are getting loans they cannot afford. An investigative report in the New York Times detailed how some auto dealers are fueling the crisis by falsifying loan applications with inaccurate income or employment information.[9] Auto dealers who falsify documents make considerable profits on the sale of vehicles, but bad actors don't stop there. The difference between the interest rate the lender is charging and the rate the consumer ends up paying is pure profit to the auto dealer.[10]

Third, we should scrutinize the increase in lenders using cars as collateral. We are seeing an increase in "title loan" storefronts in disadvantaged and underbanked communities. These title loans often have interest rates from 80 percent to over 500 percent, and are not issued based on a borrower's ability to repay. The results have been devastating, with repossessions on one in six title loans.[11]

The rise in subprime auto loans has coincided with a similar increase in repossessions. In the first quarter of 2014, repossessions increased 78 percent from the first quarter of 2013.[12] After repossession, consumers are left with car debt but without access to the transportation they need to get to work to earn the money needed to repay their debt. This vicious debt cycle can propel borrowers into bankruptcy.[13]

Fourth, we should go beyond the direct issue of auto lending practices and investigate the usage of starter interrupt devices by subprime lenders, which presents a serious privacy and safety concern. These devices – which allow lenders to use GPS to track a vehicle's whereabouts and disable a vehicle remotely – are now installed in an estimated one in four vehicles that are subject to subprime loans.

Lenders are using this technology to locate and quickly repossess cars or alternatively, shut the cars down, which has been termed "electronic repossession." Consumers have not been just stranded at home, they have reported being left without transportation at work or at a gas station.[14]

Even more troubling, the potential of these devices to disable vehicles while they are operating presents a serious safety issue for everyone on our roads. Consumers have explained

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[9] *See* note 5.

[10] *See* note 1.

[11] *Rise in Loans Linked to Cars Is Hurting Poor*, New York Times (Dec. 25, 2014).

[12] *See* note 1.

[13] *Id.*

[14] *Id.*

that their cars were turned off while idling at stoplights, in dangerous neighborhoods, and even while driving on the highway.[15]

Some borrowers also have been "geo-fenced," alerting lenders whenever the borrowers are not traveling within their normal routine to and from work. One consumer reported being tracked to a domestic violence shelter.[16] All Americans are entitled a right to privacy, but borrowers with low credit scores are often left with an impossible choice: sacrifice their right to privacy or their access to a vehicle.

The Energy and Commerce Committee is ideally situated to carry out such an examination. With jurisdiction over the relevant agencies, including the Federal Trade Commission, the Consumer Financial Protection Bureau, and the National Highway Traffic Safety Administration, we can ensure that action is taken to protect the public from unscrupulous vehicle financing practices. In addition, we can ensure the safety of the driving public and others that share our roads is appropriately considered.

Charging low-income borrowers burdensome – and perhaps ultimately unpayable – interest rates for vitally necessary goods must be stopped. Likewise, Americans of all economic backgrounds expect and deserve a right to privacy and safety in their car. While cars are essential to livelihood, consumers must be protected against these harmful practices.

For these reasons, we respectfully ask that you schedule hearings on subprime auto lending as soon as reasonably possible.

Sincerely,

Frank Pallone, Jr.

Frank Pallone, Jr.
Ranking Member

Jan Schakowsky

Jan Schakowsky
Ranking Member
Subcommittee on Commerce, Manufacturing, and Trade

Diana DeGette

Diana DeGette
Ranking Member
Subcommittee on Oversight and Investigations

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[15] *Id.*

[16] *Id.*