



Keys to Opportunity: Car Ownership and Financing

October 3, 2008

Access to driving is important to everyone. Eighty-eight percent of us use private vehicles to get to work. But the road to car ownership is paved with numerous challenges, particularly for low-wage workers. It begins on the car lot, where the high-pressure sales environment pits seasoned, aggressive negotiators up against unassuming consumers. Financing a car is equally unfair for car buyers, as car dealers mark up interest rates – adding thousands of dollars to the cost of a car – without disclosing this fact. Even after a car purchase the auto industry continues to exert undue influence over the consumer. Automobile insurers price their insurance based on gender, marital status, and zip code rather than on what really matters – driving record. Finally, low-cost, low-quality cars can become a financial burden when they need repairs or turn out to be lemons.

On October 3, 2008, **Port Jobs** and **The Mobility Agenda** brought together a group of experts on car buying, lending, insurance, auto sales fraud, and consumer education to address these issues at a car ownership and financing summit. One hundred and thirty people attended from across Washington State, about half of whom were attorneys. The rest came from a variety of organizations, including low-income car ownership programs, financial institutions, legal services, civil rights organizations, housing groups, state and local government agencies, and consumer advocates.

The Issues

Doug Walsh, Chief of the Consumer Protection Division at the Washington State Attorney General's Office, says one reason for the difficulty and imbalance of power in car buying is that it is a negotiated transaction and most consumers do not negotiate often, if ever. There are a lot of pieces to be aware of during the car buying process, including the price of the car, value of the trade-in, financing terms, and dealers' efforts to sell extra products like undercoating and window etching. The car buyer faces a sales team of trained professionals who are paid to do this all day, every day. What's more, Walsh says, there is not adequate monitoring or oversight in the auto market, so deception, fraud, and unscrupulous sales and lending practices are prevalent.

As **Margy Waller**, Executive Director of The Mobility Agenda, explained, all consumers experience the challenges of buying and financing a car. Improving access to cars for everyone is crucial, particularly for low-wage workers. People who have cars can access more jobs, work more hours, and earn more than people who rely on public transportation. Better, more stable jobs and higher wages do not just help individual workers. They improve the local labor market and economy as well.

All of the summit speakers urged car buyers to get their loan from a credit union or bank rather than directly from the dealer. Aside from marking up the interest rate, dealers often encourage

buyers to negotiate based on monthly payments instead of the car price or financing terms, which can dramatically drive up the final price of the vehicle. **Laurie Stewart**, President and CEO of Sound Community Bank in Seattle, explained that financial institutions can offer better rates and lower prices for loans on both used and new cars, but that fear of banks or a lack of information often prevents consumers from taking advantage of this. Overcoming that fear may be a buyer's best first step toward saving money on a car.

Columbia Legal Services has been analyzing data and collecting complaints from victims of auto sales fraud. **Victoria Cherniak**, who works with the Economic Justice Project at Columbia Legal Services, told the story of one woman who bought a used car for \$3,500. Two days later the car died. Under current law, she had no recourse and was required to continue paying for a car she could no longer drive. Ms. Cherniak also stated that many complaints come from Spanish-speaking people who signed English-language contracts they couldn't read, and that it is important for consumers to bring an interpreter or request that the documents be translated before signing.

One way to help low-wage workers buy cars is through programs like **Working Wheels**, a Seattle-based car ownership initiative. Working Wheels helps low-wage workers and job seekers buy cars through low-interest bank or credit union loans. Many of their clients are single mothers who need a car both for work and to take care of their children. Working Wheels helps consumers obtain a reliable used car and build their credit.

Changes to local and federal regulations can also improve fair and affordable access to vehicles. **Doug Heller** of Consumer Watchdog, a California-based advocacy organization, worked to change California state law so that automobile insurance companies must consider an individual's driving record as a top factor in determining insurance rates. In Washington and many other states, insurance companies use non-driving-related factors such as zip codes, gender, and credit ratings to set premiums, which drive up rates unnecessarily. Mr. Heller also described California's low-cost auto insurance program that makes basic auto insurance policies available for low-wage drivers. Seattle insurance broker **Michelle Rupp** said that brokers in Washington would also be interested in creating a low-income auto insurance program in the state, one that would benefit both car owners and insurance brokers.

John Van Alst of the National Consumer Law Center explained his research on federal and state laws, identifying several different ways to reduce fraud in auto sales and financing. These include capping fees on car sales paperwork, prohibiting penalties for car loan prepayment, and requiring that car dealers ensure the cars they sell are in working condition.

Along with changes to the law, there are other mechanisms to achieve those goals, according to **Nick Straley** of Columbia Legal Services. These include consumer education efforts, voluntary compliance for new and used car dealers, increased enforcement of existing laws, and the development of innovative products and services that would level the playing field for low-wage car buyers. The **Economic Justice Project** at Columbia Legal Services is currently working to identify attorneys and others who are interested in getting involved in efforts to reduce auto sales fraud.

For more information on the **Keys to Opportunity** summit, including handouts, background research, and information on how to get involved in the Economic Justice Project, visit <http://mobilityagenda.org/seattle>.