



REQUEST FOR EXPRESSIONS OF INTEREST (RFEI) TO PROVIDE SAFE, AFFORDABLE AUTO LOANS FOR USED CARS IN NEW YORK CITY

OVERVIEW

The New York City Department of Consumer Affairs (DCA) is seeking responses from financial institutions that have the ability to provide New Yorkers with safe and affordable auto loans for used cars.

DCA currently licenses over 850 secondhand auto dealers across the five boroughs. Purchasing a car can be the largest single purchase an individual or a family makes in a year or even over the course of several years. However, improper or abusive dealer financing practices in the used car marketplace can result in loans with unfavorable or even predatory terms for consumers. DCA would like to help connect consumers to safe, fairly-priced auto loan options for used cars. The information shared about, and connections established with, financial institutions and DCA through this initiative will enable consumers to voluntarily access loans specifically for secondhand cars.

This municipal auto loan initiative has the ability to positively affect consumers and participating financial institutions. Through this initiative, consumers will benefit from increased transparency in the market for secondhand auto financing and access to consumer-friendly auto loan products. This will help protect consumers from deceptive practices and predatory loan products and ensure that consumers are accessing loans that they are qualified for and can afford. On its website, DCA will also provide tips and best practices for consumers purchasing an automobile. These efforts will help support consumers' financial stability and may also help lower default rates. Financial institutions may benefit from a broader customer base through referrals and additional marketing. For example, in addition to being marketed by participating financial institutions, information about auto loans being offered through this initiative will be available at DCA/OFE's Financial Empowerment Centers located in all five boroughs and made available to clients of other City agencies and community based partners.

DCA is not providing funding for this initiative, and this request is issued in order to gather information about alternative auto loan options offered directly by lenders that meet DCA's requirements for safe, affordable loans for used cars. Additional information will be provided by DCA to respondents regarding next steps.

IMPORTANT DATES

Release: March 19, 2015

Initial Submission Due Date: April 17, 2015

Submissions will continue to be accepted on a rolling basis following the initial due date.

INQUIRIES

Questions and requests for additional information concerning this notice should be directed to Kate Hamaji, khamaji@dca.nyc.gov

CONTACT INFORMATION

Please submit proposals electronically via email to khamaji@dca.nyc.gov or by mail to:

New York City Department of Consumer Affairs
Office of Financial Empowerment
42 Broadway, 3rd Floor
New York, NY, 10004
Attn: Kate Hamaji

I. BACKGROUND

The Department of Consumer Affairs (DCA) licenses, inspects, and educates businesses, mediates complaints, educates consumers, and offers free financial counseling and safe banking products. DCA enforces the Consumer Protection Law, the Paid Sick Leave Law and other related business laws throughout New York City and licenses nearly 80,000 businesses in 55 different industries. Through targeted outreach, partnerships with community and trade organizations, and informational materials, DCA educates consumers and businesses alike about their rights and responsibilities. DCA's Office of Financial Empowerment (DCA/OFE) assists low-income New Yorkers with innovative programs and services to increase access to high-quality, low-cost financial education and counseling, safe and affordable mainstream banking, and access to income-boosting tax credits and savings.

One of the industries that DCA issues licenses for is the secondhand auto industry. Specifically, DCA currently licenses over 850 dealers across the five boroughs. In 2013 and 2014, DCA received nearly 500 complaints about secondhand auto dealerships and has secured more than \$1.1 million in relief and restitution for consumers. Because many consumers do not file complaints with the agency even when they have been deceived, the number of complaints and deceptive practices could be much greater.

Dealer financing is one aspect of the secondhand auto industry which may result in negative consequences for borrowers. Nationally, nearly 80 percent of secondhand auto sales are financed through dealers,¹ and dealers frequently mark up used car loans by an average of an additional

¹ Delvin Davis, "The State of Lending in America & its Impact on U.S. Households: Auto Loans," Center for Responsible Lending, December 2012. Available at <http://www.responsiblelending.org/state-of-lending/reports/4-Auto-Loans.pdf>.

2.91%.² Too often, consumers believe the dealer has negotiated the best rate for them and are unaware that they are actually paying to increase the dealer's profit margin. These dealer markups can inflate the costs of loans by more than \$1,200 over a five-year term.³ Dealer markups also provide dealers with the incentive to sell consumers unwanted add-ons to increase the amount of financing on a loan and the related markup. For example, DCA found that Planet Automotive used deceptive advertising to lure consumers in and then pressured those consumers into agreeing to thousands of dollars in unwanted add-ons, such as extended warranties and theft protection, and then compelled those consumers to finance through the dealership. Following a settlement agreement in fall 2014, Planet Automotive was required to pay \$441,000 in fines and consumer restitution to 39 New Yorkers and to adhere to strict compliance with the law. A July 2014 New York Times article also noted that subprime auto loans often come with interest rates that can exceed 23 percent.⁴ The Times's investigation found that dozens of loans included incorrect information about borrowers' income and employment, and in some instances borrowers in bankruptcy or living on Social Security were qualified for loans that they could never afford.⁵

Since 2008, DCA's Office of Financial Empowerment has provided more than 50,000 hours of free, one-on-one, intensive financial counseling to New Yorkers at close to thirty sites across the five boroughs. Among those who have auto loan debt, DCA/OFE has found that 70% of these clients have annual incomes of \$36,000 or less and many are saddled with high-cost auto loan debt that averages more than \$12,000. For such clients, auto-related debt can amount to over 35% of their annual incomes - amounts that can be difficult to manage, pay down, and ultimately, could leave them in paralyzing debt.

In an effort to provide an alternative to indirect auto loans, and to protect consumers from improper or abusive dealer financing practices in the used car marketplace, DCA is seeking participation from financial institutions that can provide direct lending to New Yorkers for secondhand automobiles. DCA seeks information from lenders who want to ensure New Yorkers can purchase used vehicles with confidence, knowing that the loans consumers access to pay for their used automobiles are free of any hidden problems. As mentioned, this municipal auto loan initiative has the ability to positively affect consumers and participating financial institutions, by leading to increased transparency in the market for secondhand auto financing, providing more options for consumers to access safe and affordable auto loan products, supporting consumers' financial stability, and helping partnering financial institutions broaden their customer base through the marketing of consumer-friendly auto loan products. Financial institutions will also benefit from

² Delvin Davis and Joshua M. Frank, "Under the Hood: Auto Loan Interest Rate Hikes Inflate Consumer Costs and Loan Losses," Center for Responsible Lending, April 19, 2011. Available at <http://www.responsiblelending.org/other-consumer-loans/auto-financing/research-analysis/Under-the-Hood-Auto-Dealer-Rate-Markups.pdf>.

³ *Id.*

⁴ Jessica Silver-Greenberg and Mike Corkery, "In a Subprime Bubble for Used Cars, Borrowers Pay Sky-High Rates," New York Times, July 19, 2014. Available at http://dealbook.nytimes.com/2014/07/19/in-a-subprime-bubble-for-used-cars-unfit-borrowers-pay-sky-high-rates/?_php=true&_type=blogs&_r=0.

⁵ *Id.*

DCA's past experience working on banking products such as savings accounts and checking accounts for consumers, and previous lessons learned will be used as part of this municipal auto loan initiative.

II. SPECIFICATIONS FOR FINANCIAL INSTITUTIONS OFFERING AUTO LOANS FOR USED CARS

DCA/OFE would like to review submissions from FDIC or NCUA regulated and insured institutions that have, or include information about, the following requirements:

- Type of loan: Loans which cover the cost of used vehicles at the time of purchase and/or to refinance existing auto loans
- Loan amount: Minimum and maximum dollar amounts may vary by institution
- Fixed interest rate: Maximum APR must be below 16%
- Loan repayment term: Repayment terms may vary
- Address affordability: Lender should describe criteria used by the institution to ensure the loan is affordable for consumers. For example:
 - Debt to income for borrowers should not exceed 30-40% of gross income
 - Payment to income for borrowers should not exceed 12-15% of gross income
- Underwriting criteria: Describe underwriting criteria used by the financial institution to determine credit worthiness. Note: the financial institution may deny applicants that do not qualify.
- Collection practices: Describe fair debt collection practices used by the institution
- In-person and/or online application process available
- In-person, phone, and/or web-based customer support service available
- No required add-ons included in the loan such as credit insurance, roadside assistance, extended warranty protection, or vehicle service contracts
- No compensation for the secondhand auto dealer for referrals
- No or low application fees (e.g., \$25 or less)
- No prepayment penalties
- Clear and transparent marketing materials and loan disclosures (provide examples)
- Accurate information (e.g., payment history and delinquency status) reported to credit bureaus
- The lender provides equal access to consumers and does not discriminate on the basis of race, color, national origin, sex, disability, or age in its lending activities
- Ability to notify DCA/OFE and consumers thirty days in advance if loan product terms change
- Ability to collect and share data on a quarterly basis (e.g., aggregate number of referrals, loans approved, loans denied, average credit score, common reasons for denials)

Recommended (not required) features also include:

- Translation services available and loan information/disclosures available in multiple languages
- Repayment available through automated payments or direct deposit

- No co-signer required
- The lender provides the consumer with access to the consumer's credit score when they apply or after the decision to extend or not extend credit has been made
- Address issues of access such as flexibility in underwriting standards for consumers with lower credit scores or limited credit histories. For example, the lender could recommend the following types of arrangements to help improve access to loans:
 - Financial education or counseling before borrower receives loan or if denied loan
 - Lower down payment or interest rate if borrower receives financial education or counseling
 - Making a secured loan (i.e., borrower has the funds in savings and borrows against those funds) to finance the car or serve as the down payment

III. TO APPLY:

Responses to this request should be made in writing and must include the following information:

1. Cover Letter

- Company's name with principle place of business or headquarters, key institution contact name (with title), e-mail address and phone number. The cover letter should be signed by an authorized representative of the company.

2. Background on Organization

- Company overview and description of the provider's experience in the auto financing industry
- List the licensed secondhand auto dealers in NYC with whom the lender regularly provides indirect financing
- Company size and capacity to handle additional loan volume
- Geographic presence in New York City
- Previous experience working with government agencies, nonprofits, and/or consumer advocates
- Any regulatory enforcement actions, litigation or settlements related to the provision of auto loans

3. Key Personnel

- Names, titles, and contact information for key personnel who would be designated as liaisons for DCA/OFE
- Contact information for technical support for providers and consumers and the hours of operation

4. Loan Product Details

- Complete list of loan terms, fees, and conditions (also address requirements and recommended features listed in Section II)
- Description of application process and underwriting criteria (e.g., provide details such as when consumers are notified, timing of loan disbursement, reasons for denial, etc.)
- Description of payment methods and ways to check balance
- Website with information on the loan product (if available)
- Types of marketing collateral available to promote the product (e.g., brochures, posters, website, palm cards, visual aids, talking points, etc.)

- Description of how the loans are currently marketed to the public and suggestions for how the financial institution can work with the City to reach a broader audience
- Training options for DCA/OFE staff or partners on the loan(s) (e.g., in-person, phone trainings, webinars, etc.)
- Outline process for customer support including process to resolve client issues and grievances and related business hours
- Include copy of loan disclosures and notice of non-discrimination

5. Loan Application

- Copy of loan application and standard disclosures shared with borrowers (included as an attachment)

6. Latest Financial Audit

- Please provide a copy of the company's latest financial audit or include an annual report with budget information/financial statement (included as an attachment)

Submissions should be no more than 10 pages in length excluding attachments. Considerations for participation in the next steps of this initiative will be made based on adherence to the required terms and features in this notice, relevant experience/organizational background, and all other factors set forth in this notice. Respondents meeting the required account terms will be contacted by DCA/OFE for further discussions. DCA/OFE will also notify respondents who will not be further considered.

Please direct all inquiries and electronic submissions to Kate Hamaji at khamaji@dca.nyc.gov.

Additional submissions will be accepted on a *rolling basis* following the initial deadline.

For more information about DCA/OFE's initiatives, visit: www.nyc.gov/ofe