

>> Male Speaker: I will. I think I still have a number where I can get to you.

>> Female Speaker: I'll give you my card.

>> David C. Vladeck: Okay. If people will take their seats, let's get started. Part of the reason why we wanted to start out on time is this proceeding is being Webcast. So, my name is David Vladeck. I'm the director of the Federal Trade Commission's Bureau of Consumer Protection. And I'm happy to welcome you all to San Antonio this morning. And I'm glad to see so many of you here today. I want to start out by thanking St. Mary's University School of Law for their hospitality. They were gracious enough to loan us their building today. It's a wonderful facility, and we're really thankful to St. Mary's for providing us this forum. I also want to thank my FTC, colleagues, led by Malini Mithal for putting together this roundtable. There's an awful lot of work that goes into putting one of these things on. As everyone here today knows, cars are a vital part of the lives of most Americans. Indeed, for many consumers, the purchase and financing of their car may be their single greatest expense. The FTC's Bureau of Consumer Protection is committed to ensuring that consumers do not face unfair or deceptive acts or practices when financing or leasing a car. To meet this commitment, the FTC is conducting a series of roundtable discussions to see whether and what extent consumer-protection issues exist in the sale, financing, or leasing of cars. We held our first roundtable in April in Detroit. I know many of you were there. I see many familiar faces. We spent a productive day examining the experiences consumers face financing the purchase of a car -- interest rates, markups, whether the experience differs for consumers offered prime or subprime loans, and related issues, such as spot delivery, contract add-ons, Detroit.

both here and watching on our Web
vehicle sales affect members of the

assisted finance. We have a lot of ground to cover, and we have a lot to learn. We are fortunate today to have with us panels of experts who know these issues backwards and forwards. And they're a diverse group, representing many different points of view, including auto dealers, other industry experts, military specialists, state regulators, educators, and consumer advocates. We greatly appreciate their participation and the fact that many of whom have traveled great distances to be here with us today. I also want to extend a warm welcome to our new colleagues from the Consumer Financial Protection Bureau, which I think is now in its third week. Happy birthday. We really appreciate their collaboration, and I want to especially thank Holly Petraeus, the head of the CFPB's military outreach program, for making the journey here today. Thank you, Holly. This is an important event for the FTC and the CFPB. It marks our first real formal collaboration, and I'm happy to get that process started. Before I turn the podium over to Malini and my colleagues, I want to stress that these roundtables are critically important to the FTC. They will help inform us about what, if any, future actions we need to take. And we have many options, including increasing consumer and business education, targeted enforcement actions, promulgating rules or guidance, or other measures that we can take to ensure that this marketplace is fair. We welcome all points of view and any information that you may care to submit. I hope the panelists will have spirited discussions, and I urge members of the audience to participate, for those of you who are here, by asking questions to our panelists, and for those of you who are on the Web, by submitting comments through the FTC's Website. The more information we can obtain, the better equipped we will be to protect American citizens going forward. Malini, wherever you are, I'd like to turn this over to you. Thank you so much.

there, there's a title-loan place, there's a pawnbroker, and perhaps what we need to do is focus on some of the businesses that are there. But I think what you will find around military bases and military communities is pretty much a mix of everything.

>> Malini Mithal: Okay. And, also, Keith makes a good point, that there are going to be certain practices at certain dealerships. To the extent we have any information about widespread practices, that would be helpful from the panelists. Please, Marc?

>> Marc P. Cross: Good morning. Our dealership is right here in San Antonio, so I only had to drive 20 minutes to get here this morning, and I'm used to 110 degrees. Our dealership is located just a few miles from Randolph Air Force Base. In the case of most manufacturer, OEM dealerships, the manufacturers decide where they want representation. So, in our case, our Ford dealership is located right by Randolph Air Force Base, basically, because Ford Motor Company needs representation in that part of San Antonio. We also have a used-car facility right down the road from Randolph on Pat Booker Road, right just a couple miles from the main gate, so we see quite a few military customers.

>> Malini Mithal: And how do servicemembers get to the dealerships? Holly?

>> Hollister K. "Holly" Petraeus: Well, I want to address this one, because there have been some notorious questions around how they get to the dealerships.

>> Malini Mithal: [Chuckles]

>> Hollister K. "Holly" Petraeus: One technique that, sadly, is still used occasionally is to offer a ride to the dealership, and strangely enough, the van disappears when you need a ride back. We just heard about one that was pretty egregious -- a young soldier at Fort Bragg, North Carolina, an E-1 -- that's about as junior as you can get, who accepted a ride to a dealership. What he didn't know was the dealership was in Virginia Beach -- that's four hours from Fort Bragg. And, of course, they were halfway there before he thought to ask that question. And the guy disappeared about half an hour after they got to the dealership, you know, sort of, "No, I'm going off duty now."

There's no ride back." This soldier had to get back in

of the good dealer. The problem there is we need to focus on the dealers that will take advantage of probably the military or any customer.

>> Malini Mithal: Thank you. Marc?

>> Marc P. Cross: There's no question in my mind that, in every industry -- our industry, your industry, the industry of anybody who's in the audience and watching -- there's gonna be some bad apples -- no question. We're not gonna prevent that, ever, I don't think. But even if a car dealer didn't have a moral compass, even if their game plan was without a moral compass, it wouldn't even be smart business to go load up a bunch of E-1s, okay? Because when an E-1 or an E-2 comes onto a car dealership lot, the truth of it is, is that the sales force, in the back of their mind, is wondering if they can even get financing -- okay? -- which I know this is a topic of this. So they don't look at this level of customer as prey. They look at this level of customer as, "Well, I'm gonna try to fit their needs." And generally, you know, at that level, as you can imagine, I mean -- I have a 19-year-old. Their wants are a little bit different than their abilities, financially. And so the question in the salesman's mind, in our case is, you know, "In 110-degree San Antonio weather, am I gonna spend three hours with this young person and then find out that I can't get him approved for a loan?" So it's almost the opposite. They're not looking at this customer as prey. They're looking at him as a customer and not much different at all than any other civilian customer of the same age, same background, same employment history, same credit history, same education level -- things like this.

they've got some sort of budget in place, know exactly what they can buy and exactly what they can afford, but, unfortunately, it often doesn't turn out that way.

>> Malini Mithal: And Mike, you had something to add?

>> Michael A. Wood: Yeah, thanks. Our target population is somewhere between 18 and 25, 18 and 24. Our nation is at war. So we have these young soldiers, young airmen, young Marine Corpsmen, that are downrange, they're in their foxholes, and for 12, 18, 24 hours, they're thinking about the things that they want to experience when they return to the States. And among those things are the slickest, the nicest, the BMW, the Mercedes -- not to leave out...

>> Marc P. Cross: Ford. Ford. [Laughter] Where's Jim? Jim told me this morning he just got a Mustang. [Laughter]

>> Michael A. Wood: ...and, of course, the Mustangs and the Chargers. So, it doesn't matter, because what happens is, when you're in that type of environment, there's a lot of, shall we say, extra income in terms of Savings Deposit Program incomes, bonuses, re-enlistments. So they have the cash when they come back. And it's sad that the good dealerships are infected by the bad ones. The good ones don't receive the publicity that they deserve. It's the bad ones -- it's the ones who charge that interest rate, who load the kids up in the vans to take them down to wherever, take them out to dinner, and then whatever other tactics that are used, and there are plenty out there, to get that guaranteed 15 and first or a part of that paycheck that they receive.

>> Malini Mithal: And Marc had something to add.

>> Marc P. Cross: Byones who >>p'a [(r)3J -0.004 Tc 0.004 Tw -28.811(e55 0004 tn)-1(eck)-4(t)-6(h)-4(dg)13(0T*)

tell me about -- and I wasn't fortunate -- I wasn't -- I was not in the military. But he told me about the training. And they have some financial planning training. He told me about the Family Support Center -- I think is the right word -- where they counsel them on financial training -- not just for buying a car, for all kinds of things. And he said that it's really crucial that, you know, these young people -- some of this is mandatory, I understand, and some of it is voluntary. And he even said to me -- he said, "You know, it seems to me that guys like you would be perfect for, you know, giving your time towards, you know, on some of the bases, towards financial planning, towards, you know, how to buy a car, how to lease a car, how to -- should you, shouldn't you -- you know, things like that." So, and it -- My experience with young military is that, if you compare them -- I mean, none of us -- I'm 54. I mean, none of us, you know, at 18 had the experience that we have today, and whether it's civilian or military. And so -- and, I mean, that just kind of goes with the territory. And -- But my experience with the young military is that they come in a little bit more prepared, because they have some -- unless the young person was in a family where they talked about financial planning and they were pretty studious about it -- if they weren't, then they're -- and they're in the military, they have at least some background. They belong to credit unions. They go through financial planning class in the military. They've got a support system, like this Family Support Center. They've got some education before they come in. So, I mean, certainly, there's -- none of these are as sophisticated as most of us that have been around for, you know, 50 years, but they're probably more sophisticated than a civilian in the same age group.

>> Malini Mithal: Is that something that other panelists would agree with -- that, generally, military consumers walk in with a little bit more understanding of the process than other consumers?

>> Michael A. Wood: Well, I would tend to agree. Some of the things that we offer our new recruits are mandatory first-term training, and that's eight hours. That's across services. We do it again at their tech school, if -- I guess that's their MOS -- a lot of people refer to -- or their specialty. We do it again when they get to their first installation. And we like to take a cradle-to-grave approach. So from the time they're into the military till the time that they retire, we offer them that training. Some of it's mandatory, and, again, some of it's voluntary.

car, let them know that. Don't bend the rules. Don't lower the payments. If they can't afford it, tell them they can't and send them back so that they can receive whatever other training that they need in some of the other areas, like life insurance, like new children that they have and they brought into the world that need to be -- to have a secure family, like investing, like some of the other important things other than that flashy Ford. [Laughter]

>> Marc P. Cross: Thank you.

>> Malini Mithal: And, actually, that's something that Mike is gonna be talking more about on Panel 5, as well. That's one of our "Financial Literacy" panels. So I'm gonna actually move us off to another topic that I think came up earlier. Mike, you were kind of making the point that there are a lot of military consumers that are overseas, and then they come back to get their cars. How does that process work? Are there any issues there?

>> Michael A. Wood: Well, yes and no. And, again, basically, you can either afford a car or you can't. What happens is, a lot of the major car dealers are pre-positioned on the installation, and that's a good thing because, most of the time when we're in the overseas environment, we get a local car or secondary car or a hooptie or however you want to refer to those cars that are located in-country. So, you save up your cash. You go over, you get financing typically from either your own institution back in the States or the local financing at the banks or credit union on the installations, you qualify, and, of course, there is a certain debt-to-income ratio that you must meet prior to getting the financing, and you buy the car. You know, the difference is, there are some really nice cars parked out there in the parking lot on some of those installations, and they're there for a reason. They're there -- In fact, I'm not ashamed to say that one of my -- that my last car was bought overseas and we shipped it back. There are some underlying factors, though -- for example, sales tax, value-added tax, import tax. You don't necessarily consider all of those things when you buy that flashy new car. But when you get back to the States and attempt to register it, that's when the real cost is involved in the entire purchase of that vehicle.

>> Malini Mithal: And, Holly, you had something to add?

>> Hollister K. "Holly" Petraeus: I actually wanted to mention on the whole issue of cars and going overseas -- And I'm not talking about

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>> Hollister K. "Holly" Petraeus: In extreme examples, the military does have the power to put a dealership off limits to military personnel. It means they literally are not allowed to walk in the door. There's something called the Armed Forces Disciplinary Control Board that is a local -- it's usually a garrison

>> Malini Mithal: Okay.

>> Hollister K. "Holly" Petraeus: So, if it gets to that point

>> Malini Mithal: And, Keith, did you have something to add?

Keith on this. If I were trying to figure out how to help these young people, I would be looking at an education, and I would be asking dealers as community servants to help with that -- to help educate -- help all of you educate, because at that combo, and then -- I don't know that you'll get the lienholders to do it -- I would love to see it as you suggested, Keith. But if the lienholders would let it go overseas, that would be wonderful, but that combo would be excellent.

>> Malini Mithal: Holly?

>> Hollister K. "Holly" Petraeus: I wanted to mention one thing that is unique to the military about having a bad credit report. The number-one cause now for military to lose their security clearance is a bad credit report. So that can have an impact that can cause them to not be able to do the job that the military spent a lot of money to train them to do. So it's a big issue, which makes it even more vital, frankly, that they do clean up their credit score, if they can, to avoid pretty much -- if they can't do their job, eventually, they're not gonna be able to stay in the military. So it's a huge issue for them. It's an important one. The other thing I wanted to mention, 'cause we have kind of gone that direction, is on the education issue. The Department of Defense does have something called the DOD Rule on Commercial Solicitation. And because of some abuses in the past, basically, it severely restricts who can go on military installations and do financial education. What happened was, back in 2003,

different processes we've been talking about with military bases. Has there been any kind of analysis of trends and complaints from military consumers or any kind of, you know, statistics or any widespread practices that we have any information about? And just let's keep thinking about that as we answer the questions. And maybe if it -- you know, one of my questions jogs your memory on that, please feel free to jump in with that at the time. Okay, so, going back to the credit and financing, do -- Mike -- or Marc -- I'm sorry -- you mentioned earlier that, you know, dealers are very careful about not selling a car to someone who can't really qualify for financing. So do military consumers experience any problems in trying to qualify for a car when financing at a dealership? Can anyone talk about this? Marc?

>> Marc P. Cross: Sure they do. Sure they do. Anybody, again, of that age and lack of credit or some poor credit, but mostly lack of credit, and income level is always gonna have some challenges -- again, civilian or military.

>> Malini Mithal: And, Keith, did you have something to add?

>> Keith Whann: When you have people with no credit, slow credit, they're always gonna have a challenge for financing. I think that the one difference here is, Mike, when you were saying before -- if you've got somebody coming back where they have the ability to make a large down payment, that probably changes the game. But, very clearly, when a dealer sells a car -- and let's assume it's going to be whether it's direct or indirect financing, as being financed by a third party, other than the dealer -- the dealer does not have an incentive to put somebody in a car that clearly can't afford it, that, in the first 60 or 90 days, is gonna have trouble paying. It's gonna end up in a repo 'cause they'll charge the dealer back. So the dealer should be of the same mind-set as the customer here in making sure, you know, as Mike said, you get them in a car they can afford. Not everybody can afford to buy the car they want. You know, buying a new car is supposed to be fun, it's a cool thing, but when you go pick out what you want to have, versus what you can afford to have, it's often different. But that big down payment tends to change things. But aside from that -- and you mentioned consumer complaints, going back to the '80s, when I was Assistant A.G. till today, I think you wouldn't see any differences in military complaints than you would across the board. Cars tend to be at the top -- car buying, the auto-repair process, and now you've got the Web and

that they qualify for whatever military benefits the manufacturer -- in our case, Ford -- is offering, like that \$1,000 I mentioned. On the service side, at our dealership, our service people -- not, you know -- our service people that fix cars, not servicemembers. Our service people should tell the military consumer that they get double reward points at our store, because we offer to senior citizens and all military double -- I mean, for lack of a better term, frequent flier points in our service department. So, they should tell them -- to me, that should be the only difference. At that point, it's exactly the same process as any other tTj [(de)4(a)4(l42(e)-6(r)3(s)-1(hss)-)-2(10.49 0 Td ()Tj [s)-

>> Malini Mithal: Holly?

>> Hollister K. "Holly"

we ought to be able to know a little clearer, if we have all the information, who should qualify for what rate. And, in fact, somebody leaving with that car -- because there's a whole source of things that can go wrong. That car gets into an accident and you deal with insurance and what can happen while they have it on a test drive. You really don't want that car leaving unless it's for a legitimate test drive or, in fact, it's a spot delivery. Someone who is doing what Holly has just indicated is likely breaking the law in a couple different cases, and it's not a dealership you would want to visit.

>> Marc P

>> Malini Mithal: Okay.

>> Keith Whann: The practice we're talking about here -- Remember, if, in fact, somebody has left with a car and for whatever reason they cannot fulfill those terms, they're not obligated to buy the car. They come back, they drop that car off, they are not obligated to do anything with respect to the new deal whatsoever.

>> Malini Mithal: Okay. So, do military personnel ever come to dealerships having arranged their

the trade-in value for the car, you're negotiating the financing and the related products and service with respect to that. Dealership is going to need to make so much money. As you said, I think, Marc, if you're not selling 20 cars today, you're losing ground. When he's operating his dealership or any person, man or woman, operating their dealership, no matter how big or small, you know how many cars you have to sell, how much profit you have to make to keep the people employed and keep the lights on and be in business. So, with respect to that, it's all negotiated, and depending upon what you're doing on the price of the car or the trade or the financing, then someone's going to make a business decision, "Can I sell the car or not, and are you going to

In the meetings I've been to, that's certainly been a cause of real concern for people, that it is raising the price for the consumer who is unaware that it's even happening. So, I'm certainly not an instant

private. Everybody is aware of all of the security now and all the rules that we have to follow. So, you know, as a practical matter, we're in -- you know, installing locks on doors that weren't locked before and buying file cabinets that weren't -- that we didn't have before, because we have to keep customer information private. So, there's costs associated. These people that arrange the financing -- You know, these guys are working 10 hours a day, six days a week. They're not volunteers. They are employees. They're doing it to make a living, okay? So, you know, at the end of the day, you hope that your revenue exceeds the expense, because last time I checked, that's what a business is supposed to do, okay? But there's a lot of expense associated with -- We just had a company come in maybe a week and a half ago and present to us a new -- you know, the technology's changing so quickly -- a new electronic pad. And it's for presenting customers with extended service policies and for presenting the menu of items. It is ridiculous how much they're asking for this computer pad. You know, it's a -- just basically a large version of something like you might sign in the grocery store when you sign your name for your credit card. But -- So, there's a lot of expenses associated with dealer-assisted financing, as well, and it's important that everybody know that. But I really believe that it lowers the overall cost and provides more access to the customer.

>> Malini Mithal: And since we're on the topic of dealer well,

virtually all of the products that would be sold by independent dealers, where you would want to have a service contract or extended warranty, depending upon the state and the label that should be used, applicable wherever you would move, most of that's going to be the Continental United States. You might get into Canada. I don't know of any of them that would predispose being able to go to Germany, for example. We also want to be careful, because we said earlier when a customer buys the car, they go to the F&I office. They're presented a menu. There's a lot of small mom-and-pop dealerships out there -- some are franchise dealers, some are independents -- where you're not going to be looking for the F&I tower. You may have the same people who are selling you the car offering the financing. You may have someone whose so-

>> Keith Whann: I would agree that we shouldn't burden them

delivery. And a previous panel, one of the A.G.s, mentioned that they prohibit spot delivery there, and now we have an industry, a representative saying, essentially, you shouldn't leave the lot unless you have the financing finalized. Why don't we just prohibit spot-deliveries, then? What's the problem with that?

>> Malini Mithal: Marc?

>> Marc P. Cross: Well, there's different definitions, first of all, of a spot delivery. At our dealership, we're going to deliver a customer, with a contract in their hand, with financing arranged, and if they're a previous customer that we know, which a lot of them are, or if their credit score is such that it's totally obvious to us that it will be no problem obtaining financing, then we deliver the car. Now, I don't think that's the definition of spot delivery that you're talking about. But there's -- I do believe -- and I think it's state-regulated, anyway, in different states. But I do believe that the real way to sell a car is to obtain the financing and all the terms before the customer leaves.

>> Malini Mithal: We might have time for one more question.

>> Hollister K. "Holly" Petraeus: I was just going to add 50 different states, 50 different sets of laws. That's why it would be difficult to say, "Let's just not have this." In fact, I was surprised, as we did a little research before I came today, to discover that, for example, in Colorado, that is a state where you can drive away with a car legally without the financing having been approved. But the down side of that is apparently there's a \$50 a day, 50-cent-per-mile rental fee if the financing isn't -- when the financing isn't secured by the car dealer, so not something you'd want to get into but just an example of how states can differ and how challenging it can be to do something across the board.

>> Female speaker: This is somewhat of a follow-up to that, as well. I can see where you would not have too much trouble getting paperwork in place with a new car, but in the used-car industry, if a buyer wants to take a vehicle to a mechanic to have it checked or to another individual and their family to get approval or something like that, then can someone address how those differences would affect the spot-delivery issue?

>> Marc P. Cross: I can. I mean, even though I'm looked at as a new-car dealer in this room, we sell 225 used cars a month, and that happens all the time. That happens all the time. Why wouldn't you want to allow the customer to take it to their personal mechanic? All that's going to happen, if you're selling a good car, is they're going to come back and buy it. And so we have a little form that assigns their insurance to the car, if something happens, if they get in a wreck, God forbid, on the way home, and an agreed-upon time they're going