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# CFPB to Oversee Nonbank Auto Finance Companies

## *Bureau Publishes Exam Procedures for Supervised Companies in \$900 Billion Market*

**WASHINGTON, D.C.** – The Consumer Financial Protection Bureau (CFPB) published a rule today that will allow the agency to supervise larger nonbank auto finance companies for the first time. The CFPB also released the examination procedures that examiners will use to ensure that auto finance companies are following the law.

“Auto loans and leases are among the most significant and complex financial transactions in a typical consumer’s life,” said CFPB Director Richard Cordray. “Today’s rule will help ensure that larger auto finance companies treat consumers fairly.”

Auto loans are the third largest category of household debt, behind mortgages and student loans. American consumers had about \$900 billion in auto loans outstanding in the fourth quarter of 2014. The automobile leasing market also continues to grow as more than a quarter of new cars are acquired through leases.

Auto loans are financed by both banks and nonbanks. Consumers can either get a loan through direct financing, where they seek credit directly from a lender, or through indirect financing, where an auto dealer typically enters into a retail installment sales contract that it then sells to a third-party. Banks, credit unions, and nonbank auto finance companies provide credit to consumers both directly and indirectly. Some nonbank finance companies are “captive” nonbanks, meaning they are owned by auto manufacturers and generally do only indirect lending.

Currently, the Bureau supervises auto financing at the largest banks and credit unions. Today’s rule extends that supervision to any nonbank auto finance

company that makes, acquires, or refinances 10,000 or more loans or leases in a year. Under the rule, those companies will be considered “larger participants,” and the Bureau may oversee their activity to ensure they are complying with federal consumer financial laws, including the Equal Credit Opportunity Act, the Truth in Lending Act, the Consumer Leasing Act, and the Dodd-Frank Wall Street Reform and Consumer Protection Act’s (Dodd-Frank Act) prohibition on unfair, deceptive, or abusive acts or practices.

Under today’s final rule, which was proposed in September 2014, the Bureau estimates that it will have authority to supervise about 34 of the largest nonbank auto finance companies and their affiliated companies that engage in auto financing. These companies together originate around 90 percent of nonbank auto loans and leases, and in 2013 provided financing to approximately 6.8 million consumers. The final rule also defines additional automobile leasing activities for coverage by certain consumer protections of the Dodd-Frank Act.

The Bureau is finalizing the rule largely as proposed, with minor changes. The final rule broadens the category of transactions involving asset-backed securities that are not counted toward the 10,000 transaction threshold. It also makes a minor modification to the definition of refinancing for the purpose of the threshold.

To coincide with this new authority, the Bureau has also updated its Supervisory and Examination Manual to provide guidance on how the Bureau will monitor the bank and nonbank auto finance companies that it supervises. Examiners will be assessing potential risks to consumers and whether auto finance companies are complying with requirements of federal consumer financial law. Among other things, examiners will be evaluating whether auto finance companies are:

- **Fairly marketing and disclosing auto financing terms:** The Bureau will be examining auto finance companies that market directly to consumers to ensure they are not using deceptive tactics to market loans or leases. The Bureau would be concerned if consumers are being misled about the benefits or terms of financial products. The Bureau is also looking to ensure that consumers understand the terms they are getting.

- **Providing accurate information to credit bureaus:** The Bureau will assess whether information auto finance companies provide to credit bureaus is accurate. The CFPB recently took an enforcement action against an auto finance company that distorted consumer credit records by inaccurately reporting information like the consumers' payment history and delinquency status to credit bureaus. The CFPB is looking to prevent inaccurate information from being reported in the future.
- **Treating consumers fairly when collecting debts:** The Bureau will assess whether auto finance companies are using illegal debt collection tactics. The Bureau will be looking to ensure that collectors are relying on accurate information and using legal processes when they collect on debts. The Bureau also will review the repossession process, including the practices of third-party service providers that are employed to repossess autos.
- **Lending fairly:** The Bureau will assess whether auto finance companies' practices comply with the Equal Credit Opportunity Act and other Bureau authorities protecting consumers.

Today's rule will take effect 60 days after publication in the Federal Register.

**A copy of the rule published today can be found**

**at:**[http://files.consumerfinance.gov/f/201506\\_cfpb\\_defining-larger-participants-of-the-automobile-financing-market-and-defining-certain-automobile-leasing-activity-as-a-financial-product-or-service.pdf](http://files.consumerfinance.gov/f/201506_cfpb_defining-larger-participants-of-the-automobile-financing-market-and-defining-certain-automobile-leasing-activity-as-a-financial-product-or-service.pdf)

**The Examination Procedures for Auto Finance can be found**

**at:**[http://files.consumerfinance.gov/f/201506\\_cfpb\\_automobile-finance-examination-procedures.pdf](http://files.consumerfinance.gov/f/201506_cfpb_automobile-finance-examination-procedures.pdf)

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*The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit [consumerfinance.gov](http://consumerfinance.gov).*