

JUL 14 2015

# **CFPB and DOJ Reach Resolution with Honda to Address Discriminatory Auto Loan Pricing**

## ***African-American, Hispanic, and Asian and Pacific Islander Borrowers Will Receive \$24 Million***

**WASHINGTON, D.C.** – Today the Consumer Financial Protection Bureau (CFPB) and Department of Justice (DOJ) resolved an action with American Honda Finance Corporation that will put new measures in place to address discretionary auto loan pricing and compensation practices. Honda's past practices resulted in thousands of African-American, Hispanic, and Asian and Pacific Islander borrowers paying higher interest rates than white borrowers for their auto loans, without regard to their creditworthiness. As part of today's order, Honda will change its pricing and compensation system to substantially reduce dealer discretion and minimize the risks of discrimination, and will pay \$24 million in restitution to affected borrowers.

"The CFPB is committed to creating a fair marketplace for all consumers, and other auto lenders should take note of today's action," said CFPB Director Richard Cordray. "Honda's proactive decision to move to a new pricing and compensation system demonstrates industry leadership and represents a significant step towards protecting consumers from discrimination."

"We commend Honda for its leadership in agreeing to impose lower caps on discretionary markups and for its commitment to treating all of its customers fairly without regard to race or national origin," said the head of DOJ's Civil Rights Division, Principal Deputy Assistant Attorney General Vanita Gupta. "We recognize that dealerships perform a valuable service in connecting customers with lenders and that they should be fairly compensated for that service. We believe that Honda's new compensation system balances fair compensation for dealers and fair lending for consumers. We hope that Honda's leadership will

spur the rest of the industry to constrain dealer markup to address discriminatory pricing.”

Auto loans are the third-largest source of outstanding household debt in the United States, after mortgages and student loans. When consumers finance automobile purchases from an auto dealership, the dealer often facilitates indirect financing through a third-party lender like Honda. Honda is wholly-owned by American Honda Motor Co., Inc. It is one of the largest indirect auto lenders in the United States.

As an indirect auto lender, Honda sets a risk-based interest rate, or “buy rate,” that it conveys to auto dealers. Honda then allows auto dealers to charge a higher interest rate when they finalize the deal with the consumer. This is typically called “dealer markup.” Markups can generate compensation for dealers while giving them the discretion to charge consumers different rates regardless of consumer creditworthiness. Honda permitted dealers to mark-up consumers’ interest rates as much as 2.25 percent for contracts with terms of 5 years or less, and 2 percent for contracts with longer terms.

Today’s enforcement action is the result of a joint CFPB and DOJ investigation that began in April 2013. The agencies investigated Honda’s indirect auto lending activities’ compliance with the Equal Credit Opportunity Act, which prohibits creditors from discriminating against loan applicants in credit transactions on the basis of characteristics such as race and national origin. The investigation concluded that Honda’s policies:

- **Resulted in minority borrowers paying higher dealer markups:** Honda violated the Equal Credit Opportunity Act by charging African-American, Hispanic, and Asian and Pacific Islander borrowers higher dealer markups for their auto loans than non-Hispanic white borrowers. These markups were without regard to the creditworthiness of the borrowers.
- **Injured thousands of minority borrowers:** Honda’s discriminatory pricing and compensation structure meant thousands of minority

borrowers from January 2011 through July 14, 2015 paid, on average, from \$150 to over \$250 more for their auto loans.

## Enforcement Action

The Dodd-Frank Wall Street Reform and Consumer Protection Act, and federal fair lending laws, authorize the CFPB and DOJ to take action against creditors engaging in discrimination. The CFPB's order was filed today as an administrative action, and DOJ's proposed order was filed in the U.S. District Court for the Central District of California. The measures provided in the orders will help ensure that discrimination does not increase the cost of auto loans for consumers on the basis of race and national origin. Under the CFPB order, Honda must:

- **Substantially reduce or eliminate entirely dealer discretion:** Honda will reduce dealer discretion to mark-up the interest rate to only 1.25 percent above the buy rate for auto loans with terms of 5 years or less, and 1 percent for auto loans with longer terms. Honda also has the option under the order to move to non-discretionary dealer compensation. The Bureau did not assess penalties against Honda because of Honda's responsible conduct, namely the proactive steps the company is taking that directly address the fair lending risk of discretionary pricing and compensation systems by substantially reducing or eliminating that discretion altogether.
- **Pay \$24 million in damages for consumer harm:** Honda will pay \$24 million to a settlement fund that will go to affected African-American, Hispanic, and Asian and Pacific Islander borrowers whose auto loans were financed by Honda between January 2011 and July 14, 2015.
- **Administer and distribute funds to victims:** Honda, through American Honda Motor Co., will contact consumers, distribute the funds, and ensure that affected borrowers receive compensation. Honda will make reports to the Bureau regarding this victim compensation activity.

In March 2013, the CFPB issued a bulletin explaining that it would hold indirect auto lenders accountable for unlawful discriminatory pricing. The bulletin also made recommendations for how indirect auto lenders could ensure that they were operating in compliance with fair lending laws. In September 2014, the Bureau issued an edition of Supervisory Highlights that explained that the Bureau's supervisory experience suggests that significantly limiting discretionary pricing adjustments may reduce or effectively eliminate pricing disparities. Substantial limits on discretionary pricing like those imposed by today's order can address the type of fair lending risk identified in the CFPB's bulletin and Supervisory Highlights.

Today's action is part of a larger joint effort between the CFPB and DOJ to address discrimination in the indirect auto lending market. In December 2013, the CFPB and DOJ [took an action](#) against Ally Financial Inc. and Ally Bank that ordered Ally to pay \$80 million in consumer restitution and an \$18 million civil penalty.

**Today's consent order is available**

[at:\[http://files.consumerfinance.gov/f/201507\\\_cfpb\\\_consent-order\\\_honda.pdf\]\(http://files.consumerfinance.gov/f/201507\_cfpb\_consent-order\_honda.pdf\)](http://files.consumerfinance.gov/f/201507_cfpb_consent-order_honda.pdf)

The DOJ simultaneously filed a complaint and proposed consent order to settle the case. The DOJ's announcement is available  
at: <http://www.justice.gov/justice-news>

For auto loan questions or to submit a complaint, consumers can contact the CFPB at (855) 411-2372 or visit consumerfinance.gov.

###

*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)*