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## **DEPARTMENT OF CONSUMER AFFAIRS LAUNCHES FIRST-TIME INVESTIGATION INTO POSSIBLE PREDATORY SUBPRIME LOANS BY LOCAL USED CAR DEALERSHIPS WITH A FOCUS ON PREDATORY LENDING TARGETED AT NEW YORKERS WITH LOW INCOMES**

### ***Subpoenas Issued to Santander Consumer USA and Santander Consumer Funding 3 LLC Seeking Information on Loans it Arranged for Local Used Car Dealerships***

Department of Consumer Affairs (DCA) Commissioner Julie Menin today announced an unprecedented investigation into used car auto lending, issuing subpoenas to Santander Consumer USA, Inc. and Santander Consumer Funding 3 LLC, auto finance companies owned by Banco Santander S.A., one of the region's fastest growing banks. As the licenser and regulator of the city's used car dealerships, DCA is for the first time ever investigating used car dealer financing practices, in particular subprime loans underwritten by lenders such as Santander and arranged for consumers by the used car dealerships. This inquiry builds on DCA's earlier investigations, which raised concerns that dealerships may be engaged in illegal predatory practices such as selling expensive and unwanted add-ons and arranging high-interest subprime loans without informing consumers of information they are required to provide so that the consumer can make a smart choice about financing. Subprime loans target borrowers with low credit scores and are characterized by higher interest rates and less favorable terms.

"Studies show that subprime loans, which have been blamed for the country's mortgage crisis, are growing at a staggering rate of more than 130 percent since the financial crisis," said DCA Commissioner Julie Menin. "For many families, especially those with low incomes, a car is one of the biggest purchases they make and if they are looking to a subprime loan, it's because they are already struggling financially. With this investigation, DCA is taking an innovative and aggressive approach to investigating used car dealer practices by looking at their relationships with banks. DCA wants to make sure that New Yorkers can purchase used vehicles with confidence, knowing that the car they buy and the loan they use to pay for it are free of any hidden problems."

Santander Consumer USA and Santander Consumer Funding 3 provide both direct loans, which consumers can arrange directly with the lender, and indirect loans, which are arranged by a third party such as a used car dealership. According to Santander Consumer USA's 2013 Annual Report, they have retail installment loans with more than 2 million customers across the U.S. and relationships with nearly 14,000 automotive dealers in the U.S., including dozens of car dealerships in New York City. Used car financing represents nearly two-thirds of their outstanding installment loans, 88 percent of which were subprime.

DCA's investigation is focused on indirect auto loans financed by lenders such as Santander and sold to consumers by New York City used car dealerships and will examine records of these loans over the past three years. New York law requires that if a dealership recommends a financing company such as Santander to a consumer, they must disclose the interest rate that the company can charge and other terms and charges, but DCA's earlier investigations uncovered information that suggests that dealerships may not be complying with this requirement. Instead, dealers are directing consumers to costly loans which benefit the dealer and ultimately harm the consumer.

Santander Consumer USA is also currently licensed by DCA as a debt collection agency. As part of its investigation, DCA is also looking into the company's debt collection practices. The U.S. Department of Justice is also investigating Santander Consumer USA, Inc.'s subprime auto loan business.

This investigation is part of DCA's long-term, vigilant oversight of New York City's used car dealerships. In July, DCA [announced](#) (link to: Media\_News\_PR073014.docx) an investigation into the used car dealerships industry to discover whether they are selling unrepaired recalled cars. As part of that investigation, DCA issued subpoenas to 200 dealers, requiring them to provide their policies on selling unrepaired recalled cars, to reveal how many such vehicles they have sold in the past year, and whether the consumer was notified at the time of sale. In a related matter, last month, DCA [announced](#) (link to: Media\_News\_PR102814.docx) a settlement agreement with Planet Automotive, Inc., which requires the used car dealership to pay \$441,000 in fines and consumer restitution to 39 New Yorkers and to adhere to strict compliance with the law. The settlement agreement requires the dealership to provide any consumer who wants financing with a notice stating that consumers are not required to finance through the dealership, as well as other information about credit scores, obtaining a credit report, the finance charge for the purchase of add-ons, including warranties and insurance, and the total finance charge and monthly installment cost to purchase the vehicle without add-ons. The settlement agreement, for the first time, also requires the dealership to check the recall status of each vehicle and repair all safety defects prior to sale.

DCA, which licenses 854 used car dealerships citywide, conducted more than 500 inspections of used auto dealers and issued 170 violations last year. During that time, DCA received 261 complaints about used car dealerships and secured almost \$300,000 in consumer restitution. To file a complaint with DCA, or for a free copy of the *Used Car*

Buyer Guide, call 311 or go online to [nyc.gov/consumers](http://www.nyc.gov/consumers) (link to: <http://www.nyc.gov/consumers>). Visit DCA's [YouTube](http://www.youtube.com/nycdca) (link to: <http://www.youtube.com/nycdca>) channel to watch a video in [English](#) and [Spanish](#) about what to know when shopping for a used car. Video captions are also available in English, Spanish, Chinese, Korean, Haitian Creole and Bengali.

*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 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. For more information, call 311 or visit DCA online at [nyc.gov/consumers](http://www.nyc.gov/consumers) (link to: <http://www.nyc.gov/consumers>) or on its social media sites, [Twitter](#) (link to: <http://www.twitter.com/nycdca>), [Facebook](#) (link to: <http://www.facebook.com/nycdca>), [Instagram](#) (link to: <http://www.instagram.com/nycdca>), and [YouTube](#) (link to: <http://www.youtube.com/nycdca>).*