

The Realities of Vehicle Financing
Remarks by
NADA Vice Chairman Stephen Wade
to the
AFSA Vehicle Finance Advisory Board
October 18, 2010
Irving, Texas

I'm very pleased that NADA's relationship with AFSA has grown stronger over recent years. We have so many common interests, and continuing to work closely together can only benefit everyone involved: consumers, finance companies and dealers.

We dealers cannot be successful when our finance sources are being harmed, and vice versa. One area of common ground requires our immediate attention and it is this: *Indirect vehicle financing is under assault.*

Earlier this year, as you know, NADA worked hard to get our members excluded from direct oversight by the new Consumer Financial Protection Bureau, or CFPB. That outcome was very helpful for dealers and, we believe, the indirect vehicle financing model generally. That's because, among other things, CFPB regulations are likely to result in greater costs to *all* of the businesses that the CFPB regulates.

It was a foregone conclusion under Dodd-Frank that finance sources, whether a finance company, bank, or dealer buy-here-pay-here operation, would be subject to CFPB regulation.

What was *not* a foregone conclusion, and what we were able to resist, was permitting the CFPB to issue regulations that would impose additional costs on dealers who solely act as the retail distribution outlet for your financial products and services. For example, had dealers been subject to bank-like supervision by the CFPB, it would have meant new costs such as reporting, bonding, examinations, and the like.

Such a result would only have driven up the cost of credit to consumers who obtain your products through us and, consequently, caused many of them to obtain financing from other finance sources that are not saddled with this type of a duplicative cost structure.

Significantly, our concern with costs is not limited to costs that may be directly imposed on dealers; it also extends to costs that may be directly imposed on finance sources. For example, NADA has worked very closely with finance sources to oppose the imposition of regulatory risk retention obligations on finance sources that raise funds through the securitization process.

We have met with the Federal Reserve Board, and will soon meet with the SEC, to argue that the imposition of costly requirements on finance sources will cause harm to consumers, as well as to dealers and their finance sources.

But we also recognize that, as helpful as our exclusion was, greater regulation of indirect auto financing is coming. In other words, how the Dodd-Frank legislation is to be implemented is of vital interest to all of us. That is why, going forward, NADA and its dealer members are fully committed to working with you to ensure that the new regulators structure that oversight in a way that works *in the real world*.

As we embark on this joint effort, I wanted to share some of the important lessons that NADA learned during both the economic crisis and the debate over the financial services reform legislation that can help us all.

One thing we found is that the current auto retailing and dealer-assisted financing models are not widely understood – by government officials, the media or the general public. I was amazed by how many times we had to educate people about how our business works. For example, most people do not know that dealers own their inventory, that we purchase the cars and trucks from our manufacturers. The common belief is that manufacturers provide the inventory and we dealers just sell it. This misunderstanding can lead to bad public policy.

Government can be our partner and can help us, but it requires one-on-one interaction and a concerted and consistent effort to raise awareness among government officials about auto retailing and how it actually works in the marketplace.

Along with other NADA dealer leaders, I sat in multiple meetings with members of President Obama's administration and had lengthy discussions with his Auto Task Force, which was established to help engineer the changes needed at GM and Chrysler. This group was made up of Wall Street professionals with expertise in restructuring businesses. Members of the departments of Treasury, Commerce, Transportation and Energy also provided input.

Our meetings with the Auto Task Force were essential to providing a greater understanding of what dealers do. And it allowed NADA to express concerns about the adverse effects of restructuring plans on dealerships.

We need to continue to ensure that our lawmakers fully understand the vital role we play, not only in our country's national economy, but also in our local community.

For example, dealerships helped to fund state and local government programs by collecting more than \$21 billion in sales tax revenue last year ... and that was in 2009, one of the worst years in our history!

So between manufacturer bankruptcies, dealership closings, the credit crisis and the financial reform bill, we have just spent two years educating Congress, the Obama administration, the media and the public on the vital role dealers play in our country's economy and in our communities, and we found that most of the people we talked to "got it."

Congress certainly got it. They got that extending the bridge loans to the manufacturers was absolutely necessary. The failure of any of the Detroit automakers would have created not a ripple effect, but a tidal wave of unemployment and lost revenue to government on all levels.

They got that the industry needed a shot in the arm in the form of “cash for clunkers.”

And they got that consumers benefit from dealers’ access to multiple lenders and that dealer-assisted financing is therefore good for consumers and for the continued recovery of the auto industry.

So now we – dealers and the financial services industry – have a new group of regulators to educate. As I said at the outset, we are committed to working with you to ensure that the new regulations are appropriate, effective and implemented as painlessly as possible.

When we were engaged in this battle to have dealers excluded from the bill, we faced some very stiff opposition, including the President, some pretty powerful consumer groups, and – and frankly, this stunned us – the Pentagon.

It’s not just that dealers are among the most vocal supporters of our troops. Thousands of us employ current or former soldiers and sailors, many of whom have served in Iraq or Afghanistan. In fact, thousands of *us* have served our country in uniform.

Perhaps most puzzling was that we – together with AFSA – were already working with the Department of Defense to help educate members of the military on the car-buying process and dealer-assisted financing. In fact, it was the cover story in the fall 2007 issue of the magazine *Military Money*. And who wrote that article? Our own Chris Stinebert and Andy Koblenz! And NADA will continue to work with AFSA to promote financial literacy within the armed forces.

Our relationship with AFSA has never been more important. AWARE is an excellent example of what we can accomplish by working together. By educating consumers about auto financing and ways to make informed financing decisions, AWARE helps to ensure that financing remains available and affordable to the broadest possible spectrum of consumers.

We held an AWARE event a couple of years ago during the NADA convention in New Orleans. At that time, NADA was helping the Lusher Charter School – one of the city’s premier schools – continue its recovery from Hurricane Katrina. AWARE invited high-school age Lusher students and their parents – along with others from the community – to a workshop on auto financing.

The workshop was held on a Saturday morning, by the way. I don’t know if you’ve ever tried to get a teenager out of bed on a Saturday morning, but it’s nearly impossible. Of course, we were there to tell them how they could afford a car, so we did have an edge.

We were very pleased to have been involved in the event.

Now we look forward to continuing our relationship with AFSA as we move forward, especially in the uncharted territory of the new world of financial services regulation. NADA’s participation with AFSA in our vehicle finance summit earlier this year was a great start, and I can assure you, I plan to be there next year, along with other NADA officers and key staff.

None of us can operate in a vacuum. By working together, we can move forward in the direction of profitability for all of us.

It's the best way to keep credit available and affordable.

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