

FTC Staff Report on Buying and Financing Cars: Part 2

In July 2020, the Federal Trade Commission (“FTC”) issued its “Staff Report on Buying and Financing Cars.” The Staff Report consisted of two separate reports – a report from the FTC’s Bureau of Consumer Protection (“BCP”) entitled “Buckle Up: Navigating Auto Sales and Financing,” and a joint study entitled “The Auto Buyer Study: Lessons from In-Depth Consumer Interviews and Related Research” issued by the BCP and the Bureau of Economics. This article, the second in a two-part series, will address the “Auto Buyer Study.”

The “Auto Buyer Study” details the results of an in-depth interview study of 38 recent auto buyers. The purpose of the “Auto Buyer Study” was to examine the car-buying process using thorough consumer interviews about their experiences and perceptions in purchasing and financing a vehicle through a dealer.

The results of the “Auto Buyer Study” revealed several areas of the car buying process that consumers did not understand. Specifically, the FTC noted the following key areas of concern:

- **Deficiencies in Research:** While most consumers engaged in some type of research regarding both the vehicle and the dealer, the consumer interviews indicated that consumers often didn’t collect the information that is most helpful in negotiation either vehicle cost or financing.
- **Emphasis on Monthly Payment:** Most consumers focus only on the amount of the monthly payment, failing to consider other factors such as interest rate, down payment, and the term of the transaction.
- **Failure to Negotiate:** Most consumers did not attempt to negotiate the terms of the transaction, other than the sales price and the value of the trade. In fact, most consumers did not even know they could negotiate other key terms of the transaction, such as interest rates and add-on product prices.
- **Add-On Confusion:** Consumers indicated that contract add-ons, such as GAP insurance and extended warranties, were confusing. Specifically, consumers indicated they were confused about the benefits and limitations of add-ons as well as the cost of such products.

- **Consumer Understanding:** Consumer interviews indicated that most consumers did not know or understand all the details of their transactions. This lack of understanding was potentially compounded by the length of the transaction.

The “Auto Buyer Study” is just a stepping off point for FTC changes to the auto industry. In fact, in the Study, the FTC specifically noted that “[t]he lessons from the study provide a foundation for development of consumer education or for further research into potential modifications of the buying process.” Auto Dealers should remain mindful that the “Buckle Up” Report issues along with the “Auto Buyer Study” references the FTC plans to “focus on law enforcement and deceptive or unfair tactics in the auto industry as they arise, bringing cases against dealers as appropriate.” As a result, Auto Dealers should pay close attention to this FTC guidance regarding the car buying process, review policies and procedures, and if necessary, incorporate changes to prevent unfair trade practices, and remain in compliance with federal law.

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