



Fair Lending: Implications for the Indirect Auto Finance Market Study Conducted by Charles River Associates

Key Findings

1. When appropriately considering the relevant market complexities and adjusting for proxy bias and error, the observed variations in dealer reserve are largely explained.
2. The Bayesian Improved Surname Geocoding (BISG) proxy methodology is conceptually flawed in its *application* and subject to significant bias and estimation error.
3. The use of biased race and ethnicity proxies creates significant measurement error, which likely results in overstated disparities.
4. The Department of Justice (DOJ) recognizes that dealer reserves depend on objective, observable business factors. Failure to consider legitimate business factors for observed disparities increases the potential for reaching erroneous conclusions.
5. Aggregating contracts originated by individual dealers to the portfolio level may create the appearance of differential pricing on a prohibited basis when none exists.
6. Alternative dealer compensation structures, such as flats, may lead to increased borrowing costs for many minority and non-minority consumers and, in turn, may limit access to credit for some consumers.

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