

**Written Testimony on behalf of the American Financial Services Association and the Mid Atlantic
Financial Services Association
Before the Senate Finance Committee**

Re. SB 786 UNFAVORABLE

§14-1901, §14-1906.1 COMMERCIAL LAW ARTICLE; §15-311.4 TRANSPORTATION ARTICLE

March 13, 2019

The Mid-Atlantic Financial Services Association and the American Financial Services Association thank the Senate Finance Committee for the opportunity to speak today regarding our concerns relating to House Bill 1127. This bill as written would cause significant negative effects for the vehicle finance industry operating in Maryland. It will do this without significantly increasing levels of consumer protection.

Though the vehicle finance industry is both direct (a consumer comes into a dealership with pre-arranged financing from a finance source) and indirect (dealer-arranged financing), because of competition, the indirect channel is most often the cheapest for the consumer. This legislation would impose rate restrictions and a disclosure model on the indirect finance model that does not apply to the direct finance model, creating an uneven playing field between the two parts of the vehicle finance industry. This is significant, and we ask Maryland to seriously consider the risk of favoring direct financing without studying the market impact of such a change. If Maryland were to study consumer results, we are confident you will find that consumers pay less on average in indirect financing and even pay less overall for direct financing *because* of the highly competitive environment created by the indirect financing model.

Though the size and scope of this legislation is a cause for concern in itself, our primary focus is on the new section, §14-1906.1, under the Maryland Credit Services Businesses Act. The provisions here require automobile dealers to provide to the consumer a writing, separate from the financing agreement, detailing offers for which the buyer was approved, including the buy rate and term of months in each offer; whether the dealer is being compensated for increasing the contract rate to a higher rate than the buy rate; and a significant number of additional disclosures including buy rate, contract rate, and total dealer compensation.

All of these disclosures must be signed prior to the execution of the financing agreement and the dealer is prohibited from participating in finance charges that would result in a difference between the buy rate and the

contract rate more than 2 APR points for a term of up to 60 months, or 1.5 APR points for a contract that has an original scheduled term of *more* than 60 monthly payments.

For vehicle finance companies, this creates layers of disclosures we have no means of evaluating. We request explicit release of any and all liability attached to these disclosures, the original source of which we have no means of accessing.

No other industry is required to disclose its wholesale rate relative to retail costs to consumers. If this standard were applied to consumer retail, for example, it would be akin to disclosing the wholesale cost of a sweater at the point-of-sale, indicating whether other cheaper sweaters were available to the retailer at a wholesale rate, and most significantly—disclosing the retail profit realized on that sweater. As with a sweater, in purchasing a vehicle there are other value considerations that a consumer must weigh which are likely to be more useful and pertinent in a purchasing decision. We also point back to the direct vs. indirect credit models to point out that a credit union that provided direct financing would not be required to report its margin in making a direct loan for the same vehicle.

We are aware that the vehicle dealer industry have serious concerns about the legislation which extend even further than ours. We are concerned that this legislation—the scope and type of which we have not seen in another state—would do significantly more inadvertent harm than good.

This testimony is submitted on behalf of the Mid-Atlantic Financial Services Association and the American Financial Services Association.ⁱ Please contact Chris DiPietro of the Mid-Atlantic Financial Services Association at (443) 286-6419 for more information.

ⁱ Founded in 1916, the American Financial Services Association (AFSA), based in Washington, D.C., is the primary trade association for the consumer credit industry, protecting access to credit and consumer choice. AFSA members provide consumers with many kinds of credit, including direct and indirect vehicle financing, traditional installment loans, mortgages, payment cards, and retail sales finance. AFSA members do not provide payday or vehicle title loans.