



May 14, 2020

The Honorable Monique Limón
Member, California State Assembly
State Capitol, Room 6031
Sacramento, CA 95814

RE: Opposition to Assembly Bill 2501 (Limón: Consumer Debt Relief)

Dear Assembly Members Limón:

The trade associations above must regretfully oppose your Assembly Bill 2501, a measure that, among other things, restricts the collection of vehicle loan payments and repossessions. We are deeply sympathetic for those affected by the COVID-19 crisis and auto lenders throughout California continue to offer a variety of consumer relief including forbearance and temporary cessation of repossessions. While we are willing to continue to work with borrowers impacted by this pandemic, we believe AB 2501 will produce significant unintended consequences.

AB 2501 Will Freeze Credit Markets

Measure AB 2501 will have a chilling effect on the credit markets for automobiles sold in California. Your measure requires lenders to offer forbearance during and 180 days after the end of the COVID-19 emergency. Furthermore, the measure restricts a lender's access to their collateral.

The risk tolerance for these transactions will be low and lenders throughout the state will be forced to reevaluate their credit criteria, while many may elect to no longer offer automobile financing. Your measure prohibits a lender from accessing their collateral for a depreciating asset during a period of 180 days after the COVID-19 crisis ends. Furthermore,

this measure requires a lender to forbear payments during this timeframe. With no determined date for when the COVID-19 crisis will end, there is great uncertainty (possibly years) as to when a lender might realize any cashflow for a credit contract and many non-depository lenders will be insolvent.

It is only at the conclusion of 180 days after the COVID-19 crisis ends, that a lender can require payment for the vehicle (without interest) but only after it has determined that a customer has the ability to repay. By the time the lender is able to access their collateral (all the while not receiving any cashflow for it) the asset will have declined significantly in value and the lender is guaranteed to take a loss. Furthermore, if a lender fails to comply with the provisions of the measure, a deficiency judgment cannot be pursued. It is unclear to us why a lender would enter into a vehicle credit contract under these conditions nor is it certain that such a transaction would pass bank regulator scrutiny. Purchasing a vehicle with credit in California will be much harder if your measure is enacted.

AB 2501 Will Reduce General Fund Revenue

Automobile purchases account for a significant contribution to the state general fund. New car sales alone account for \$10.62 billion in annual state tax revenue. If enacted, AB 2501 will tighten credit and dramatically reduce new vehicle sales resulting in a corresponding reduction in state revenue. Consumers will turn to the private market for automobile purchases, which is notoriously fraught with tax avoidance.

In addition to the impact this measure will have on the credit market, the provisions of this measure pose numerous challenges in its construction:

- Provides 180 days of forbearance, even when it may not be necessary. By the Governor's own admission, individuals are returning to work well before the official declaration that the COVID-19 emergency has concluded. Therefore, we believe the 180-day timeframe prescribed by your measure is longer than necessary and should be reevaluated.
- Provides that a borrower merely asserts, either verbally or in writing, that they are experiencing a financial hardship in order to be granted automatic forbearance. Borrowers need not provide any proof as to the validity of the hardship. Additionally, there are no income qualifiers for relief under this measure.
- Does not provide that the financial hardship has any correlation to COVID-19; borrowers could assert that the financial hardship is due to overspending,

voluntarily leaving a job, divorce, etc. and they would be entitled to the same protections as borrowers who truly have been impacted by COVID-19.

- Does not provide for the repossession of at-risk vehicles. At a minimum, this measure should permit a lender to proceed with repossession when the collateral has been impounded, abandoned, or voluntarily surrendered.
- Requires an evaluation of a consumer's ability to make regular payments though the measure fails to identify any specifics around what this is, how this verification is to be conducted and what would happen if a borrower elects not to provide any information to the lender.

For the reasons mentioned, we must oppose AB 2501.

Sincerely,

California Bankers Association
Alliance for Automotive Innovation
American Financial Services Association
California Credit Union League
California Financial Services Association
California New Car Dealers Association

cc: All Members, Assembly Committee on Banking and Finance
Michael Burdick, Consultant, Assembly Committee on Banking and Finance
Elizabeth Enea, Consultant, Assembly Republican Caucus