December 13, 2017

Extended Term Loans, Negative Equity and Related Dealer Representations Earn National Attention

Recently, the national CBC consumer affairs program "Marketplace" aired a feature regarding **extended-term car loans (ETLs)** and how they often result in **negative equity**. As part of its investigation the CBC visited 10 GTA dealerships posing as a customer, to record the financial representations made by dealers and sales staff. According to the broadcaster, seven of 10 dealers promoted seven year loans without asking questions that might assist in determining the most appropriate financing term for the customer.

Additionally, when the CBC mystery shopper asked about the negative equity that would likely result from an extended-term loan, the information provided was confusing and misleading. Here are two examples from the broadcast:

> Shopper: *"I'm just wondering though – the 84 months. Cause if I bring it [the car] in 3 to 4 years – that's still like half the car not paid off yet. And you just get rid of that money? [salesperson nods head yes] But where does it go?"*
>
> Salesperson: *"Because we then, we pay it off. We sell the car for that."*
>
> At another dealership the conversation went like this...
>
> Salesperson: *"Anytime you want to trade it in, you can trade it in. We pay off the loan when you get into your new car."*
>
> Shopper: *"You pay off the loan?"*
>
> Salesperson: *"We do, yes."*

The Motor Vehicle Dealers Act requires dealers and salespeople to conduct business with honesty and integrity and be **clear** and **truthful** in describing products, services and prices related to the vehicle, including financing. The answers provided in the examples are not clear and truthful. Negative equity doesn't disappear. It isn't paid by the dealer when the trade-in is sold. It gets added to the consumer's debt and the consumer is responsible for paying it off. A consumer who doesn't have knowledge of auto financing or negative equity cannot make a well informed decision unless the information provided by dealers and salespeople is honest.

OMVIC understands that arranging financing for customers is a very valuable service provided by dealers. But that service must entail providing clear and truthful information, helping customers make informed decisions and ensuring they receive the best possible financing for their vehicle purchases.

OMVIC's Expectations Related to Customer Financing

Adherence to the following will help dealers and salespeople comply with the MVDA and Code of Ethics:

- Provide customers with clear information and financing options
- Notify (and get approval from) customers if the credit application will be sent to more than one lender
- Provide the customer with the offers from all lenders (if submitted to more than one)
- Accurately reflect the Annual Percentage Rate (APR) of a loan (the APR must include all fees)
- Ensure consumers understand the full price of a vehicle including the cost of borrowing, not just the payment
- Offer the best interest rate and terms for which the customer qualifies
- Disclose on the Bill of Sale if the dealer receives a fee from a lender for arranging financing
- Ensure the Bill of Sale depicts the true nature of the transaction including accurately identifying negative equity (see this bulletin for more information)

Is an ETL the Best Option?

Before recommending seven, eight or nine year loans, dealers and salespeople should have a thorough conversation with their customers to determine what financial product best meets their needs. Some of the questions that may assist in making this recommendation include:

- How long does the consumer usually keep a vehicle? Do they usually trade it in before paying it off? This often leads to negative equity.
- How much does the consumer drive? Will the vehicle reliably last the term of the loan?
- What is the "overall" cost of the loan? Longer terms may mean lower monthly payments, but they usually mean higher overall costs of borrowing.
- Does the customer understand that if the vehicle is stolen or destroyed and there is negative equity involved, their insurance company will reimburse the vehicle's value (not necessarily what is owed on the purchase loan)?

Helping Consumers make Informed Decisions

To help consumers understand ETL's and negative equity and make informed vehicle financing decisions, OMVIC has produced the attached pamphlet: *Negative Equity* and *Getting a Car Loan? Be Smart About it.* OMVIC encourages dealers and salespeople to utilize this resource to help educate customers where appropriate. Pamphlets will also be mailed to all General Dealers (retail) in the near future.

A Final Thought from OMVIC CEO John Carmichael

"The findings aired by the CBC are troubling; much of the information provided by salespeople to the undercover shopper was disingenuous at best. But there were also examples in the broadcast of salespeople providing excellent information and service. While this dichotomy provides hope, it also demonstrates that standards need to be higher, or at least, more broadly enforced.

And this is not something OMVIC can do alone; this mindset must be adopted and embraced by all dealers and salespeople. By promoting and demonstrating professionalism, *trust* can and will be built in the registered dealer/salesperson community. If achieved, future exposés by the media may not have the same effect; and a tired stereotype won't be reinforced."

For More Information

Contact OMVIC's Business Standards team at marketing_standards@omvic.on.ca or call:

Andrea Korth
Business Standards Manager
1-800-943-6002
416-226-4500 x3180

Aneesa Mohammed
Business Standards
1-800-943-6002
416-226-4500 x3540