

FREQUENTLY ASKED QUESTIONS NMAC AUTO LOAN SETTLEMENT

1. What is Markup?

When the American consumer goes on an automobile lot to purchase a vehicle and requests the dealer to arrange financing, the loan is not made by the dealer. The dealer acts as an originator/arranger between the consumer and a lender. There are many lenders in the American automobile business, including banks and finance companies owned by automobile manufacturers (captives).

When a consumer requests financing from the dealer, typically the dealer faxes the consumer's credit application to a lender who determines an approved interest rate by examination of the consumer's credit history. The lender then communicates the approved interest rate to the dealer and authorizes the dealer to markup the interest rate, without informing the consumer. The dealer and the lender then split the markup, as additional profit.

Thus, markup is the additional charges added to the consumer's approved interest rate, and split between the dealer and the lender.

2. What is the Effect of Markup?

Markup increases the cost of credit to the consumer. Remember, markup is only added **after** the lender determines an approved rate based on the consumer's credit history. [This approved rate is often called the "buy rate"]. Markup is then added to the buy rate, and the result is a more expensive rate, which the consumer pays.

3. Are Consumers Told About Markup?

Generally, the answer is no. The lender authorizes the dealer to add markup to the approved rate (buy rate), but prohibits the dealer from telling the consumer either: (1) the approved rate; or (2) that the approved rate has been marked up. Generally, the consumer does not know about markup, never knows their approved rate, and does not realize that their interest rate has been secretly increased.

4. How Can a Consumer Learn Whether their Interest Rate Was Marked Up?

Markup is not disclosed on any document given to the consumer by the dealer or by the lender. Usually, the dealer is prohibited by the lender from telling the consumer about markup. However, both the dealer and the lender know

exactly how much the consumer has been marked up and have records containing information about the markup.

Thus, in order to learn whether or not a loan has been marked up, the consumer should contact their lender and their dealer, and specifically request information about whether or not their loan was marked up.

When contacting the lender and the dealer, the consumer should have their loan or account number available and specifically request: (1) whether or not the lender allows interest rates to be marked up by dealers; (2) whether or not the consumer's loan contains markup; (3) what buy rate was approved after review of the consumer's credit application; (4) how much markup was added to the approved buy rate; and (5) how much of the markup was retained by the lender. The consumer should specifically request that this information be provided to them by a corporate representative in writing.

5. What is a Captive Finance Company?

Generally, there are two types of lenders in the American automobile financing business, banks and captive finance companies. A captive finance company is essentially a lender owned by an automobile manufacturer. Examples are GMAC (General Motors Acceptance Corporation), NMAC (Nissan Motor Acceptance Corporation), Ford Credit (Ford Motor Credit Company), Chrysler Credit (Daimler-Chrysler). Typically, these companies are wholly owned subsidiaries of automobile manufacturers. The business of captives is to provide financing for customers through dealerships.

6. Do Both Banks and Captive Finance Companies Allow Dealers to Markup Interest Rates?

Generally, yes. Although there are some exceptions, the large captive finance companies and the large banks all authorize dealers to markup customer interest rate, and split the profits.

7. What is the Danger of Markup?

Markup results in the cost of credit being determined by factors other than the consumer's credit history, or credit worthiness. By authorizing dealers to increase a consumer's cost of credit, without regard to the consumer's credit history, the lenders are causing some consumers to pay more for the same extension of credit. For example, the markup system may allow your credit to be increased because you are African-American, or because you are Hispanic, or because you are old. These factors have nothing to do with a consumer's credit history, and should not determine the price of credit. Also, because the markup system is hidden from the consumer, many people, black and white, believe they

are getting their approved credit rate when actually that rate has been increased without their knowledge.

8. What is the Equal Credit Opportunity Act?

The Equal Credit Opportunity Act (ECOA) is a federal law, which prohibits discrimination on the basis of race, color, religion, national origin, sex, marital status, or age in any aspect of a credit transaction. Thus, pursuant to the ECOA it is unlawful to discriminate in the cost of credit between persons of different races. The ECOA attempts to guarantee a consumer's history or credit worthiness will determine the cost of credit not a consumer's race or age.

9. Why Has the ECOA Been Used in the Federal Cases Involving Markup?

In the case of *Cason v. NMAC*, a Federal District Court in Nashville, Tennessee, ordered data production that has allowed an analysis of deal files, which shows that as a result of markup, African-Americans and Hispanics are paying more for the same credit than similarly situated white car buyers. Plaintiffs contend that African-Americans and Hispanics are more often victimized by the markup system, causing African-American and Hispanic customers to pay more for the same credit. Plaintiffs contend that this effect of the markup system violates ECOA.

10. What Is *Cason v. NMAC* about?

The plaintiffs in this case contended that African-Americans and Hispanics who purchased automobiles through NMAC paid higher prices for credit because they received higher markups. The plaintiffs contended that as a result of markup pricing, NMAC discriminated against African-Americans and Hispanics as a class.

11. Has the Case of *Cason v. NMAC* Been Settled?

Yes. The case was set for trial in Tennessee in February 2003, and a settlement agreement was filed that month. On March 24, 2003, the U.S. District Court in Nashville, Tennessee, approved the settlement agreement.

12. What are the Major Terms of the Settlement Agreement?

NMAC has agreed to do the following:

- a. Limit the amount of markup on certain automobile loans;
- b. Disclose to consumers that loan rates are negotiable and can be negotiated with the dealer;

- c. Fund consumer literacy programs directed to African-Americans and Hispanic communities which will help consumers understand the loan process and help consumers negotiate better loans; and
- d. Offer 675,000 no markup loans to African-Americans and Hispanics over the next five years.

13. What is a Pre-Approval No Markup Offer?

NMAC will examine the credit history of NMAC customers and potential customers who are African-American and Hispanic and send 135,000 offers of no markup loans for the purchase of new or used Nissan vehicles each year. African-Americans and Hispanics receiving these offers will be approved for an interest rate based solely on their credit history. This interest rate cannot be marked up by the dealer. The offers also will indicate whether the consumer qualifies for any special interest loan offers for specific Nissan models. The certificate will be good for at least 30 days. During this period of time, the consumer can take the certificate to a Nissan dealer and purchase an automobile without further credit qualification, and without paying any markup.

14. What is the Value of the Pre-Approval Certificate?

First, the consumer is pre-approved for a loan at a certain interest rate and will not be required to further qualify for credit at the dealership. Second, the dealer is not allowed to markup the interest rate. Typically, this will save the African-American and Hispanic consumer at least \$750.

15. How Can I Receive a Pre-Approval No Markup Certificate?

If you are a current African-American or Hispanic NMAC customer or if you are a current Nissan vehicle owner, you may receive a Pre-Approval No Markup Certificate without doing anything. NMAC will be examining its customer records for African-Americans and Hispanics who are eligible for future financing and mailing Pre-Approval No Markup offers directly to them.

16. What if I Have Individual Claims for Damages Against NMAC?

Individual claims for damages against NMAC are excluded from the settlement. Therefore, you may accept the benefits of the pre-approval no markup certificates without waiving any of your personal claims or releasing NMAC from any potential liability for damages. In order to recover such damages, however, you will have to bring your own case against NMAC.

