

**Consumers for Auto Reliability and Safety
CALPIRG
Consumer Action
Consumer Federation of California
Consumer Watchdog**

July 20, 2010

Honorable Nancy Pelosi
Speaker of the United States House of Representatives
Room 235 Cannon House Office Building
Washington, DC 20515

Honorable Henry Waxman
Chairman, U.S. House Committee on Energy and Commerce
Room 2204 Rayburn House Office Building
Washington, DC 20515

Re: H.R. 5381, The Motor Vehicle Safety Act of 2010: \$9 fee to support the National Highway Traffic Safety Administration.

Dear Speaker Pelosi and Chairman Waxman:

On behalf of our California-based non-profit pro-consumer organizations, we write to urge you to support enactment of H.R. 5381, including the very modest and necessary auto safety user fee.

In a recent letter, the Alliance of Automobile Manufacturers, National Automobile Dealers Association, and others opposed key provisions of the bill, including the user fee. They made the misleading claim that the fee is "open ended," when in fact it is capped initially at \$3 per new vehicle, then gradually raised to a maximum of \$9 per new vehicle.¹

To put this into context: in order to save lives and prevent debilitating injuries, and reduce the human and economic toll of vehicle crashes, which cost our nation over \$231 billion annually, auto interests would be assessed a mere \$3, gradually phased in and capped at \$9, per new vehicle sold.

Even the auto interests themselves acknowledge in their letter that "Highway safety is a national priority -- promoting reductions in health care costs associated with accidents and protecting pedestrians as well as vehicle owners."²

We urge you to reject the auto interests' misleading claims, which are absurd on their face. In

¹ Letter dated July 15, 2010, sent by the Alliance of Automobile Manufacturers and others to Reps. Waxman and Barton and Senators Rockefeller and Hutchison.

² Ibid.

light of the billions in extra charges that auto dealers and captive auto finance arms of the various auto manufacturers extract from the car buying public, through common scams, the proposed user fee is singularly justifiable and reasonable. Unlike the hidden costs imposed by auto manufacturers and dealers, the fee is also open and transparent.

Two of the most common costs imposed by auto dealers and lenders upon California car buyers:

- Over \$2.7 billion in hidden, undisclosed auto dealer markups (also known as "dealer reserve" or "dealer participation")³ -- increases in the APR charged for auto loans. Markups reflect the little-known fact that auto dealers receive incentives from lenders to raise the interest rates above the rate for which the borrower qualified. These are added fees that impose the greatest burden on those who are least able to pay the added costs -- those with little or no credit history, such as students and people with damaged credit.
- \$45 and \$55 in dealer "document fees" per transaction, imposed by dealers upon consumers who purchase or lease a new vehicle

In fact, the auto dealers themselves have sought to raise California's statutory document fee cap to \$65 per transaction, including both leased and purchased vehicles -- an increase of \$10 per purchased vehicle (from \$55 to \$65) or \$20 per leased vehicles (from \$45 to \$65).⁴

According to automotive experts, the "document fee" charges bear little or no relationship to the actual work performed. In fact, the transactions are generally done electronically and take very little time or skill to complete. Adding insult to injury, the fees are typically on pre-printed forms and if consumers question them, they are often told verbally that the fee is required by the government.

Also, through common scams such as "yo-yo" financing (a form of bait-and-switch), "powerbooking" (claiming vehicles have upgraded "phantom" equipment to trick lenders into approving loans for vehicles that are insufficient collateral for the loans), "loan packing" (misrepresenting the cost of high-profit items with little or no intrinsic value), and other scams, auto dealers and captive auto lenders extract billions more from car buyers, without their knowledge or consent.

Finally, auto dealers have been granted special monopolies by each of the states, including California, which insulate them from competition and further raise the price of new vehicles, causing a ripple effect that also increases the cost to purchase used vehicles. Auto dealers have aggressively resisted attempts to break their monopoly hold on the new car market and make the market truly competitive.⁵

It is important to note that none of the added fees described above provide any benefit whatsoever to the public, unlike the proposed \$3-9 safety user fees, which will reduce deaths, injuries and economic losses and save the public billions in health care costs, lost productivity, and related costs.

³ According to the Center for Responsible Lending, during 2007. For more details, see: <http://www.responsiblelending.org/other-consumer-loans/auto-financing/auto-dealers-lending-abuses-cost-billions.html>

⁴ See AB 1939 DeSaulnier, sponsored by the California New Car Dealers Association

⁵ See, for example, AB 1223 (Leno), introduced in 2005, which would have allowed particularly fuel-efficient cars to be sold over the internet, without car buyers having to spend hours at auto dealerships.

We applaud Chairman Waxman for his leadership on this vital issue, and urge Congress to enact H.R. 5381 without any of the auto industry's weakening amendments.

Thank you for your consideration of our views. Should you or your staff have any questions regarding our position, we hereby designate Rosemary Shahan, President of Consumers for Auto Reliability and Safety (CARS) as our contact person. She can be contacted as specified below.

Sincerely,

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