



February 8, 2023

House Committee on Business & Labor
Oregon State Legislature
900 Court Street NE
Salem, OR 97301

Chair Holvey, Vice Chair Sosa, Vice Chair Elmer and Members of the Committee:

My name is Loren Naldoza and I am writing to you today on behalf of the **Stop the Debt Trap Alliance (SDTA)** to express our strong support for **HB 2801**, which would make necessary changes to current consumer protection laws in Oregon and ensure that Oregon consumers are not subject to contingent financing provisions in sales contracts.

The Stop the Debt Trap Alliance is a coalition of organizations from across the state. Our members have come together to ensure that Oregon consumers can rely on fair, reliable, and equitable consumer protections in our state. Our coalition was created by direct service providers such as housing counseling and credit counseling nonprofits, with the goal of improving the lives of their clients and the communities that they serve.

In our society, owning a car may be essential to maintain employment, to access education, to obtain medical care, or to stay in touch with family. For those who do not yet have a car or are seeking to replace the one that they have or have recently lost, the process of purchasing an automobile can prove to be a difficult, time-consuming, and complicated process. With a process as complicated as a car purchase, a consumer can easily lack the legal understanding or the time necessary to read through and comprehend everything to which they are signing and agreeing. Even if a consumer did have the legal training necessary to understand complicated contracts involved in the car purchase process, certain terms presented in a contract for car purchase may be offered on a “take-it-or-leave-it” basis, leaving no room for negotiation.

There are also prevalent racial disparities in the auto purchase process. A recent study from the National Fair Housing Alliance found that “Non-White testers who experienced discrimination would have paid an average of \$2,662.56 more over the life of their loan than less qualified White testers.”¹ Auto financing has also gained the attention of the FTC, who had reported that consumers of color often pay higher prices for automobiles, and experience discrimination

¹ National Fair Housing Alliance, *Discrimination When Buying a Car: How the Color of your Skin can Affect Your Car-Shopping Experience*, Jan. 2018 at 4 –5 (NFHA conducted a study to ascertain the difference in treatment between White and Non-White customers at car dealerships by sending eight pairs of “testers,” one White and one Non-White to inquire about the same product and then document what they were told and what they observed. In each pair, the Non-White tester’s credit score was higher than the White tester’s credit score.)

during sales and financing. In 2021, the Oregon Department of Justice included auto sales and repairs at the top of their consumer complaint list.²

One major issue that we have heard from communities is a specific practice involving contingent financing, also known as “yo-yo” financing. Contingent financing issues arise when a consumer and dealership enter a sales contract. The terms of the contract have been agreed to, but the contract contains contingent provisions, particularly around the determination of the interest rate the consumer would have to pay. A consumer would agree to a specified interest rate, though that interest rate would be contingent on whether the dealership is able to secure the financing at the agreed-upon terms. If the dealership cannot secure financing at the previously-agreed-upon interest rate, the dealership could then unilaterally commence a process that could end in an increase in the interest rate.

This presents an impossible situation for a consumer. The consumer could either agree to sign new paperwork with the dealership with a higher interest rate, or return the car. If the consumer agrees to a higher interest rate, they may end up paying more than they budgeted for. On the other hand, if they return the car, a number of questions arise: Could the consumer retrieve any trade-in car or other value given as down payment? What happens if the consumer buys new tires or had maintenance or improvements done on the car? What if the consumer needs the car to get to work, to care for their family, or something else? In stories across the country, the story never seems to end well for the consumer.³

HB 2801 would establish necessary protections for consumers by eliminating this contingent, or “yo-yo” financing. In place of contingent financing, the interest rate and payment terms to which consumers and auto dealers originally agree would be firm, and those terms between the consumer and dealership would be honored. This bill would add clarity for consumers who can feel secure in taking their newly purchased car off the lot without the unnecessary risk that their monthly prices would increase, potentially outside the scope of their budget.

The Stop the Debt Trap Alliance urges your strong support of HB 2801.

Sincerely,

Loren Naldoza
Stop the Debt Trap Alliance

² Oregon Department of Justice, *DOJ's Top Ten Consumer Complaints List of 2021*, March 8, 2022, available at <https://www.doj.state.or.us/media-home/news-media-releases/dojs-top-ten-consumer-complaints-list-of-2021/>.

³ See, e.g., Chris Arnold, *Even after you think you bought a car, dealerships can 'yo-yo' you and take it back*. NATIONAL PUBLIC RADIO, Feb. 4, 2023, available at: <https://www.npr.org/2023/02/04/1152932192/yo-yo-car-sales> (detailing an instance in which a household opted not to agree to a interest rate hike, resulting in the dealership [1] sending a tow truck to repossess the car, and [2] refusing to return their trade-in vehicle).