

FTC report highlights concerns with dealer advertising and add-on products

August 04, 2020

On July 30, 2020, the **Federal Trade Commission** (FTC) issued a Bureau of Consumer Protection Staff report titled [Buckle Up: Navigating Auto Sales and Financing](#). The report includes findings from the FTC's April 2017 study and 38 in-person interviews with customers who purchased and financed vehicles through dealers in the Washington, DC, metro area. The FTC report amplifies themes from its enforcement actions and roundtables focused on deceptive advertising practices, spot-delivery, and add-on products.

The FTC reports that add-on products were the single greatest area of confusion for consumers who participated in the study. The high rate of reported consumer confusion lead the FTC to recommend that dealers think carefully about how they promote add-on products, but the report does not include recommendations for how to do so. The FTC identified the following examples of consumer confusion related to add-on products:

- **Dealers not discussing the add-on products until the financing process.** This limited and late discussion made consumers feel rushed and pressured.
- **Consumers thought products were free.** The FTC does not indicate dealers misrepresented the cost of add-on products, but reports that consumers thought certain items, such as warranties, would be included in the vehicle price.
- **Consumers thought products were required.** Some consumers reported that they thought GAP was required to obtain financing. The report states this impression came from dealer statements and that customers did not understand the optional nature of the add-on product until participating in the FTC's study and reviewing their financing agreement.
- **Dealer explanation of product pricing.** Consumers reported that they lacked a clear understanding of how the add-on products were priced, why different dealer representatives quoted different prices for the same product, and whether products could be purchased individually versus a bundled deal.

Dealer advertisements, particularly financing incentives, continue to be a topic of focus. The FTC reported that dealer advertisements that offer low prices, incentives, or 0% APR attract consumers, but many are told belatedly that the offers would not apply to their transaction. Consistent with existing legal requirements, the FTC reiterates that advertisements must be accurate and not misleading, advertise only those terms that are available, and clearly and conspicuously disclose materials qualifications or limitations.

The FTC also reported that consumers experience confusion when negotiating the vehicle sale price and financing terms. As for the financing terms, consumers stated that they were not aware that financing terms were negotiable. Both dealers and consumers explained that negotiating certain terms, such as applying a rebate or payment incentive, meant that other financing options were no longer available, such as 0% APR. The report concludes that when there are limitations on the incentives that a dealer offers, all dealer sales and financing representatives should make sure to clearly and consistently explain the limitations.

The practice of focusing on monthly payment alone, or at least as a key component of the sale, receives additional FTC attention. Some consumers who participated in the FTC's study expressed frustration that dealers diverted their attention from the overall cost of the transaction. Other consumers reported that dealers' laser focus on the monthly payment meant they often didn't learn about the repayment term or rate until it was time to sign the financing documents. The FTC observed that extending the repayment term to support low monthly payments increases the likelihood of negative equity in the future, suggesting an ongoing cycle of sorts. To illustrate its point, the FTC included a sample repayment schedule based on different repayment terms and APRs.

Several consumers reported that the sale and financing process is inherently complicated because it is filled with uncommon jargon. The FTC noted that some consumers find that dealers with tablets or iPads cause the electronic document review process to be particularly confusing. Some consumers reported that they appreciated the quick pace of electronic documentation, but many others felt that they couldn't follow the process on a tablet or that the dealer pressured the consumer to quickly scroll to the bottom and accept the terms.

The FTC also reports that consumers are confused by spot-delivery. Although it is unclear how many of the participants in the study encountered spot-delivery, the report states that many individuals were unfamiliar with the term or concept. Other consumers apparently signed documents that explained that financing was not final, but they did not fully understand the impact of these statements. The FTC recommends that dealers explain spot-delivery before asking consumers to sign spot-delivery forms. If financing is not available, the dealers should memorialize any changes to the deal and explain the changes to the consumer.

This article was first published on [Auto Finance Excellence](#), a sister service of Auto Finance News, and is reprinted with permission. McGlinchey is pleased to serve as the official Compliance partner of Auto Finance Excellence, providing insights and thought leadership through webinars, podcasts, and monthly columns.

Related people

Kelly Lipinski