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U.S. Justice Department and North Carolina Attorney General Reach Settlement to Resolve Allegations of Auto Lending Discrimination by "Buy Here, Pay Here" Used-Car Dealerships

Settlement Requires Substantial Improvements to Dealerships' Policies and Provides $225,000 in Relief to Affected Customers

The U.S. Department of Justice Civil Rights Division, the U.S. Attorney's Office for the Western District of North Carolina and the North Carolina Department of Justice today announced a settlement of the federal government's first-ever discrimination lawsuit involving "buy here, pay here" auto lending. The settlement, which is subject to court approval, was filed today in the U.S. District Court for the Western District of North Carolina.

The settlement resolves a lawsuit, filed in January 2014 by the Department of Justice and the State of North Carolina, alleging that Auto Fare Inc. and Southeastern Auto Corp., two "buy here, pay here" used-car dealerships in Charlotte, North Carolina, and their owner – violated the federal Equal Credit Opportunity Act by engaging in a pattern or practice of "reverse redlining" by intentionally targeting African-American customers for unfair and predatory credit practices in the financing of used car purchases. The state of North Carolina also alleged that the dealerships' actions violated the state's Unfair and Deceptive Trade Practices Act. The settlement came after the court denied the dealerships' motion to dismiss the case and agreed that reverse redlining by an auto lender is illegal discrimination.

"It is not only illegal, but also fundamentally wrong, to target borrowers of color for predatory loans and exploit their need for a car to do essential tasks such as getting to work," said Acting Assistant Attorney General Vanita Gupta of the Civil Rights Division. "Combating discrimination in all segments of the auto lending market is, and will remain, a top priority for the Civil Rights Division. I am pleased that these dealerships have agreed to reform problematic lending and servicing practices and adopt policies that promote responsible lending. I hope that other buy here, pay here dealerships will evaluate their practices in light of this settlement."

The settlement requires the dealerships to implement a number of specific practices to ensure that the terms of their loans and repossession practices are no longer unfair and predatory. The required changes include: limiting projected monthly payments to no more than 25% of a borrower's income; requiring interest rates to be at least five percentage points below the state's rate cap; mandating a lower interest rate for borrowers who have specified evidence of lower credit risk; requiring competitive sales prices; prohibiting hidden fees on top of the required down payment; prohibiting repossessions until at least two consecutive missed payments; providing down payment refunds to borrowers who quickly go into default; requiring strict compliance with provisions of state repossession law enacted to protected consumers; providing borrowers improved disclosures at the time of sale (including disclosing the presence of any GPS, or automatic shut off, device); allowing borrowers to obtain an independent inspection of the car before completing the purchase; and providing borrowers improved notices before repossession.

“All consumers deserve to be treated fairly when they buy a car,” said North Carolina Attorney General Roy Cooper. “We hope this case sends a strong message that car dealers cannot use race when targeting buyers with overpriced cars and oppressive loans.”

The settlement also requires defendants to establish a $225,000 settlement fund to compensate victims of their past discriminatory and predatory lending.

“Predatory lending practices that lock consumers into contracts they cannot afford are illegal and can spell financial disaster for borrowers of lower income or challenged credit history,” said U.S. Attorney Anne M. Tompkins of the Western District of North Carolina. “Today’s settlement ensures that all customers of Auto Fare Inc. and Southeastern Auto Corp. will have equal access to credit regardless of their race.”

The lawsuit alleged that the two dealerships’ sales prices, down payments, and interest rates were disproportionately high compared to other subprime used-car dealers. Because the dealerships did not meaningfully assess the customers’ creditworthiness or ability to repay, their rates of default and repossession were disproportionately high. Additionally, the dealerships engaged in repossessions when customers were not in default.

The U.S. Department of Justice’s enforcement of fair lending laws is conducted by the Fair Lending Unit of the Housing and Civil Enforcement Section in the Civil Right Division. Since the Fair Lending Unit was established in February 2010, it has filed or resolved 36 lending matters under the Fair Housing Act, Housing Equal Credit Opportunity Act (ECOA) and the Servicemembers Civil Relief Act. The settlements in these matters provide for over $1.2 billion in monetary relief for impacted communities and individual borrowers. The Attorney General’s annual reports to Congress on ECOA highlight the department’s accomplishments in fair lending and are available at www.justice.gov/crt/publications.

The Civil Rights Division and other agencies involved in this matter are members of the Financial Fraud Enforcement Task Force. President Obama established this task force to wage an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. The task force includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and with state and local partners, to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes. For more information on the task force, visit www.StopFraud.gov.

The settlement provides for an independent party to contact victims and distribute payments of compensation at no cost to borrowers whom the United States Department of Justice and the North Carolina Department of Justice identify as victims of defendants’ conduct. Former customers who are eligible for compensation from the settlement will be contacted by mail later this year. Individuals who believe that they may have been victims of illegal conduct by Auto Fare or Southeast Auto and have questions about the settlement may contact the United States Department of Justice and the North Carolina Department of Justice by calling 1-800-896-7743, mailbox 92, or emailing AutoFareLawsuit@usdoj.gov

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A copy of the proposed order and other documents related to this lawsuit, as well as additional information about fair lending enforcement by the United States Department of Justice, can be obtained from the United States Department of Justice website at www.justice.gov/fairhousing.