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MARKETS

An $809 Car Payment, a $660 Income: How Dealers Make the Math Work

Some dealerships are dressing up borrowers' car-loan applications with fake, inflated incomes

By Ben Eisen and AnnaMaria Andriotis

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When Mirna López bought a used 2018 Nissan Pathfinder in May, she got a car loan with a monthly payment of $809. Her monthly earnings were about $660.

Normally, lenders wouldn't approve that. But an employee at Mac Mitsubishi, a dealership in West Hartford, Conn., filled out her loan application and stated she made $7,833 a month, according to Ms. López and a copy reviewed by The Wall Street Journal. Ms. López, 65 years old, said she didn't realize that until months later.

Consumers are facing rising prices for cars and trucks, and relying on debt to buy them. Inflating a borrower's earnings can allow a dealership to close a loan that otherwise wouldn't happen.

Some dealerships around the country are dressing up car-loan applications with fake, inflated incomes, according to consumer lawyers who say it is a growing issue. Certain large lenders have cut back on some safeguards that could catch the forged applications, in much the same way some mortgage lenders stopped double-checking applications in the run-up to the financial crisis. Federal and state authorities have sued dealerships and lenders over these practices.

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Sometimes, borrowers lie about their earnings. But some dealerships concoct numbers without telling the customers, according to lawsuits and interviews with customers and lawyers. Those borrowers often default on their loans within a few months, destroying their credit.

“The consequence for a lot of people is to ruin them financially for five to 10 years,” said Richard Feferman, a New Mexico lawyer who has sued dealerships and lenders in nearly two dozen such cases.

The scope of false applications is hard to quantify. PointPredictive, which sells software to detect loan fraud, estimates that more than a fifth of auto loans have inflated incomes. The company examined loans made over the past four years where lenders obtained borrowers’ personal records, and compared those with the income stated on applications. Its data can’t distinguish who is responsible.

Dealers and lenders can ask borrowers to provide documents such as W-2s or pay stubs. Over the past few years, though, some subprime lenders have stopped checking for them, according to S&P Global Ratings, partly in response to dealers demanding faster decisions.

Auto lenders verified income on about 7% of their loans on average since 2017, according to a Journal analysis.

The share of loans going delinquent soon after they are made is rising, particularly among subprime loans, according to credit-reporting firm TransUnion. That can be a signal of fraud, said Satyan Merchant, senior vice president of TransUnion’s auto business.

U.S. consumers held a record $1.3 trillion of debt tied to their cars at the end of September, according to the Federal Reserve Bank of New York, up from about $740 billion a decade earlier.

Buyers visiting a dealership typically disclose their income to a salesperson or an employee in the financing office. The dealership electronically sends a loan application to banks, credit unions and the finance arms of car manufacturers, which decide whether to fund the loan.

The problem loans often start with borrowers making bad decisions about what they can afford. Sometimes, borrowers don't read their loan application or final contract.

Ms. Hansen, a stay-at-home parent for most of her life, had close to no income when she applied for a car loan.

PHOTO: TRAVIS DOVE FOR THE WALL STREET JOURNAL

But dealerships can compound the trouble. They can rush borrowers through the process or show them only a partial copy of the application, according to lawsuits and consumers. Sometimes, dealerships will fill out one application with correct information and submit an incorrect one to lenders. Some borrowers, including Ms. López, said their dealership told them they could return in a few months and refinance into a lower-interest loan, only to tell them later it wasn't an option.

Dealerships now make more money arranging financing than selling vehicles. If a car loan goes bad, it isn't usually the dealership on the hook. When a borrower defaults, the lender can repossess the car and try to resell it. Often, though, that isn't enough to cover the borrower's unpaid balance, and the lender can write off the loss and can send the borrower to collections.

The National Automobile Dealers Association, a trade group, said lenders can make dealers buy back a loan if they can prove the dealer committed fraud. A spokesman for the group said there is no evidence that income fabrication is a systemic problem.

The Consumer Financial Protection Bureau oversees auto lenders but not dealerships. The Federal Trade Commission last year accused dealerships in Arizona and New Mexico of making up car buyers' incomes. Attorneys general in Delaware and Massachusetts fined Santander Consumer USA Holdings Inc. in 2017 for allegedly failing to catch income fraud at dealerships, but didn't charge the dealerships.

General Motors Co. 's AmeriCredit arm verified incomes on as much as roughly 70% of loans in some bond pools, according to the Journal analysis. The auto financing arms of CarMax Inc. and Ally Financial Inc. verified income on less than 1%. Some of the lenders said income verification is just one of many ways to catch potential fraud and that they have other safeguards.

The Journal analysis encompassed more than 6 million prime and subprime loans that were packaged into bonds and sold to investors by 10 lenders that disclosed such data through Finsight, which tracks bond deals.

Ms. López's husband, Ramón, spoke with the bank that held her loan a few months after she got it. It was then she found out her application was wrong, she said. The Lópezes' monthly earnings are still far below the income stated on the application even if Mr. López's earnings and other income are factored in.

Ms. López said she didn't closely inspect the application at the dealership because the financing office told her to sign quickly and took back the paper. Ms. López speaks little English, the language on the application.

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This month, at her attorney's advice, Ms. López left the car at the dealership one night after it closed. Her attorney sent a letter to the dealership and the bank stating she is revoking acceptance of the car due to fraud.

A lawyer for the dealership said Ms. López's allegations aren't consistent with the company's business practices. A spokesman for the bank, BB&T Corp., said it couldn't comment on a customer but that it would terminate its relationship with any dealership where it found "a pattern of false loan applications." BB&T has since been renamed Truist Financial Corp.

Grace Pazdan, an attorney at Vermont Legal Aid Inc., said she has had a number of clients whose car-loan applications contained inflated income. She is trying to advance state legislation that would require dealerships to provide buyers with their full loan application at the time of purchase.

Ms. Hansen says she hopes to pay off the loan in about 3½ years.

PHOTO: TRAVIS DOVE FOR THE WALL STREET JOURNAL

Baxter Hansen of Gastonia, N.C., has been paying $493 a month for a Kia Sportage she bought new two years ago.

Ms. Hansen, 67, said she didn't know her application said she had a monthly income of $4,800. Ms. Hansen, a stay-at-home parent for most of her life, had close to no income at the time. She is suing the dealership.

Capital One Financial Corp., which approved her for a $28,000 loan, said it encourages customers who are facing financial difficulties to ask the bank for assistance. A lawyer for the dealership, Kia of Gastonia, and the former owner didn't return calls for comment.

Ms. Hansen started working at Walmart. She says she hopes to pay off the loan in about 3½ years.

—Sara Schaefer Muñoz contributed to this article.

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