<u>OPPOSE HARMFUL REPOSSESSION MORATORIUMS</u>
<u>IN NEXT COVID RELIEF PACKAGE</u>

America's collateral recovery industry performs an essential role in our nation's financial system. Under certain circumstances, when a borrower is in default of a retail installment contract for an extended period of time, a repossession may be initiated. In recent months, the House of Representatives has twice passed a six-month moratorium on repossessions in the HEROES Act (HR 6800) and the Emergency Housing Protections and Relief Act (HR 7301). Although advocates believe the moratorium will provide consumer relief during COVID-19, an objective we all support, these provisions have been drafted so broadly as to actually further exacerbate economic hardship in certain circumstances. In addition, such blanket deferments serve only to harm prospective consumers as those costs are inevitably passed on to other new and used car buyer though higher finance rates.

As Congress begins to negotiate the next COVID response package, we urge you to oppose the inclusion of these harmful and overly broad provisions for the following reasons:

Direct Industry Harm

According to the Bureau of Labor Statistics, there are more than 230,000 Americans employed in asset recovery and related fields. A federally-mandated moratorium on repossessions will be catastrophic to these workers, most of whom work for small businesses. There are very few, if any, industries which Congress has explicitly prevented from performing their jobs over such a long period of time.

Unintended Consumer Harm

For many consumers facing financial hardship, certain types of collateral repossessions are <u>less expensive and provide greater consumer protection.</u> For example, if the consumer cannot afford to retrieve their vehicle from a tow yard, the tow yard will sell the vehicle at a lien sale auction. As a result, the consumer is responsible to pay the lender for the entire balance of the loan, even though the consumer no longer has possession of the vehicle. However, if a car is picked up by a repossession agency from the tow yard and sold at auction in a commercially reasonable manner on behalf of the lender, the consumer is only responsible for the deficiency balance as opposed to paying off the entire loan.

Similarly, when a consumer can no longer meet the terms of the loan agreement and decides to return their vehicle before their loan is paid off, this is called a **voluntary surrender**. When the consumer voluntary surrenders their vehicle, they cancel their insurance and park their car on the street. This exposes the consumer to liability for any loss to the vehicle until it gets picked up. Furthermore, the car depreciates every day it sits on the street waiting to get picked up, which **guarantees** the consumer will have a higher deficiency balance once the car is sold at auction. If congress enacts the proposed repossession moratorium, the consumers will owe nine to twelve months of payments or the entire balance if the loan has been charged off.

Lastly, prohibiting repossessions will by necessity place greater strain on auto financing generally. Many Americans will face higher interest rates on their auto loans, particularly low-income borrowers. And in many cases some Americans will see their access to auto loans be denied altogether. This cascade effect would impact the nation's car manufacturers, auto dealers, and other elements of the supply chain. Repossessions preserve credit integrity for the entire automobile industry and its customers, and a moratorium would threaten that system.

Congressional Activity

The American Recovery Association believes the six-month repossession moratorium proposed by the House is a blunt instrument which will harm not only the collateral recovery industry, but in many cases the very consumers the legislation seeks to help The legislation precludes consumers from voluntarily surrendering their vehicles or other property even to avoid further financial harm. Such broad moratoriums will ultimately result in higher finance rates for consumers going forward. Further, an entire industry is effectively suspended and its workers unemployed throughout such a moratorium. For all of these reasons, we urge Congress to reject any such proposals