



## American Financial Services Association

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For Immediate Release

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### **AFSA Study Finds Significant Bias and High Error Rates in CFPB Proxy Methodology**

**WASHINGTON, November 19, 2014** - A comprehensive study of more than 8.2 million auto financing contracts found that the disparity alleged by the Consumer Financial Protection Bureau (CFPB) between the amount of dealer reserve charged to minorities and non-minorities is not supported by data.

The study, *Fair Lending: Implications for the Indirect Auto Finance Market*, commissioned by the American Financial Services Association (AFSA), examined the proxy methodology used by the CFPB and found significant bias and high error rates.

“AFSA is committed to ensuring all consumers are treated fairly. AFSA’s results are much lower than what the CFPB alleges as problematic in the marketplace, because the association’s study factored in complexities of the automotive market that the CFPB did not consider, and errors associated with the CFPB methodology,” AFSA President & CEO Chris Stinebert said. “The interplay between factors such as geography, new versus used, length of loan, down payment, trade-in vehicle, credit score and competitive factors, such as meeting or beating a competing offer, is evidence of a dynamic market.”

Central to the study was an examination of the Bayesian Improved Surname Geocoding (BISG) proxy methodology used by the CFPB to determine disparate impact to legally protected groups.

BISG estimates race and ethnicity based on an applicant’s name and census data. AFSA’s study calculated BISG probabilities against a test population of mortgage data, where race and ethnicity are known. Among the findings:

- When the proxy uses an 80% probability that a person belongs to an African American group, the proxy correctly identified their race less than 25% of the time.
- Applying BISG on a continuous method overestimates the disparities and the amount of alleged harm and provides no ability to identify which contracts are associated with the allegedly harmed consumers.

“Alleged pricing discrepancies between minorities and non-minorities for auto financing rates are simply not supported by data,” Stinebert said. “We have reviewed our study results with the CFPB and look forward to continuing our work with the bureau to address the issues we raised and to ensure consumers have access to affordable credit.”

Conducted by consultants at Charles River Associates, the study examined 30 percent of all new and 10 percent of all used retail installment contracts financed during 2012 and 2013. The study is available on the AFSA website.

Based in Washington, D.C., AFSA ([www.afsaonline.org](http://www.afsaonline.org)) is the national trade association for the consumer credit industry, protecting access to credit and consumer choice. Its 350 members include consumer and commercial finance companies, vehicle finance/leasing companies, mortgage lenders, credit card issuers, industrial banks and industry suppliers.

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