

Consumer advocates are squaring off against auto dealers in a dispute over whether the dealers should be exempt from the powers of a proposed new Consumer Financial Protection Agency.

The flare-up comes as the House Financial Services Committee marks up legislation (HR 3126) to establish a federal agency to police financial products sold to consumers, such as credit cards and mortgages.

Auto dealers say that such an agency could cripple a struggling industry and that few consumer complaints focus on dealerships. Consumer advocates counter that dealers hurt buyers by using shady tactics to raise the cost of auto loans.

In some ways, the dispute mirrors earlier battles over the proposed agency. Liberal Democrats have pushed to beat back amendments that would narrow consumer protections, while moderates and Republicans have moved to exempt industries they say would be unfairly hurt by the new regulations.

Financial Services Chairman Barney Frank, D-Mass., previously rewrote the bill to include an exemption for auto dealers, but the industry contends that his language does not actually cover auto dealers or sales in which the buyer has obtained financing — the vast bulk of sales.

The industry is throwing its support behind an amendment by John Campbell, R-Calif., that would specifically broaden the exemption to include auto dealers and their financing operations for car sales.

On Tuesday, consumer advocates fired back. “Dealers have engaged in numerous practices to maximize their profits, including charging excessive dealer markups,” said Rosemary Shahan, president of Consumers for Auto Reliability and Safety. “These are akin to the fees that brokers get for raising interest on home loans.”

At the same time, Americans for Financial Reform and the Consumer Federation of America are pushing to include auto dealers under the aegis of the new consumer-focused agency.

They have a powerful ally in Frank, who said Tuesday that he would not support Campbell's amendment. Its wording, he said, would exempt GMAC and Toyota financing — and that would be too broad.

“Those are pretty big loans,” said Frank, adding that he did not want to cover the act of selling a car.

Dealers say that fewer than 1 percent of complaints filed with the Federal Trade Commission in 2008 were auto-related, much lower than other industries.

And Campbell contended that his amendment would not exempt auto financing but just keep auto dealers themselves out of the agency's reach. The bulk of auto loans, he said, are provided by third parties, such as GMAC, that would be covered by the new consumer agency.

“This doesn't exempt auto financing; this simply exempts the dealer,” he said.

The auto dealers said they are confident that there are enough votes to adopt Campbell's language. “There seems to be a great deal of growing momentum behind the Campbell amendment on both sides of the aisle,” said A. Bailey Wood, director of legislative affairs for the National Automobile Dealers Association.