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PRESS RELEASE

Attorney General Frosh Announces $550 Million Settlement with Subprime Auto Financing Company Santander Consumer USA Inc.

BALTIMORE, MD (May 19, 2020) – Maryland Attorney General Brian E. Frosh today announced a multistate settlement with Santander Consumer USA Inc. (Santander) that includes more than $500 million in relief for consumers. The settlement resolves allegations that Santander violated consumer protection laws by exposing subprime consumers to unnecessarily high levels of risk by placing them into auto loans that Santander had determined had a high probability of default. Today's settlement stems from a multistate investigation of Santander's subprime lending practices led by a six-state executive committee comprising Maryland, California, Illinois, New Jersey, Oregon and Washington, and included attorneys general from a total of 34 states.

"We charged that Santander structured auto loans it knew borrowers likely could not repay," said Attorney General Frosh. "Borrowers who were harmed by Santander's practices will receive restitution with this settlement. The settlement establishes safeguards to prevent further harm to consumers in Maryland and across the country from these types of lending practices."

The attorneys general allege that Santander, through its use of sophisticated credit scoring models to forecast default risk, knew that certain consumers were predicted to have a high likelihood of default. Santander exposed these borrowers to unnecessarily high levels of risk through high loan-to-value ratios, significant back-end fees, and high payment-to-income ratios. The attorneys general also allege that Santander's aggressive pursuit of market share led it to underestimate the risk associated with loans by turning a blind eye to dealer abuse and failing to meaningfully monitor dealer behavior to minimize the risk of receiving falsified information, including the amounts specified for consumers' incomes and expenses. Finally, the attorneys general allege that Santander engaged in deceptive servicing practices, including misleading consumers about their rights, and the risks of loan extensions.

Under the settlement, Santander is required to provide relief to consumers and, moving forward, is required to factor a consumer's ability to pay the loan into its underwriting. Santander will pay $65 million for restitution for certain subprime consumers in the participating 34 states who defaulted on loans between January 1, 2010, and December 31, 2019. More than 9,000 Maryland consumers are eligible to receive restitution payments, for a combined total of over $2.2 million. For consumers with the lowest quality loans who defaulted but have not yet had their cars repossessed, Santander is required to allow them to keep their cars and waive any deficiency balances on the loans, until such relief has a total value of $45 million in loan balances. The settlement also requires Santander to waive the deficiency balances on certain loans currently owned by Santander, totaling approximately $433 million in loan forgiveness. More than 1,000 Maryland consumers will receive these deficiency waivers, for a combined total of over $13.7 million. Santander also must try to buy back certain loans it no longer owns, in order to waive those loan deficiencies as well. Santander will pay up to $2 million for the settlement administrator who will manage restitution claims, and pay an additional $5 million to the states.

Among specific long- and short-term requirements of the settlement, Santander:

- Cannot extend financing if a consumer has zero or negative residual income after taking into account all of the consumer's actual monthly debt obligations;
- For the next four years, test all loans that default to see if the consumer, at the time of origination, had zero or negative residual income (if consumer does have zero or negative income and the loan default occurred within a certain amount of time, Santander is required to waive the loan deficiency);
- Is barred from requiring dealers to sell ancillary products, such as vehicle service contracts and Guaranteed Asset Protection (GAP) products;
- Must implement steps to monitor dealers who engage in income inflation, expense inflation, power booking, and enact additional documentation requirements for those dealers;
- Must, when using a default mortgage or rent payment value, use an amount that reasonably reflects such costs for the consumer's geographic area; and
- Must maintain policies and procedures for deferments, forbearances, modifications, and other servicing matters that all employees must follow.

Joining Attorney Frosh in the settlement are the attorneys general of Arizona, Arkansas, California, Connecticut, the District of Columbia, Florida, Georgia, Hawaii, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Michigan, Minnesota, Nebraska, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Utah, Virginia, Washington, West Virginia, and Wyoming.

Consumers with questions about this settlement may call the Consumer Protection Division at 410-528-8662 or write to: Consumer Protection Division, 200 St. Paul Place, 16th Floor, Baltimore, MD 21202.