



Grounding All Recalled Used Vehicles Devalues Consumer Trade-ins
Oppose Overbroad Recall Legislation That Creates a “Trade-in Tax” for Consumers (S. 1971)

ISSUE

Sen. Richard Blumenthal (D-Conn.) introduced S. 1971, a bill that would cripple the used-vehicle market by halting a dealer’s sale, lease, wholesale or loan of used vehicles under any open recall. The bill is overbroad because most recalls do not require the drastic step of grounding. Additionally, the bill would create a “trade-in tax” that would instantly devalue a car buyer’s trade-in by grounding recalled vehicles for minor matters, such as a peeling sticker. Finally, the bill would push recalled vehicles into the unregulated private market, making it more difficult to complete recall repairs. **Congress should oppose overbroad recall legislation and focus on initiatives to improve consumer response to vehicle recall notices and increase recall completion rates.**

BACKGROUND

Dealers support a 100% recall completion rate. Franchised auto and truck dealers play a vital role in ensuring that recalled vehicles are fixed, since they are authorized to complete manufacturer recall repairs. However, dealers cannot repair vehicles until the manufacturer provides the remedy and parts. From 2010 to 2014, the average delay for parts to fix a recalled passenger vehicle was 60 days. Furthermore, after the parts become available, vehicle owners must respond to recall notices to complete the recall work.

Last Congress, Sen. Blumenthal and Rep. Jan Schakowsky (D-Ill.) introduced legislation similar to S. 1971, which would have prohibited a dealer’s sale of a used vehicle under open recall. This legislation would have hurt consumers by devaluing many trade-ins, which would make it more difficult for a car buyer to purchase a newer, safer vehicle. The legislation also would have mandated the extreme step of grounding the vehicle even for matters such as an incorrect phone number in the owner’s manual or a peeling sticker on a visor.

A study by J.D. Power found that enactment of legislation nearly identical to S. 1971 would result in an average “trade-in tax” of \$1,210, and that some consumers’ trade-ins would suffer devaluations of up to \$5,000. By devaluing trade-ins and not regulating private sales, vehicle owners would be incentivized to sell their vehicles in the private market, where almost no safety or consumer protections exist. This legislation would make it less likely that recalled vehicles get fixed, and the bill’s proponents have offered no supporting safety analysis despite an estimated \$1.1 billion cost to consumers.

KEY POINTS

- **Overbroad recall legislation, S. 1971, would make it more difficult for consumers to trade in their recalled vehicle and afford a newer, safer vehicle.** Due to a lack of replacement auto parts, it can take months for recalled vehicles to be repaired. Since a used vehicle sitting idle on a dealer’s lot depreciates by 2% per month on average, this bill would force dealerships to either pay consumers significantly less for trade-ins with open recalls or not accept trade-ins at all.
- **During the Obama administration, the National Highway Traffic Safety Administration admitted that not every recall warrants the vehicle’s immediate grounding.** S. 1971 would treat all recalls the same and diminish a recalled vehicle’s trade-in value by an average of \$1,210. This would harm many car buyers who rely on their trade-in value for a down payment on their newer vehicle.
- **Unrepaired vehicles will be pushed into the unregulated private market.** Vehicle owners with devalued trade-ins will have an incentive to sell their vehicle in the private market, making it less likely that recall work will be done in a timely manner, if at all.

STATUS

S. 1971 was referred to the Senate Commerce, Science, and Transportation Committee. In 2015, during consideration of the highway reauthorization bill, the committee rejected an amendment that was similar to S. 1971. The House companion to S. 1971 is likely to be reintroduced soon. **Congress should oppose bills that create a “trade-in tax” on millions of consumer trade-ins without even guaranteeing that a single additional recalled vehicle gets fixed.**

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