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20 UNITED STATES DISTRICT COURT  
21 FOR THE CENTRAL DISTRICT OF CALIFORNIA

22 UNITED STATES OF AMERICA,

23 Plaintiff,

24 v.

25 TOYOTA MOTOR CREDIT  
26 CORPORATION,

27 Defendant.

CIVIL ACTION NO. CV 16-725

COMPLAINT

1 Plaintiff, United States of America, alleges:

2 1. The United States of America brings this action against Toyota Motor  
3 Credit Corporation (“Toyota” or “Defendant”) for discriminating against thousands of  
4 African-American and Asian and/or Pacific Islander borrowers across the United States  
5 who obtained loans from Toyota to finance automobiles. The discrimination is caused  
6 by Toyota’s policy and practice that allows dealers to include markups in the interest  
7 rates on automobile loans in a hidden manner not based on the borrower’s  
8 creditworthiness or other objective criteria related to borrower risk. The United States  
9 brings this action to enforce provisions of the Equal Credit Opportunity Act (ECOA), 15  
10 U.S.C. §§ 1691-1691f, and its implementing regulation, Regulation B, 12 C.F.R. Part  
11 1002.

12 2. Between at least January 1, 2011 and February 2, 2016 (“the Relevant  
13 Period”), Toyota did not provide adequate constraints across its portfolio of loans to  
14 prevent discrimination. Toyota knew or had reason to know that its policy and practice  
15 of allowing dealers to mark up consumers’ interest rates created a substantial risk of  
16 discrimination. Before September 10, 2014, Toyota did not monitor markup disparities.

17 3. As a result of Toyota’s dealer markup and compensation policy and practice  
18 and its lack of compliance monitoring, African-American and Asian and/or Pacific  
19 Islander borrowers paid higher interest rates for their automobile loans than non-  
20 Hispanic white borrowers, not based on creditworthiness or other objective criteria  
21 related to borrower risk, but because of their race and national origin. Between January  
22 1, 2011 and December 31, 2013, the average African-American victim was obligated to  
23 pay over \$200 more during the term of the loan because of discrimination, and the  
24 average Asian and/or Pacific Islander victim was obligated to pay over \$100 more during  
25 the term of the loan because of discrimination.

26 4. This Court has jurisdiction pursuant to 15 U.S.C. § 1391e(h) and 28 U.S.C.  
27 § 1345. Venue is proper in this District under 28 U.S.C. § 1391.

PARTIES

1  
2 5. The United States is authorized to initiate a civil action in federal district  
3 court whenever a matter is referred to the Attorney General pursuant to 15 U.S.C.  
4 § 1691e(g) and when the Attorney General has reasonable cause to believe that a pattern  
5 or practice in violation of ECOA has occurred. 15 U.S.C. § 1691e(h).

6 6. Toyota is a captive auto finance company and the financing arm in the  
7 United States of Toyota Financial Services Corporation, which is a subsidiary of Toyota  
8 Motor Corporation, the world's largest car maker. Toyota is incorporated in the state of  
9 California with its principal place of business in Torrance, California.

10 7. As of the second quarter of 2015, Toyota was the largest captive auto  
11 finance company in the United States. Toyota held a 5.2 percent share of the overall  
12 auto loan market based on originations, making it the fifth largest auto lender overall.

13 8. Toyota finances or purchases both subvented and non-subvented auto loans.  
14 Subvented auto loans are loans for which an auto manufacturer, such as Toyota Motor  
15 Corporation, reduces the price of the loan through a subsidy, reduced interest rate, or  
16 other means. Approximately 50% of Toyota's auto loans are subvented.

17 9. Automobile dealers submit applications to Toyota on behalf of consumers.  
18 To determine whether it will fund a loan, and on what terms, Toyota conducts an  
19 underwriting process on each loan application submitted by its dealers on behalf of a  
20 consumer. For those applications that Toyota approves, Toyota sets a specified "buy  
21 rate." Toyota determines the buy rate using a proprietary underwriting and pricing  
22 model that takes into account individual borrowers' creditworthiness and other objective  
23 criteria related to borrower risk. Toyota then communicates that buy rate to the dealer  
24 that submitted the application to Toyota. Toyota's buy rate reflects the minimum  
25 interest rate, absent additional discounts or reductions, at which Toyota will finance or  
26 purchase a retail installment contract from a dealer.

1 10. With respect to non-subvented retail installment contracts, Toyota maintains  
2 a specific policy and practice that provides dealers discretion to mark up a consumer's  
3 interest rate above Toyota's established risk-based buy rate. The difference between the  
4 buy rate and the consumer's interest rate on the retail installment contract (contract rate)  
5 is known as the "dealer markup." Toyota compensates dealers from the increased  
6 interest revenue to be derived from the dealer markup.

7 11. During the Relevant Period, Toyota limited the dealer markup to 250 basis  
8 points for non-subvented contracts with terms of sixty (60) monthly payments or less; to  
9 200 basis points for contracts with terms greater than sixty (60) and less than seventy-  
10 two (72) monthly payments; and to 175 basis points for contracts with terms of seventy-  
11 two (72) or greater monthly payments.

12 12. Toyota regularly participates in the decision to extend credit by taking  
13 responsibility for underwriting, setting the terms of credit by establishing the risk-based  
14 buy rate, and communicating those terms to automobile dealers. Toyota influences the  
15 credit decision by indicating to automobile dealers whether or not Toyota will purchase  
16 retail installment contracts on the terms specified by Toyota.

17 13. Toyota's agreements with automobile dealers require that all loan  
18 applications they submit to Toyota must comply with the policies, conditions, and  
19 requirements that Toyota sets for dealers.

20 14. Toyota is a creditor within the meaning of ECOA, 15 U.S.C. § 1691a(e),  
21 and Regulation B, 12 C.F.R. § 1002.2(l).

#### 22 INVESTIGATION

23 15. On April 25, 2013, the United States and the Consumer Financial Protection  
24 Bureau (CFPB) initiated a joint investigation under ECOA of Toyota's pricing of  
25 automobile loans or retail installment contracts.

26 16. On November 25, 2014, the CFPB determined it had reason to believe that  
27 Toyota had engaged in a pattern and practice of lending discrimination on the basis of  
28

1 race and national origin in violation of ECOA, 15 U.S.C. § 1691(a)(1). The CFPB  
2 referred Toyota to the United States Department of Justice pursuant to ECOA, 15 U.S.C.  
3 § 1691e(g), and the December 6, 2012 Memorandum of Understanding between the  
4 United States Department of Justice and the CFPB.

5 17. The United States and the CFPB analyzed Toyota's lending policies,  
6 procedures, and internal controls, including Toyota's dealer markup and compensation  
7 policy and practice. The United States and the CFPB also performed an analysis of  
8 Toyota's loan-level data on the automobile loans Toyota funded to test for lending  
9 discrimination.

#### 10 FACTUAL ALLEGATIONS

11 18. The United States and the CFPB analyzed the dealer markup of the non-  
12 subvented retail installment contracts that Toyota purchased between January 1, 2011  
13 and December 31, 2013 ("the time period covered by the analyses"). During the time  
14 period covered by the analyses, Toyota purchased hundreds of thousands of non-  
15 subvented retail installment contracts, and the United States and the CFPB determined  
16 that thousands of retail installment contracts that Toyota purchased had African-  
17 American or Asian and/or Pacific Islander borrowers.

18 19. The retail installment contracts analyzed by the United States and the CFPB  
19 did not contain information on the race or national origin of borrowers. To evaluate any  
20 differences in dealer markup, the United States and the CFPB assigned race and national  
21 origin probabilities to applicants. The United States and the CFPB employed a proxy  
22 methodology that combines geography-based and name-based probabilities, based on  
23 public data published by the United States Census Bureau, to form a joint probability  
24 using the Bayesian Improved Surname Geocoding (BISG) method. The joint race and  
25 national origin probabilities obtained through the BISG method were then used directly  
26 in the United States's and the CFPB's models to estimate any disparities in dealer  
27 markup on the basis of race or national origin.

1           20. The United States's and the CFPB's markup analyses focused on the  
2 interest rate difference between each borrower's contract rate and each borrower's buy  
3 rate set by Toyota. Toyota considers individual borrowers' creditworthiness and other  
4 objective criteria related to borrower risk in setting the buy rate as explained in  
5 Paragraph 9. The dealer markups charged by Toyota to consumers are based on dealer  
6 discretion and are separate from, and not controlled by, the adjustments for  
7 creditworthiness and other objective criteria related to borrower risk that are already  
8 reflected in the buy rate. Toyota's markup policy provided for dealer discretion and did  
9 not include consideration of these factors. Because the analysis focused on only the  
10 difference between each borrower's contract rate and buy rate, it did not make additional  
11 adjustments for creditworthiness or other objective criteria related to borrower risk.

12           21. During the time period covered by the analyses, on average, African-  
13 American borrowers were charged approximately twenty-seven (27) basis points more in  
14 dealer markup than similarly-situated non-Hispanic whites for non-subvented retail  
15 installment contracts. These disparities are statistically significant, and these differences  
16 are based on race and not based on creditworthiness or other objective criteria related to  
17 borrower risk. These disparities mean that thousands of African-American borrowers  
18 paid higher markups than the average non-Hispanic white markup and were obligated to  
19 pay, on average, over \$200 more each in interest than similarly-situated non-Hispanic  
20 white borrowers assuming they held their loans for the full term of the contract.

21           22. During the time period covered by the analyses, on average, Asian and/or  
22 Pacific Islander borrowers were charged approximately eighteen (18) basis points more  
23 in dealer markup than similarly-situated non-Hispanic whites for non-subvented retail  
24 installment contracts. These disparities are statistically significant, and these differences  
25 are based on race and/or national origin and not based on creditworthiness or other  
26 objective criteria related to borrower risk. These disparities mean that thousands of  
27 Asian and/or Pacific Islander borrowers paid higher markups than the average non-

1 Hispanic white markup and were obligated to pay, on average, over \$100 more each in  
2 interest than similarly-situated non-Hispanic white borrowers assuming they held their  
3 loans for the full term of the contract.

4 23. The higher markups that Toyota charged to African-American and Asian  
5 and/or Pacific Islander borrowers are a result of Toyota's policy and practice of allowing  
6 dealers to mark up a consumer's interest rate above Toyota's established buy rate and  
7 then compensating dealers from that increased interest revenue.

8 24. Toyota's policy and practice of allowing dealers to mark up a consumer's  
9 interest rate above Toyota's established buy rate and then compensating dealers from  
10 that increased interest revenue continued throughout the entire Relevant Period.

11 25. Before September 10, 2014, Toyota did not require dealers to document  
12 reasons for charging markups, did not monitor whether discrimination occurred across  
13 its portfolio of loans through charging markups, and did not provide detailed fair  
14 lending training to its dealers.

15 26. Toyota's policy and practice of allowing dealers to mark up a consumer's  
16 contract rate above Toyota's established buy rate and then compensating dealers from  
17 that increased interest revenue without adequate controls and monitoring is not justified  
18 by legitimate business need that cannot reasonably be achieved as well by means that  
19 are less disparate in their impact on African-American and Asian and/or Pacific Islander  
20 borrowers. This policy and practice has been in effect during the Relevant Period.

21 27. Toyota knew or had reason to know that its policy and practice of allowing  
22 dealers to mark up consumers' interest rates created a substantial risk of discrimination.

23 EQUAL CREDIT OPPORTUNITY ACT VIOLATIONS

24 28. Toyota's policies and practices as alleged herein, coupled with the  
25 disparities described above, constitute discrimination against applicants with respect to  
26 credit transactions on the basis of race and national origin in violation of the Equal  
27

1           (2) Enjoins the Defendant and its agents, employees, and successors, and all  
2 other persons in active concert or participation with it, from:

3               a) Discriminating on the basis of race or national origin against any  
4 person with respect to any aspect of their credit transactions;

5               b) Failing or refusing to take such affirmative steps as may be necessary  
6 to restore, as nearly as practicable, the victims of the Defendant's unlawful conduct to  
7 the position they would have been in but for the discriminatory conduct; and

8               c) Failing or refusing to take such affirmative steps as may be necessary  
9 to prevent the recurrence of any such discriminatory conduct in the future; to eliminate,  
10 to the extent practicable, the effect of Toyota's unlawful practices; and to implement  
11 policies and procedures to ensure that all borrowers have an equal opportunity to seek  
12 and obtain loans on a non-discriminatory basis and with non-discriminatory terms and  
13 conditions; and

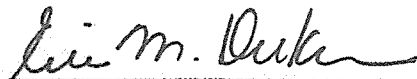
14           (3) Awards equitable relief and monetary damages to all the victims of the  
15 Defendant's discriminatory policies and practices for the injuries caused by the  
16 Defendant, including direct economic costs, consequential damages, and other damages,  
17 pursuant to 15 U.S.C. § 1691e(h).




1 The United States pray for such additional relief as the interests of justice may  
2 require.

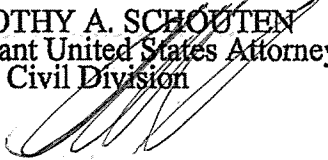
3 Dated: February 2, 2016


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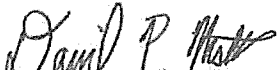
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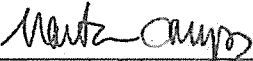
  
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