

Complaint

123 F.T.C.

IN THE MATTER OF

AMERICAN HONDA MOTOR CO., INC.

CONSENT ORDER, ETC., IN REGARD TO ALLEGED VIOLATION OF THE
CONSUMER LEASING ACT, THE TRUTH IN LENDING ACT AND
THE FEDERAL TRADE COMMISSION ACT

Docket C-3711. Complaint, Feb. 6, 1997--Decision, Feb. 6, 1997

This consent order prohibits, among other things, a California-based automobile manufacturer from misrepresenting the total amount due at lease inception, requires the manufacturer to provide consumers with clear, readable, and understandable cost information in their car lease and financed purchase advertising, requires advertisements, that reference an initial payment or state that no initial payment is due, to clearly and conspicuously disclose, as applicable, that the deal is a lease, and to disclose the fact that an extra charge may be imposed at the end of the lease based on the residual value of the car.

Appearances

For the Commission: *Rolando Berrelez, Sally Pitofsky and Lauren Steinfeld.*

For the respondent: *Richard Feinstein, McKenna & Cuneo, Washington, D.C.*

COMPLAINT

The Federal Trade Commission, having reason to believe that American Honda Motor Co., Inc., a corporation ("respondent" or "Honda"), has violated the provisions of the Federal Trade Commission Act, 15 U.S.C. 45-58, as amended, and the Consumer Leasing Act, 15 U.S.C. 1667-1667e, as amended, and its implementing Regulation M, 12 CFR 213, as amended, and it appearing to the Commission that this proceeding is in the public interest, alleges:

1. Respondent American Honda Motor Co., Inc. is a California corporation with its principal office or place of business at 1919 Torrance Boulevard, Torrance, California. Respondent manufactures and distributes vehicles and offers such vehicles for sale or lease to consumers.

2. Respondent has disseminated advertisements to the public that promote consumer leases, as the terms "advertisement" and "consumer lease" are defined in Section 213.2 of Regulation M, 12 CFR 213.2, as amended.

3. The acts and practices of respondent alleged in this complaint have been in or affecting commerce, as "commerce" is defined in Section 4 of the Federal Trade Commission Act, 15 U.S.C. 44.

4. Respondent has disseminated or has caused to be disseminated consumer lease advertisements ("lease advertisements") for Honda vehicles, including but not necessarily limited to the attached Honda Exhibits A through C. Honda Exhibits A and B are television lease advertisements (attached hereto in video and storyboard format). Honda Exhibit C is a print lease advertisement. These advertisements contain the following statements:

A. [Audio:] "Here's what you might put down on a typical car lease [\$1750]. At Honda, however, we had a different idea. We took our fully equipped 1995 Accord LX and lowered the downpayment to some rather nice round numbers. [pause] The zero down, short-term lease from your Honda dealer. Zero down and \$289 a month for 30 months."

[Video:] [View of an odometer set on \$1750 that rolls down to \$0000] "The \$0 Down Lease. The Accord LX \$0 Down \$289/30 months" [The advertisement contains the following lease disclosure in white print superimposed on a black background and accompanied by background sound: ". . . Advertised rate based on 30-mo. closed-end lease for 1995 Honda Accord 4-Door LX w/Automatic Trans.(Model CD583S). MSRP \$18,880 (includes destination) with dealer cap. cost reduction of \$620.50. DEALER PARTICIPATION MAY AFFECT ACTUAL PAYMENT. Taxes, title, lic. & reg., ins., opt. equip. & services not included. Due at lease signing are 1st mo.'s lease payment, refundable security dep. equal to 1 mo.'s payment rounded to the next highest \$25 increment & applicable title, lic., reg. fee & tax. Total monthly payments \$8,670 + applicable tax. Opt. to purchase at lease end for \$12,548.50 + tax + official fees, except in NY & SD where no purchase opt. avail. If not purchased at lease end, customer returns vehicle & pays a disp. fee of no more than \$400. Lessee pays maint., ins., repairs, service, all related taxes, reg. renewals, excessive wear and use. Mi. charge of \$.15 [cents]/mi. over 12,000 mi./year. MSRP, dealer cap. cost reduction & opt. to purchase differ slightly in CA. . . ." The fine print is displayed on two screens, each containing a block of ten lines, each block appearing for approximately three seconds.] (Honda Exhibit A).

B. [Audio:] "Now we've made the process of driving your own Accord just as streamlined. Lease an Accord LX for just \$239 a month."

[Video:] "\$239 a Month, 36 Months, \$1500 Down." [The advertisement contains the following lease disclosure at the top of the screen in white print superimposed on a black background and accompanied by background sound: ". . . Advertised rate based on 36-month closed-end lease for the 1994 Accord LX Sedan with MSRP of \$18,330.00 with a dealer capitalized cost reduction of \$795.35 (\$965.35

in IL, IN, KS, ME, NY, OK, and UT where no security deposit is required); condition of dealer participation may affect actual rate. Taxes, title, license, and registration, insurance and optional equipment, and services not included. Due at lease signing are \$1,500.00 down-payment, first lease payment, refundable deposit equal to one payment rounded to the next highest \$25.00 increment where applicable, title, license and registration fee, and tax as applicable. Total monthly payment is \$8,604.00 (plus tax, as applicable). Option to purchase at end of lease for \$10,061.50 plus tax and official fees, except in MS, NY, and SD where no option available. Lessee pays maintenance, insurance, repairs, service, any and all related taxes, registration renewals, and excessive wear and use. Mileage charge of \$.15/mile over 15,000 miles per year. A disposition fee up to \$400.00 is due if vehicle not purchased at end of lease term. . . ." The fine print is displayed on three screens, each containing a block of eight lines, each block appearing for approximately three seconds.] (Honda Exhibit B).

C. "INTRODUCING ZIP, ZERO, NADA.

Civic LX \$229 per month/30 months

Accord LX \$289 per month/30 months

Passport 4WDLX \$389 per month/30 months

The \$0 down lease. Now, for a limited time, you can get an affordable, short-term lease on a fully equipped Honda for zero (as in zip, as in nada) dollars down" [The advertisement contains the following lease disclosure at the bottom of the page in small print:

". . . Taxes, title, lic. & reg., ins., opt. equip. & services not included. Due at lease signing are 1st mo.'s lease payment, refundable security dep. equal to 1 mo.'s payment rounded to the next highest \$25 increment (except where no security dep. is collected) & applicable title, lic., reg. fee & tax. Total monthly payments \$6,870 for the Civic LX Sedan, \$8,670 for the Accord LX Sedan and \$11,670 for the Passport 4WD LX + applicable tax. Opt. to purchase at lease end for \$9,681.50 for the Civic LX Sedan, \$12,649.60 for the Accord LX Sedan and \$15,879.50 for the Passport 4WD LX + tax + official fees, except in MS, NY & SD where no purchase opt. avail. If not purchased at lease end, customer returns vehicle & pays a disp. fee of no more than \$400. Lessee pays maint., ins., repairs, service, all related taxes, reg. renewals, excessive wear & use. Mi. Charge of 15[cents]/mi. over 12,000 mi/yr. . . ."] (Honda Exhibit C).

FEDERAL TRADE COMMISSION ACT VIOLATIONS
COUNT I: MISREPRESENTATION IN LEASE ADVERTISING

5. Through the means described in paragraph four, respondent has represented, expressly or by implication, that the amount stated as "down" in respondent's lease advertisements, including but not necessarily limited to "\$0 down," is the total amount consumers must pay at lease inception to lease the advertised vehicles.

6. In truth and in fact, the amount stated as "down" in respondent's lease advertisements is not the total amount consumers must pay at lease inception to lease the advertised vehicles. Consumers must also pay additional fees beyond the amount stated

as "down," such as the first month's payment and security deposit, at lease inception. Therefore, respondent's representation as alleged in paragraph five was, and is, false or misleading.

7. Respondent's practices constitute deceptive acts or practices in or affecting commerce in violation of Section 5(a) of the Federal Trade Commission Act, 15 U.S.C. 45(a).

COUNT II: FAILURE TO DISCLOSE ADEQUATELY IN LEASE ADVERTISING

8. In its lease advertisements, respondent has represented, expressly or by implication, that consumers can lease the advertised vehicles at the terms prominently stated in the advertisements, including but not necessarily limited to the monthly payment amount and/or the amount stated as "down." These advertisements do not adequately disclose additional terms pertaining to the lease offer, including but not necessarily limited to a required security deposit and first month's payment due at lease inception. The existence of these additional terms would be material to consumers in deciding whether to lease a Honda vehicle. The failure to disclose adequately these additional terms, in light of the representation made, was, and is, a deceptive practice.

9. Respondent's practices constitute deceptive acts or practices in or affecting commerce in violation of Section 5(a) of the Federal Trade Commission Act, 15 U.S.C. 45(a).

COUNT III: CONSUMER LEASING ACT AND REGULATION M VIOLATIONS

10. Respondent's lease advertisements, including but not necessarily limited to Honda Exhibits A through C, state a monthly payment amount, the number of required payments, and/or an amount "down." The lease disclosures in these advertisements contain one or more of the following terms required by Regulation M: that the transaction advertised is a lease; the total amount of any payment such as a security deposit or capitalized cost reduction required at the consummation of the lease or that no such payments are required; the total of periodic payments due under the lease; a statement of whether or not the lessee has the option to purchase the leased property and at what price and time or the method of determining the purchase-option price; and a statement of the amount or method of determining the amount of any liabilities the lease imposes upon the lessee at the end of the term.

11. The lease disclosures in respondent's television lease advertisements, including but not necessarily limited to Honda Exhibits A and B, are not clear and conspicuous because they appear on the screen in small type for a very short duration. The lease disclosures in respondent's print lease advertisements, including but not necessarily limited to Honda Exhibit C, are not clear and conspicuous because they appear in small type.

12. Respondent's practices violate Section 184 of the Consumer Leasing Act, 15 U.S.C. 1667c, as amended, and Section 213.5(c) of Regulation M, 12 CFR 213.5(c), as amended.

EXHIBIT A

Honda Exhibit A

VIDEO

(Open with view of odometer and Accord LX Sedan)
(Odometer reads \$1750)

(Engine starts revving)
(Odometer starts to scroll down)
[Super]:
The \$0 Down Lease.
From your Honda dealer.

(Odometer reads \$0000)
[Super]:
The Accord LX \$0 Down \$285/30 months

(View Disclosure*)
Leadership Leasing

* [First screen]:

SUBJECT TO LIMITED AVAILABILITY.
Avail. thru January 5, 1995 at participating Honda dealers to approved lessees by American Honda Finance Corp. Advertised rate based on 30-mo. closed-end lease for 1995 Honda Accord 4-Door LX w/Automatic Trans. (Model CD5838.) MSRP \$18,880 (includes destination) with dealer cap. cost reduction of \$620.50
DEALER PARTICIPATION MAY AFFECT ACTUAL PAYMENT. Taxes, title, lic. & reg., ins., opt. equip. & services

AUDIO

(Background music throughout)

Here's what you might put down on a typical car lease.

At Honda, however, we had a different idea. We took our fully equipped 1995 Accord LX and lowered the downpayment to some rather nice round numbers.

The zero down short-term lease from your Honda dealer.
\$0 down and \$289 a month for 30 months.

not included. Due at lease signing are 1st mo.'s lease payment, refundable security dep. equal to 1 mo.'s payment rounded to the next highest \$25 increment & applicable title, lic.,

[Second screen]:

reg. fee & tax. Total monthly payments \$8,670 + applicable tax. Opt. to purchase at lease end for \$12,548.50 + tax & official fees, except in NY & SD where no purchase opt. avail. If not purchased at lease end, customer returns vehicle & pays a disp. fee of no more than \$400. Lessee pays maint., ins., repairs, service, all related taxes, reg. renewals, excessive wear and use. Mi. charge of \$.15 [cents] /mi. over 12,000 mi./year. MSRP, dealer cap. cost reduction & opt. to purchase differ slightly in CA. This offer may not be available in conjunction with any other advertised offer. See your participating Honda dealer for details.

EXHIBIT B

Honda Exhibit B

VIDEO

(Open with view of white stream and view of Accord LX)

[Super]:

\$239 a Month, 36 Months, \$1500 Down.

(View Disclosure*)

We Won. You Win. A Car Ahead.

*[First screen]:

AUDIO

(Background music throughout)

Motor Trend calls it the most fuel-efficient, the best performing, the quietest, the strongest, and the safest Accord we've ever built. And they named us Motor Trend Import Car of the Year.

Now we've made the process of driving your own Accord just as streamlined.

Lease an Accord LX for just \$239 a month. Leadership leasing from Honda.

We Won. You Win.

Available through 2/28/94, at participating Honda dealers to qualified lessees approved by American Honda Fin. Corp. Subject to availability. Advertised rate based on 36-month closed-end lease for the 1994 Accord LX Sedan with MSRP of \$18,330.00 with a dealer capitalized cost reduction of \$795.35 (\$965.35 in IL, IN, KS, ME, NY, OK and UT where no security deposit is required); condition of dealer participation may affect actual rate. Taxes, title, license, and

[Second screen]:

registration, insurance and optional equipment, and services not included. Due at lease signing are \$1,500.00 down-payment, first lease payment, refundable deposit equal to one payment rounded to the next highest \$25.00 increment where applicable, title, license and registration fee, and tax as applicable. Total monthly payment is \$8,604.00 (plus tax, as applicable). Option to purchase at end of lease for \$10,061.50 plus tax and official fees, except in MS, NY, and

[Third screen]:

SD where no option available. Lessee pays maintenance, insurance, repairs, service, any and all related taxes, registration renewals, and excessive wear and use. Mileage charge of \$.15/mile over 15,000 miles per year. A disposition fee up to \$400.00 is due if vehicle not purchased at end of lease term. MSRP, dealer capital cost reduction, and option-to-purchase price differ in AK, CA and HI. See participating Honda dealers for details.

DECISION AND ORDER

The Federal Trade Commission having initiated an investigation of certain acts and practices of the respondent named in the caption hereof, and the respondent having been furnished thereafter with a copy of a draft of complaint which the Bureau of Consumer Protection proposed to present to the Commission for its consideration and which, if issued by the Commission, would charge the respondent with violation of the Federal Trade Commission Act; and

The respondent, its attorneys, and counsel for the Commission having thereafter executed an agreement containing a consent order, an admission by the respondent of all the jurisdictional facts set forth in the aforesaid draft of complaint, a statement that the signing of said agreement is for settlement purposes only and does not constitute an admission by the respondent that the law has been violated as alleged in such complaint, or that the facts as alleged in such complaint, other than jurisdictional facts, are true and waivers and other provisions as required by the Commission's Rules; and

The Commission having thereafter considered the matter and having determined that it had reason to believe that the respondent has violated the said Act, and that a complaint should issue stating its charges in that respect, and having thereupon accepted the executed consent agreement and placed such agreement on the public record for a period of sixty (60) days, now in further conformity with the procedure prescribed in Section 2.34 of its Rules, the Commission hereby issues its complaint, makes the following jurisdictional findings and enters the following order:

1. Respondent American Honda Motor Co., Inc. is a California corporation with its principal office or place of business located at 1919 Torrance Boulevard, Torrance, California.

2. The Federal Trade Commission has jurisdiction of the subject matter of this proceeding and of the respondent, and the proceeding is in the public interest.

ORDER

DEFINITIONS

1. "*Clearly and conspicuously*" as used herein shall mean: 1) video or written disclosures must be made in a manner that is readable and understandable to a reasonable consumer and 2) audio or oral disclosures must be made in a manner that is audible and understandable to a reasonable consumer.

2. "*Total amount due at lease inception*" as used herein shall mean the total amount of any initial payments required to be paid by the lessee on or before consummation of the lease or delivery of the vehicle, whichever is later, excluding dealer and government mandated fees and charges (if any).

3. Unless otherwise specified, "*respondent*" as used herein shall mean American Honda Motor Co., Inc., its successors and assigns, and its officers, agents, representatives, and employees.

4. "*In or affecting commerce*" as used herein shall mean as defined in Section 4 of the Federal Trade Commission Act ("FTC Act"), 15 U.S.C. 44.

I.

It is ordered, That respondent, directly or through any corporation, subsidiary, division, or any other device, in connection with any advertisement to aid, promote, or assist, directly or indirectly, any consumer lease in or affecting commerce, as "advertisement" and "consumer lease" are defined in Section 213.2 of revised Regulation M, 61 Fed. Reg. 52,246, 52,258 (Oct. 7, 1996)(to be codified at 12 CFR 213.2) ("revised Regulation M"), as amended, shall not, in any manner, expressly or by implication:

A. Misrepresent the total amount due at lease inception, the amount down, and/or the downpayment, capitalized cost reduction, or other amount that reduces the capitalized cost of the vehicle (or that no such amount is required).

B. Make any reference to any charge that is part of the total amount due at lease inception or that no such charge is required, not including a statement of the periodic payment, more prominently than the disclosure of the total amount due at lease inception.

C. State the amount of any payment or that any or no initial payment is required at lease inception unless all of the following items are disclosed clearly and conspicuously, as applicable:

1. That the transaction advertised is a lease;
2. The total amount due at lease inception;
3. That a security deposit is required;
4. The number, amount, and timing of scheduled payments; and
5. That an extra charge may be imposed at the end of the lease term in a lease in which the liability of the consumer at the end of the lease term is based on the anticipated residual value of the vehicle.

II.

It is further ordered, That an advertisement that complies with subparagraph I.C shall be deemed to satisfy the requirements of Section 184(a) of the Consumer Leasing Act, 15 U.S.C. 1667c(a), as amended by Title II, Section 2605 of the Omnibus Consolidated Appropriations Act for Fiscal Year 1997, Pub. L. No. 104-208, 110 Stat. 3009, ____ (Sept. 30, 1996) ("revised CLA"), as amended, and Section 213.7(d)(2) of revised Regulation M, 61 Fed. Reg. at 52,261 (to be codified at 12 CFR 213.7(d)(2)), as amended.

III.

It is further ordered, That if the revised CLA, as amended, or revised Regulation M, as amended, are amended in the future to alter definition 2 of this order ("total amount due at lease inception") or to require or permit advertising disclosures that are different from those set forth in subparagraphs I.B or I.C of this order, then the change or changes shall be incorporated in subparagraph I.B, subparagraph I.C, and/or definition 2 for the purpose of complying with subparagraphs I.B and I.C only, as appropriate; provided however, that all other requirements of this order, including definition 1 ("clearly and conspicuously"), will survive any such revisions.

IV.

It is further ordered, That respondent American Honda Motor Co., Inc., and its successors and assigns, shall, for five (5) years after the date of service of this order, maintain and upon request make

available to the Commission for inspection and copying all records that will demonstrate compliance with the requirements of this order.

V.

It is further ordered, That respondent American Honda Motor Co., Inc., and its successors and assigns, shall deliver a copy of this order to all current and future principals, officers, directors, managers, employees, agents, and representatives having responsibilities with respect to the subject matter of this order and to all advertising agencies; and shall secure from each such person or entity a signed and dated statement acknowledging receipt of the order. Respondent shall deliver this order to current personnel or entities within thirty (30) days after the date of service of this order, and to such future personnel or entities within thirty (30) days after the person or entity assumes such position or responsibilities.

VI.

It is further ordered, That respondent American Honda Motor Co., Inc., and its successors and assigns, shall notify the Commission at least thirty (30) days prior to any change in the corporation that may affect compliance obligations arising under this order, including but not necessarily limited to dissolution, assignment, sale, merger, or other action that would result in the emergence of a successor corporation; the creation or dissolution of a subsidiary, parent, or affiliate that engages in any acts or practices subject to this order; the proposed filing of a bankruptcy petition; or a change in the corporate name or address. Provided, however, that, with respect to any proposed change in the corporation about which respondent learns less than thirty (30) days prior to the date such action is to take place, respondent shall notify the Commission as soon as is practicable after obtaining such knowledge. All notices required by this Part shall be sent by certified mail to the Associate Director, Division of Enforcement, Bureau of Consumer Protection, Federal Trade Commission, Washington, D.C.

VII.

It is further ordered, That respondent American Honda Motor Co., Inc., and its successors and assigns, shall within one hundred and

twenty (120) days after the date of service of this order, and at such other times as the Federal Trade Commission may require, file with the Commission a report, in writing, setting forth in detail the manner and form in which they have complied with this order.

VIII.

This order will terminate on February 6, 2017, or twenty (20) years from the most recent date that the United States or the Federal Trade Commission files a complaint (with or without an accompanying consent decree) in federal court alleging any violation of the order, whichever comes later; provided, however, that the filing of such a complaint will not affect the duration of:

A. Any Part in this order that terminates in less than twenty (20) years;

B. This order's application to any respondent that is not named as a defendant in such complaint; and

C. This order if such complaint is filed after the order has terminated pursuant to this Part.

Provided further, that if such complaint is dismissed or a federal court rules that the respondent did not violate any provision of the order, and the dismissal or ruling is either not appealed or upheld on appeal, then the order will terminate according to this Part as though the complaint had never been filed, except that the order will not terminate between the date such complaint is filed and the later deadline for appealing such dismissal or ruling and the date such dismissal or ruling is upheld on appeal.

IN THE MATTER OF

AMERICAN ISUZU MOTORS INC.

CONSENT ORDER, ETC., IN REGARD TO ALLEGED VIOLATION OF THE
CONSUMER LEASING ACT, THE TRUTH IN LENDING ACT AND
THE FEDERAL TRADE COMMISSION ACT

Docket C-3712. Complaint, Feb. 6, 1997--Decision, Feb. 6, 1997

This consent order prohibits, among other things, a California-based automobile manufacturer from misrepresenting the total amount due at lease inception, requires the manufacturer to provide consumers with clear, readable, and understandable cost information in their car lease and financed purchase advertising, requires advertisements, that reference an initial payment or state that no initial payment is due, to clearly and conspicuously disclose, as applicable, that the deal is a lease, and to disclose the fact that an extra charge may be imposed at the end of the lease based on the residual value of the car.

Appearances

For the Commission: *Rolando Berrelez, Sally Pitofsky and Lauren Steinfeld.*

For the respondent: *Randy Reiser, David & Gilbert*, New York, N.Y.

COMPLAINT

The Federal Trade Commission, having reason to believe that American Isuzu Motors Inc., a corporation ("respondent" or "Isuzu"), has violated the provisions of the Federal Trade Commission Act, 15 U.S.C. 45-58, as amended, the Consumer Leasing Act, 15 U.S.C. 1667-1667e, as amended, and its implementing Regulation M, 12 CFR 213, as amended, and it appearing to the Commission that this proceeding is in the public interest, alleges:

1. Respondent American Isuzu Motors Inc. is a California corporation with its principal office or place of business at 2300 Pellissier Place, Whittier, California. Respondent distributes Isuzu vehicles.

2. Respondent has disseminated advertisements to the public that promote consumer leases, as the terms "advertisement" and