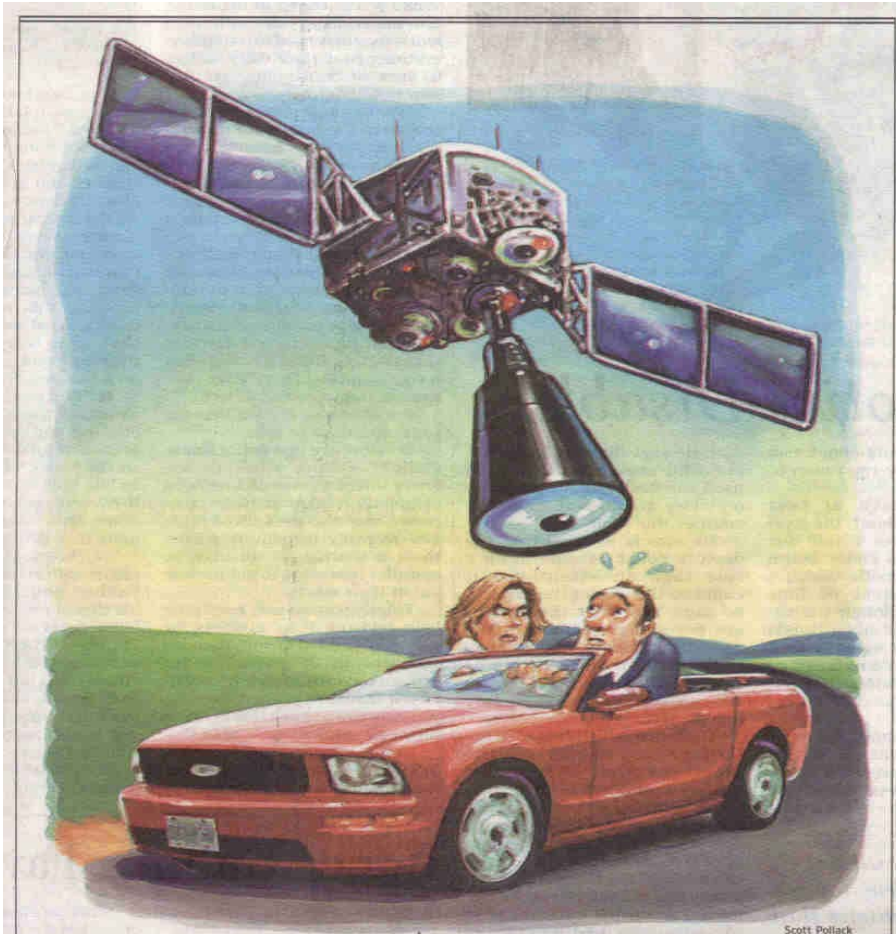


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Late on a Car Loan? Meet the Disabler

BY JONATHAN WELSH

JAMIE De Lisle's Buick had been warning her for days, first with a flashing yellow light, then a flashing red light. But the 31-year-old mother of two from Collinsville, Ill., was too busy to heed the distress signals. It was only when Mrs. De Lisle began hearing an incessant beeping that she took notice: If she didn't make her car payment that day, the vehicle wouldn't start the next day.

The repo man has found a new hiding place—inside your car. Increasingly, used-car dealers are installing remote disabling devices that keep the cars from starting if the buyer gets too far behind on payments.

These so-called disablers, palm-sized de-

vices that are placed under dashboards and wired into ignitions, once were limited to what industry insiders call the "buy here—pay here" segment: the kinds of small used-car lots that line state highways, strung with lights and multicolored pennants. But as the economic downturn deepens, larger, more mainstream dealerships are using the devices as a condition of financing.

Even as the recession has fueled the used-car market, it has made it harder for auto buyers to obtain credit. Eager to book sales, dealers and finance companies are expanding their own financing operations, and the use of disablers helps them prod customers to make timely payments. Satellite-based locators are often built into the

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Jamie De Lisle's used car came with a remote-disabling device (inset) that will keep the car from starting if she is too late in making payments.



Jean-Marc Giboux for The Wall Street Journal (2)

Meet the Automotive Disabler

Continued from the prior page remote systems, though some dealerships say they don't make use of that capability.

The companies that sell the disablers, with brand names including On Time and PayTeck, say that the use of such devices not only expands lending but also helps financially strapped customers change their ways for the better. Don Lavoie, president and CEO of Sekurus Inc., the Murrieta, Calif., company that markets the On Time device, calls the starter-disabling technology "a behavior-modification method." The company says sales of the devices rose about 25% in 2008 compared with the year earlier, and it expects sales to double this year.

The Cellphone Principle

Mr. Lavoie points out that few people neglect to pay their cellphone bills, because they know the phone will stop working if they do. Applying the same principle to cars helps move auto-loan payments higher on the consumer's list of priorities, he says.

It also helps a broader range of customers qualify for loans, he says. "Typical customers may have no established credit or they may have dings on their credit," Mr. Lavoie says. The used-car market in the U.S. has ranged between 35 million and 45 million vehicle sales annually in recent years. About 20 million of those go to customers considered subprime because of their credit history, Mr. Lavoie says.

Advantage for Repo?

In the past, many dealers weren't willing to take the risk of extending credit to certain customers. But Mr. Lavoie and dealers who have installed his company's disabler say more buyers do pay on time when they have the devices in their cars. Of course, the built-in sat-

ellite-based locators could also make it easier for repo men to find the vehicles.

Customers have at best mixed feelings about the systems. "Sometimes I tell our friends our car is under house arrest," says Michelle Gibbs, a 36-year-old resident of Blue Springs, Mo. Although the remote device on her silver Honda Accord has never actually shut down the car, she compares it to "those ankle bracelets they put on you when you've done something bad."

At the same time, she says, the remote kill switch in her car seems like a reasonable price to pay when she doesn't think she could qualify for a car loan else-

Dealers point out that the system doesn't shut down vehicles that are running.

where. The device's persistent reminders, she says, have kept her from missing payment deadlines on a number of occasions. "For the most part we've liked it, because it has helped us build better credit," Ms. Gibbs says.

But consumer-advocacy groups such as the Consumer Federation of America say the devices represent a disturbing new layer of surveillance and could potentially endanger drivers if the devices leave them stranded when the cars get shut down.

John Van Alst, a lawyer with the National Consumer Law Center, calls the practice of remote disabling "electronic repossession" and says it represents a kind of intimidation, as well as creating extra hassles for people who are already financially strapped. "These devices are effective because of the threat they represent," says Mr. Van

Alst. He says that some customers who seek financing from used-car dealers have given up on more traditional financing sources too soon.

He also is worried that the devices could become more a rule than an exception. "It could be the way of the future," he says. Now that the devices are becoming common in the used-car business, in time they could turn up on new cars as well. "Maybe they'll put one on my refrigerator," he says, only half in jest.

Dealers who sell cars with the On Time hardware are quick to point out that the system doesn't shut down vehicles that are running. After the driver has missed a payment, the device doesn't allow the engine to start once the car is turned off. Still, the dealers say this rarely happens. The disablers can be removed when the cars are paid off; some can also be used as anti-theft devices.

Why Most Customers Pay

Leon Green, owner of Buy Now, a Kansas City, Mo., dealership, says customers have rarely missed their payments since he began installing disablers. The possibility of suddenly losing mobility has proved enough of an incentive to keep most customers paying on time, Mr. Green says. As a result, he says, his company's cash flow has improved, and he's able to acquire better used vehicles at wholesale auctions.

Donald Birger, president of InstaCredit Automart, which sold more than 3,000 vehicles in 2008 through its two dealerships in Collinsville, Ill., and O'Fallon, Mo., says he initially was "leery" of the remote disabling systems, in part because he thought customers might object. But buyers don't seem to mind that much. "We have not lost a sale due to our use of the device," he says.