

Government oversight can be a good thing for an educated sales and F&I operation. **The key to survival during this period is to remain aggressive.**

WILL

BY RON MARTIN



Will the California Car Buyer's Bill of Rights change the way California automobile dealers sell finance and insurance? The bigger question is

whether the measure, which went into effect on July 1, will serve as a template for other states considering consumer-protection laws, and what that will mean for dealerships across the country.

The attention paid to finance and insurance by government regulators speaks to the tremendous relevance of the department. Banks have evolved to centralized lending, credit unions are gradually following suit and the mature automated lending process has created the need for a distribution point for

automobile loans. The dealership is the only economical point to further this cause, and it is the most convenient place for mainstream consumers to finance their second biggest purchase.

This trend could only mean more compliance issues and more government oversight, as there are still enough bad apples out there to create a perception that the customer needs to be protected. However, this also creates an environment where

an opportunity-driven attorney general, an income-seeking attorney, or a vote-needy politician can further their own cause.

The good news is that regulating the F&I department only serves to legitimize the service we offer to

YEAR	NEW VEHICLES	USED VEHICLES
2002	69.2%	66.1%
2005	79.8%	73.8%

SOURCE: F&I MANAGEMENT & TECHNOLOGY MAGAZINE BUYER'S GUIDES. NOVEMBER 2001 (2002), DECEMBER 2005 (2006).



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and further the trend
toward financing and leasing. It also provides us with di-

The payment is a significant part of a customer's buying decision since more than 75 percent of customers choose to finance or lease their vehicles. Therefore, it is most effective if a payment is quoted on the sales floor during the sales process.

When I first broke into the finance business I used to do a lot of what we call box

Back then, which was 25 years ago, many dealers used this practice of not quoting payments until the customer was turned over to the F&I department. This is where "payment packing" originated. Finance managers resorted to closing payments with products packed in. Then when the sales floor wanted control of the payment negotiation, they packed in after-market products. This resulted in the finance manager building as much gross profit as they could by packing as much product into the payment quoted on the sales floor. Then they would smoothly lead the customer through the paperwork.

CHANGE THE WAY WE DO BUSINESS?

rection, as the penetration of finance and leasing continues to increase at the automobile dealership.

In the last four years, financing automobile loans increased 16 percent on new-vehicle purchases and 12 percent on used-vehicle purchases, according to *F&I Management and Technology Magazine's Buyer's Guide* (2002 and 2006). This is a tremendous success story for the F&I community, as it demonstrates the tremendous opportunity to further our dominance in financing automobile loans. With new regulations, the key for dealerships is to make sure your sales and F&I operation are aware of the new rules, and understands how the new rules govern the way they do business.

Bottom line: Laws and regulations should never have an impact on aggressive selling. They should always be the standard. These laws are simply the rules that we work by, and should never be deviated from. With that said, how does the finance person keep their focus on what is necessary to aggressively sell the products they have?

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closes. "Box closing" occurs when the customer isn't quoted a payment until they were turned over to me, the F&I manager. I found this to be a very ineffective way of managing a payment during the customer's buying process. Since the customer wasn't given a payment expectation prior to agreeing to purchase the automobile, the customer did not know whether the payment was within their budget. Therefore, many times I ended up negotiating the payment with the customer to sell the automobile when I should have been selling the value of my products.

The scenario I described is what the California Car Buyer's Bill of Rights addresses. It requires the dealer to itemize the payment quoted to the customer on the sales floor. The message is very clear: don't mislead or manipulate the customer. However, the law doesn't say, "Don't sell your products aggressively."

I recommend dealers quote the payment on the sales floor using an average interest rate based on the lenders' requirements (i.e., year of vehicle, term of loan, average tier rate with reserve). Explain to the customer that the lender's tiered system of interest rates doesn't give you the ability to provide an individual interest rate until you have their credit information and loan approval. You can then give them choices based on different down payment requirements.

The following are a few advantages of this approach:

- Provides customers with choices so they can decide if the payment on the vehicle is within their budgetary constraints.
- Empowers sales personnel with information to help them sell vehicles.
- Gets customers to focus on the

buying decision.

- Answers compliance issues if the payment is properly itemized to the customer.
- Allows finance personnel to focus on selling the value of their products rather than negotiating with customers on whether or not they can afford the automobile.

I designed a tool three years ago that

using electronic menus.


For finance managers, a menu provides an organized, consistent presentation that outlines a complete list of products available. Of course, one would think that profit goes up when all products are offered 100 percent of the time. The menu also promotes compliance by disclosing Regulation Z (Truth in Lending) and Regulation M (Truth in Leasing) items as part of the menu package disclosures.

Unfortunately, none of this holds true if you don't properly use the menu.

For maxi-

um profit and consistent presentation benefits, I recommend reviewing the products using a systematic process prior to disclosing the menu to a customer. This ensures the customer will be focused on your product descriptions before they see their list of options. If you just sell them from the menu, you run the risk that the customer is only focusing on the payments and how low of a payment they can get away with.

If you do use a menu, I strongly encourage it be electronic. This will ensure each product description completely itemizes the cost factors that go into that payment. Handwritten menus leave open the possibility of package options being added to the base price, allowing an F&I person to make those package options appear less costly than they are. They do this by arbitrarily inflating the base payment. Not only are you committing payment packing, but you just created an excellent audit trail for an attorney to follow.



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uct descriptions before they see their list of options. If you just sell them from the menu, you run the risk that the customer is only focusing on the payments and how low of a payment they can get away with. How the rise in regulations governing F&I departments changes the way dealerships approach F&I sales remains to be seen. If I had it my way, I sure hope so. ■

Ron Martin is the president of the Vision of F&I. Ron is the author of the book, "The Vision of Finance and Insurance," a training narrative.

gave the dealer an electronic version of the process that discloses finance, lease and cash options. It prevents any chance of payment packing since all options are accompanied with an itemized breakdown of factors used to determine payment. The customer likes it because it is an up-front approach toward selling an automobile. Salespeople and finance managers like it because this non-confrontational approach allows them to focus on selling value, resulting in higher profits.

USING A MENU ISN'T ENOUGH, USING IT EFFECTIVELY IS

According to a DealerTrack survey published in the June 2006 issue of *F&I Management and Technology*, respondents ranked "increases profit," "ensures a consistent presentation" and "promotes compliance" as the top three benefits of

MAIN PROVISIONS OF THE CALIFORNIA CAR BUYER'S BILL OF RIGHTS

- > **Two-day return option for used cars:** Auto dealers must offer used-car buyers the choice to obtain a two-day return option.
- > **Sample charges:** If the vehicle's cash price is less than \$5,000, the dealer may charge up to \$75 for the return option, and up to \$175 for the restocking fee. If the buyer pays \$75 for the return option, that \$75 will be credited toward any restocking fee.
- > **Certified car prohibitions:** Prohibits the sale of many types of problem vehicles as "certified" cars.
- > **Cap on dealer markups:** Dealers will be prohibited from accepting more than 2.5 percent in kickbacks on auto loans up to 60 months or 2 percent for longer loans.
- > **Disclosure of credit score:** Dealers will be required to provide car buyers with a copy of their credit score if they apply for a loan with the dealership's assistance.
- > **Disclosure of items commonly "packed" into auto loans:** Dealers will be required to disclose, in writing, the price to purchase many expensive items commonly hidden in the monthly payment, inflating the amount car buyers pay.
- > **Prohibition on loan packing:** The practice of adding hidden charges without the buyer's knowledge and consent is prohibited.