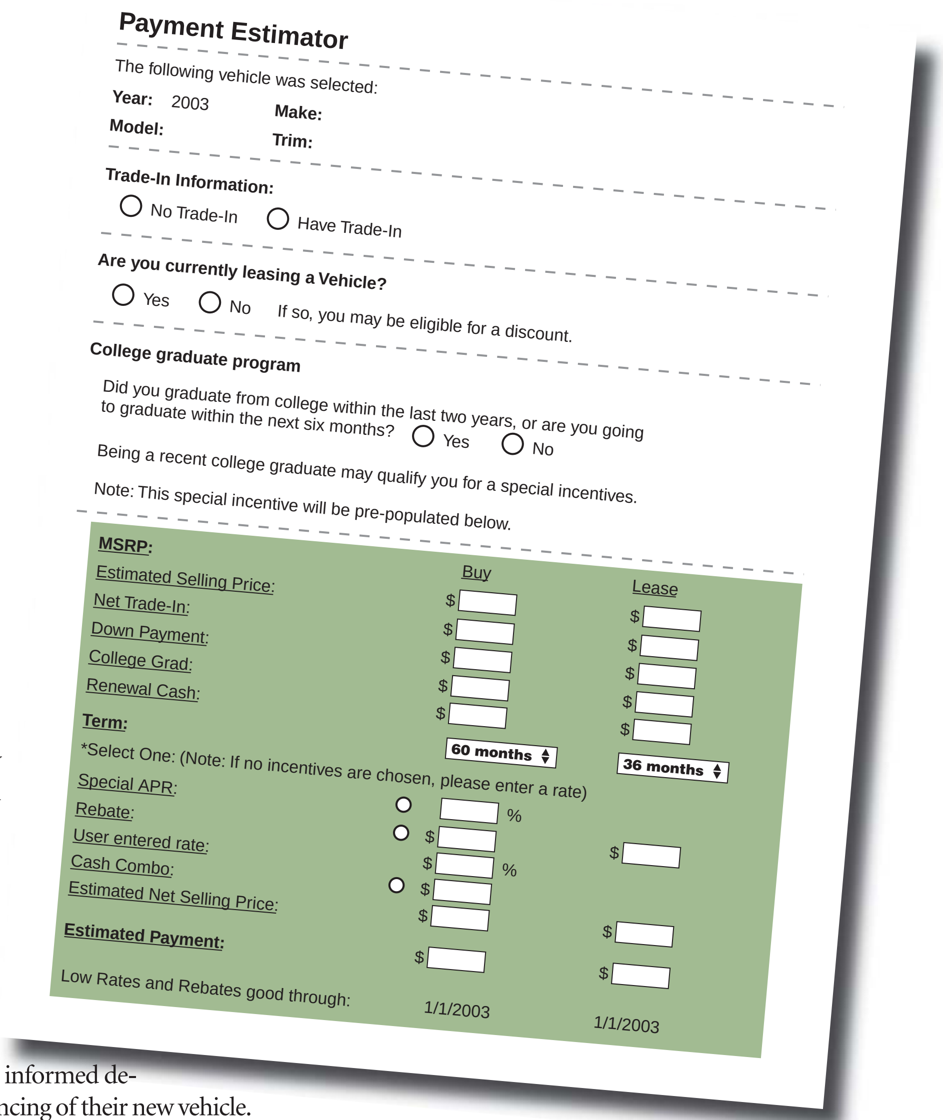
The New Rules for Quoting Payments

Sales people, sales managers, and F&I managers all need to understand what they can and cannot do. The sales techniques of yesterday are the felonies of today.

By Ronald J. Reahard

"Consumers are entitled to accurate, non-misleading monthly payment quotes. When they don't get them, it's deceptive and unlawful."
— Doug Walsh, Assistant Attorney General, Washington


Payment Estimator
The following vehicle was selected:
Year: 2003 Make:
Model: Trim:
Trade-In Information:
No Trade-In Have Trade-In
Are you currently leasing a Vehicle?
Yes No If so, you may be eligible for a discount.
College graduate program
Did you graduate from college within the last two years, or are you going to graduate within the next six months? Yes No
Being a recent college graduate may qualify you for a special incentives.
Note: This special incentive will be pre-populated below.
MSRP:
Estimated Selling Price: Buy $ Lease $
Net Trade-In: $ $
Down Payment: $ $
College Grad: $ $
Renewal Cash: $ $
Term: 60 months 36 months
*Select One: (Note: If no incentives are chosen, please enter a rate)
Special APR: %
Rebate: $
User entered rate: % $
Cash Combo: $
Estimated Net Selling Price: $ $
Estimated Payment: $ $
Low Rates and Rebates good through: 1/1/2003 1/1/2003

In today's dealership, everyone involved in the sales and F&I process has a responsibility to ensure the customer is provided with the information they need to make an informed decision about the purchase and financing of their new vehicle.

Sales people, sales managers, and F&I managers all need to understand what they can and cannot do when it comes to quoting monthly payments. The consequences of quoting inflated payments in an effort to maximize front-end and back-end gross profit can be considerably more severe than simply the loss of a sale or a dissatisfied customer. The sales techniques of yesterday are the felonies of today.

With zero percent financing and subsidized interest rates blurring the line between the customer's purchase decision and the financing decision, it's imperative that everyone involved in the sales and F&I process know and follow the new rules when it comes to quoting monthly payments. Unfortunately, in many dealerships, the sale of the vehicle and the financing is being merged into a single decision, with the purchase of the vehicle contingent upon the customer obtaining the interest rate and/or payment quoted by the sales department. As a result, consumer advocates, regulatory authorities, and lawyers have current dealership sales and F&I practices squarely in their sights, in an effort to protect the consumer from unscrupulous or deceptive sales practices.

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NO PACKED PAYMENTS

In the old days, the idea was for the sales department to quote the customer a big payment on a short term, then peel them off the ceiling, and see how much sticks. If the actual payment was $370 per month, and the customer agreed to $400 per month, the difference was used to inflate the front-end gross profit, or minimize the actual cost of extra F&I products once the customer came into the F&I office.

F&I products were routinely included in the customer's payment without their knowledge or consent, as these products were a "standard contract feature" provided for their benefit.

While a packed payment might relieve an F&I manager from the need to actually "sell" his or her products, it costs the sales department money, the F&I department credibility, and it's not legal. Once a customer learns (surprise!) the payment they agreed to includes products they did not agree to purchase, they become suspicious of everyone involved in the sales and F&I process.

In recent years, several F&I providers and dealerships have paid hundreds of thousands of dollars in fines for this previously common industry practice known as payment packing. In fact, a newsletter from the National Consumer Law Center to its members called payment packing "one of the most widespread and significant forms of auto fraud today."

NO ILLEGAL TIES

The Sherman Antitrust Act adopted by the U.S. Congress bans "every contract, combination or conspiracy" by two or more persons that restrains trade, which includes tying the purchase of one product to the purchase of another product. A tying arrangement occurs when a party will sell one product (the "tying" product) only if the buyer purchases a second product (the "tied" product). The two products must be distinct.

Antitrust liability arises if the defendant controls a large share of the market (for example, vehicle financing) for the tying product. This is because purchasers will have limited alternatives for obtaining the tying product (financing) and will be forced to also purchase the tied product (credit insurance). Without the illegal tie-in, purchasers might prefer to obtain the tied product from other sources, or not obtain it at all.

Clearly, the illegal tying of one product, (for example, vehicle financing or the interest rate charged on a loan) to the purchase of another product (credit insurance, vehicle service agreement, etc.) in an attempt to sell the second product, constitutes a "per-se illegal activity" as defined in the Sherman Antitrust Act. If a violation is found, damages will be calculated and then the amount of damages is tripled to determine the penalty, called "treble" damages. Also, a losing party will have to bear the cost of the prevailing party's attorney's fees, which are generally substantial in antitrust litigation.

NO "BEST RATE" PROMISES

Whenever someone in the dealership tells a customer "we'll get you the best rate we can," they're creating potential legal liability for the dealership, whether that promise was made on the showroom floor or in the F&I office. Several cases are already working their way through the courts, because the customer was told, either by a sales person, sales manager, or F&I manager, that they were getting "the best rate available," when in fact the dealership was earning finance reserve income.

It is perfectly legal for an automobile dealer to arrange financing for a customer, sell the credit agreement to a lender at a discounted rate, and split the difference. Finance reserve is a major source of F&I income. However, courts in several states have ruled that "where a dealer [meaning a salesperson, sales manager, or F&I manager!] makes representations that it will get the purchaser the lowest or best rate available, such representations may form the basis for a claim of deceptive or unfair trade practices."

Whatever interest rate a customer is quoted, no one should ever make a commitment that it is the "best rate" available. If you're a dealer, and you lie to a customer, you are going to write them a check.

WE NEED A PLAN!

In today's increasingly competitive and litigious retail environment, your dealership has to have a plan when it comes to quoting monthly payments. Everyone involved in the sales and F&I process must follow that plan, especially when it comes to quoting monthly payments. That plan should encompass the three stages of the purchase process, from the shopping/qualifying stage through the negotiation stage to the final purchase/decision stage in the F&I office.

In the first stage, the salesperson must be capable of qualifying the customer, and then helping them select a vehicle they are capable of purchasing.

In the second stage, the sales manager must be involved, and be capable of evaluating the customer's credit, debt to income ratio. The sales manager must also be capable of evaluating the deal itself to ensure that any payment quoted accurately reflects what the customer's payment will ultimately be, and that they can afford the vehicle they want to buy.

And finally, in the purchase/financing stage, the F&I manager must be involved to identify and select the best finance source and determine what rate the customer will receive, and their actual monthly payment.

SHOPPING/QUALIFYING STAGE

During this stage, the customer is still in the vehicle selection process. The customer simply wants to know how much the vehicle will cost in general terms, so a decision can be made as to whether he or she can afford it. What salespeople need to understand is that insufficient capacity is the number one reason a deal is turned down. The customer simply can't afford the vehicle they've been sold.

Sales people must be trained to qualify customers, so they sell them a car they can actually afford. This requires determining what the payment is on their trade-in, approximately what they owe on their trade, and the price range of vehicle they can afford.

A good rule of thumb for salespeople to remember is that the customer's income should be a minimum of 1.5 times price of vehicle. In other words, if the car sells for $20,000, the customer's income should be at least $30,000.

Sales people should not be quoting monthly payments or interest rates during this stage, just as they should not be giving the customer a "guesstimate" on the value their trade-in. Obviously, they can confirm that advertised rates are available based upon approved credit, and that the dealership does offer financing through numerous sources.

Any payments discussed should be merely to help the customer determine how much the vehicle in question will cost in general terms, to assist them in the selection process.

NEGOTIATION STAGE

During this stage of the sales process, the sales person typically obtains an initial offer to purchase. Regardless of the sales process utilized by your dealership, most customers at some point will want to know what their monthly payment will be. Only after a credit bureau report has been obtained should the customer be given an approximate monthly payment.

Since this is still prior to approval of their loan by a lender, and in most cases prior to confirmation of their payoff on their trade-in, a sales manager must be involved who is capable of evaluating the customer's credit bureau report, the percent of advance, and their payment to income ratio. This is so the dealership can provide an accurate payment estimate.

The average interest rate for customers within an established credit score range should be determined by the dealership's management team, and used to calculate payments. Any payment or rate quoted should include the disclaimer that "all rates, terms, and payments are subject to credit approval." Any deviation from the dealership's average rates requires involving the F&I manager. Otherwise, with multiple lenders and tiered buy rates, we may not be able to do what we've committed to the customer that we will do.

During this stage, payments should be for the standard term for that year of vehicle, not the absolute maximum term allowed by one lender for someone with 80 percent advance and perfect credit. Some people may not qualify for extended term, plus this may allow us to extend the term if the customer elects to buy additional products in the F&I office.

Because of the numerous factors that affect the customer's interest rate and monthly payment, the F&I manager should be involved in the rare case where a customer demands to know exactly what their monthly payment and/or interest rate will be before they will buy the car.

PURCHASE/FINANCING STAGE

At this point, the customer has agreed to purchase the car if the monthly payment is acceptable, and they now want to know exactly what the payment will be so they can make a purchase decision. The F&I manager must now be involved so an exact payment can be obtained following submission to, and approval by, one or more lenders.

Once a lender has approved the loan, the customer should be given the payment and rate they have qualified for, along with the options they have available in connection with their purchase. While a customer should never be quoted an inaccurate or inflated payment, neither should they be quoted a low payment or rate just to get them to agree to buy the vehicle. Too often, customers are quoted interest rates and payments that they don't qualify for because of their credit history, amount of advance, or lender qualifications.

Successful F&I departments all have three things in common: absolute dealer support; a trained financial services professional who truly believes in his or her products; and finally, established processes and procedures (preferably in writing!). In other words, the dealership has a plan. And that plan must include guidelines regarding quoting payments.

If your dealership doesn't have written guidelines for quoting payments in each stage of the buying process, you need to develop a game plan. And everyone on your team — sales people, sales managers, and F&I managers — needs to know the rules! ■

Editor's note: *Ron Reahard is President of Reahard & Associates, Inc., providing regional and in-dealership F&I training programs, consulting services, and real-world solutions designed to increase F&I income and customer delight. Ron is an AFIP Certified Course Instructor, and helped produce the new AFIP Certification Course CD. He also conducted the F&I workshop "16.3 Ways To Explode F&I Income… and Delight Customers!" at the 2002 NADA Convention in New Orleans. He can be contacted at 866-REAHARD, or www.ron@go-reahard.com.*