

As the GAP Widens

The growing negative-equity phenomenon is making GAP increasingly vital — and marketable — to car buyers.

By Ronald J. Reahard

With the fast-growing number of upside-down car loans, Guaranteed Auto Protection is an obvious necessity for many customers. GAP protects them from a deficiency balance in the event that their leased or financed vehicle is declared a total loss due to accident or theft. If a total loss occurs and there's a difference between what a customer receives from his or her insurance carrier and the net payoff, the GAP provider will pay the balance, less exclusions and excess deductibles.

MORE IMPORTANT THAN EVER

Edmunds.com reports that 40 percent of today's new car buyers are upside down, with an average negative equity in 2003 of \$2,200. According to J.D. Power and Associates, negative equity has almost doubled since 2000.

Several factors are contributing to this problem. Customers are putting less money down than in years past. The average down payment for a vehicle is at an all-time



low, according to Edmunds.com. It is currently between 3 and 5 percent, compared to 15 percent in 1995.

Longer-term loans are also a major reason for the increase in negative equity. Just five years ago, the average car loan was less than 48 months. Today the average car loan is 63 months. The Consumer Bankers Association says 82 percent of new vehicle loans last year were longer than four years, and 31 percent were longer than five years. In California, many dealers are writing seven- and eight-year loans.

Unfortunately, the relentless new-vehicle incentives by the manufacturers have also reached unprecedented levels. These huge incentives translate into dramatically increased depreciation in the first two years of ownership, when the value of today's new vehicle often plummets 30 to 50 percent from the original sticker price.

Because many customers already have substantial negative equity on their trade-in, they often need to add their existing negative equity onto their loan for the new car. Some domestic dealers report that as many as 90 percent of their customers are upside-down on their trade-in, often owing thousands of dollars more than the car is worth.

DISCOVER CUSTOMER NEEDS

By reviewing the customer statement, the trade-in information on the buyer's order, the payoff and previous credit history, you can quickly discover information that will assist you in presenting GAP. In addition, you need to consider the amount of advance, down payment, loan term and any negative equity on the trade-in.

However, throughout your F&I presentation, you must still use open-ended questions (see sidebar, pg. 40) and engage the customer in a dialogue to answer that all-important question — “Why does this particular customer need GAP?”

PIQUE THEIR CURIOSITY

Once you've found out the customer's needs, you must make customers hungry to learn more about GAP and help them see themselves in a situation where this product would benefit them. Involving the customer in the presentation lets them discover for themselves the value of GAP. When discussing any F&I product or service with a customer, “needs discovery” is the most important part of the sales process. Even though you may have several good reasons why the customer needs GAP, if they aren't interested in hearing them, you're not going to sell them anything.

A simple, hand-drawn picture on the backside of your F&I menu or on a notepad that illustrates GAP's importance is an excellent way to get the customer involved, keep them interested and help make an intangible product tangible.

USE A VISUAL AID

You can draw a simple visual aid to help the customer see the need for GAP. The numbers in the illustration pictured indicate the sequence for drawing each part of the picture. While drawing the picture, the finance manager (F) should ask specific questions to the customer (C) to guide him or her to seeking GAP's value.

After you've reviewed the customer's repayment, risk management and vehicle protection options using a menu, ask a closing question to begin a dialogue.

F: Which of these options would work best for you and your family?

C: I don't want any of them. I need to keep payments as low as possible.

F: That surprises me, especially in your situation.

C: What do you mean?

F: Are you familiar with the GAP on a new car?

C: No, not really.

Now flip the menu over and begin drawing the GAP visual aid.

F: (1) Let me ask you a question. When would you say you pay the most interest on a loan: in the beginning when the balance is high or at the end when the balance is low?

C: At the beginning.

F: You're exactly right. (2) And when would you say a vehicle depreciates the most: in the beginning when it's brand new or after it's several years old?

C: When you drive it off the lot!

F: Unfortunately, that's true. (3) So this line represents the actual cash value of your vehicle ... (4) (Write “ACV”) While this line represents your payoff. (5) (Write “Payoff”) The difference between these two amounts is called the GAP (Write “GAP”) (6) And what did you say your insurance deductible was?

C: Five hundred dollars.

F: (7) (Write “\$500”) So in the event your vehicle were declared a total loss due to theft or collision, your insurance company would be responsible to pay you whatever the car is _____? (Let the customer fill in the blank!)

C: Worth.

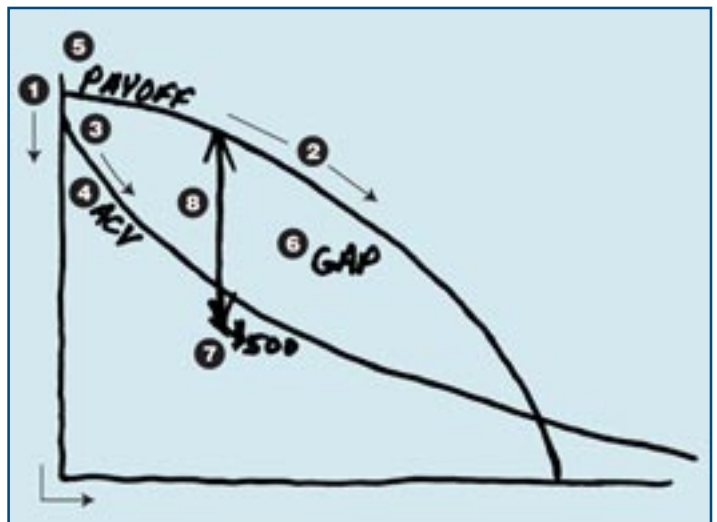
F: Minus your _____? (Let them fill in this blank, too. If they say it, it's true!)

C: Deductible.

F: Right. That is exactly what your insurance company has to pay. The actual value of the vehicle, less your deductible. The difference between what you owe (8) and what your insurance company pays, this GAP — who do you think is responsible for that amount?

C: I guess I would be.

F: You're absolutely right. Unfortunately, that can easily amount to several thousand dollars. That's why in your



Visual aid for Guaranteed Auto Protection (GAP)

situation, GAP is critical. Because it not only pays the difference between what you owe and what the insurance company pays, it also pays your deductible.

If they give you an affirmative response, you have earned the right to ask a closing question. Circle the GAP icon on your menu and ask the customer to buy a package.

F: So, do you want to go with the preferred option, or do you think the standard option would work better?

IF THEY STILL SAY NO

Even though the customer should now understand the importance of GAP, certainly some customers will still decline to purchase it for whatever reason. Again, before you provide any additional benefits or reasons to buy GAP, you must first make the customer want to hear them.

C: I have great insurance. I've never had an accident and I've never had a vehicle stolen, so I just don't think I need it.

The key is to make the customer want your knowledge and expertise so that you're responding to their request for information instead of forcing them to listen to a sales pitch. You do that by making a statement that keeps them inquiring.

F: Well, I can certainly understand why you wouldn't think you need it. You have good insurance, you've never had an accident, and you've never had a vehicle stolen. Why would you need GAP? Although it's really critical on today's vehicles for two very important reasons.

GAP Needs-Discovery Questions

How long do you normally keep your vehicles? If they typically trade before they pay off the vehicle, they will probably have negative equity throughout the course of their loan.

Have you, or anyone in your family, ever had an accident? The perfect time to ask this question is when you're confirming their insurance information. Chances are, someone in their family has had an accident, and this will reinforce the possibility that it could easily happen to them.

How old are your kids? How often will they be driving this vehicle? If they have kids who will be driving the vehicle, it greatly increases the likelihood of the vehicle being involved in an accident.

Do you have room in the garage for the new car? Most vehicles are stolen between 1:00 a.m. and 5:00 a.m. If the vehicle is parked on the street, it's more likely to be stolen.

What type of theft deterrent system does your vehicle have? If it has one, they're obviously concerned about theft. If not, GAP may be especially important.

If your vehicle were stolen or declared a total loss, where would you get the money to take care of the deficiency? This plants the seed that they could be faced with thousands of dollars of potential liability. If they're unable to pay, it could seriously damage their credit rating.

Wait for the customer to respond! And believe me, they will respond, because they want to know what those two reasons are.

First, today's vehicles are made with component parts. You can't replace a taillight lens. You have to replace a taillight lens assembly. And they're not \$85. They're \$300 to \$800 per side. You can't replace an armrest; you have to replace the entire door panel. Today, even a minor accident can cost thousands of dollars to repair, making it much more likely a vehicle will be totaled. Have you ever watched "20/20" or "Dateline" when the National Insurance Institute crash-tests a vehicle? They back it into a pole at 5 mph and it does \$3,400 worth of damage; you wonder how

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that's possible? It's easy with component parts.

Second, every new vehicle is made with crumple or crush zones that are designed to absorb the impact, protecting the passenger compartment and the people inside. Your new vehicle is designed to sacrifice its life to save yours. Fenders crumple, engines break away, and steering columns collapse, all to reduce injuries and prevent the death of the occupants. Today, even a relatively minor collision can result in a vehicle being totaled. Should the airbags deploy, it almost always results in the vehicle being totaled because of the added expense of replacing the airbags and activation sensors.

With today's long-term loans, rapid vehicle depreciation and little or no down payment, most customers will have substantial negative equity throughout the loan period. Thanks to component parts and crumple zones, it's also much more likely a vehicle involved in an accident will be considered a total loss. Clearly, GAP is one of the most important options available on a new vehicle. So, discover the customer's needs, make them thirsty for your knowledge and quench that thirst with a visual aid that lets them discover for themselves why they need GAP. ■

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