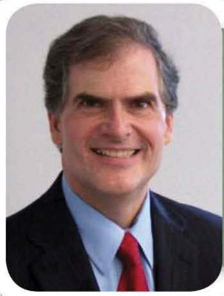
Can't Beat Them, Join Them



BY RON REAHARD

Top trainer tells an F&I pro from San Antonio to stop fighting credit unions and join them. He also reveals three reasons most CU members should choose dealership financing.

This month's question comes via email from Luis in San Antonio, home of the Alamo, the River Walk, and Tommy Lee Jones — the star of 17 "Men in Black" movies.

Luis writes, "We have several credit unions that are good sources. We also have a couple that cost me a lot of money every month, because their rates are so low. If I sell one of their members a service contract, they almost always come back and cancel it. The one the CU offers is cheaper. How do I stop this?"

This is a prime example of why it's critical we convert outside finance customers to financing through one of our sources. Not only can a customer's bank or credit union jeopardize the sale and the front-end gross profit, they can also cost us F&I income by selling the customer their service contract, GAP or whatever else they offer.

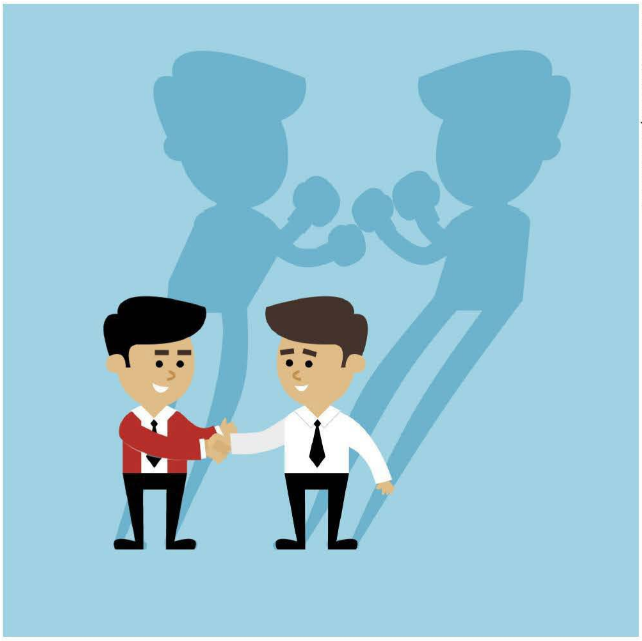
So how can you stop this from happening? Well, if possible, join both of those rival credit unions. Hey, if you can't beat, join 'em. You'll know their rates and lending policies, and knowing your competition is critical.

Once a member, you're entitled to the same information as any other member. You can now obtain a copy of their service contract, their loan agreement, and information on any other products they offer. This will enable you to educate yourself and their members on the advantages of your products vs. theirs.

In almost every credit union contract, you will find a "cross-collateralization" clause. Because credit unions are owned by their members, this clause is an added protection against loan losses that would be shared by the members. It makes collateral that secures one loan serve as collateral for all current and future loans extended to a borrower. Unfortunately, the borrower is often unaware of this clause, as it is normally buried in the fine print.

A cross-collateralization clause allows the lien against the customer's car to secure payment of other debts he or she may have with the credit union other than the car. Imagine being ready to trade in your old car, which — after five years of payments to your credit union — you finally own free and clear, only to be told they will not release the title until you also pay off another loan or credit card you have with them.

That's why, for their own protection, credit union members should avoid having more than one loan at a time with a credit union. It's also why they should avoid establishing a credit



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card account or line of credit with the same credit union with which they have an auto loan. And contrary to what their loan officer says, borrowing money from the same financial institution they have their primary checking and savings accounts with is never a good idea. You always want to finance your car through a different source, due to this right of offset.

Educating credit union members about cross-collateralization clauses, escalation clauses and the right of offset will help you convert them to dealership financing. Yes, you still may have to lower your interest rate and eliminate your reserve to be competitive, maybe even give up your flat. But they won't be coming back tomorrow to cancel the service contract you sold them.

Luis, thanks for your question. Your YETI is on the way. And don't forget to submit your own email or video question for a chance to get it answered and receive a free YETI. Because it's a beautiful day … to submit a question. And we need your question.

ABOUT THE AUTHOR

Got a question or objection for Ron? Use your mobile phone to record a brief video (shot landscape style!) of your question and upload it to go-reahard.com/ask-ron.