Help! My Dealership Is Packing Payments

BY RON REAHARD

Top trainer comes to the rescue of an F&I manager who fears an antiquated, discredited, and deceptive sales tactic has taken root at his store.

This month's question comes from an F&I manager in Philadelphia, home of the Liberty Bell, Independence Hall, and a large convocation of Eagles. This F&I manager asks, "Hey, can you provide a clear explanation of what is and what is not payment packing? At our dealership, customers are quoted payments that are consistently higher than the actual payment. Is this legal? Please don't use my name or dealership. I don't want to get fired."

No name, no dealership, no problem. I don't want to see you get fired, and I don't want you to go to prison, either. I first have to preface my response by saying I'm not a lawyer, and I can't give you legal advice. In simple terms, payment packing means the dealership is intentionally overstating the monthly payment quoted to a customer in an effort to increase the dealership's profit. Sound familiar?

Typically, when packing payments, the sales department gets the customer to agree to purchase the vehicle at an inflated payment. They then send the deal to F&I without disclosing to the customer the APR, the term, or that products have been included in the payment without their knowledge or consent. This room in the payment, known as "leg," enables a deceptive sales or F&I manager to make F&I products appear much cheaper than what they really cost.

The National Consumer Law Center calls payment packing "one of the most widespread and significant forms of auto fraud today." It is expressly prohibited in every state. Besides being deceptive, with payment calculators readily available on the internet, payment packing is truly counterproductive. It is an antiquated, discredited, and deceptive sales tactic that should forever remain a relic of the past. Unfortunately, at some dealerships, it remains standard operating procedure.

Let's look at some examples. The desk sends a salesperson out with a first pencil quoting payments of $500 to $600 plus tax, title, and license on a trade difference of $25,000. Using an average rate of 7% on 60 months, the payment is $495.03. At 48 months, the payment is $598.66.

Going 45 days to first payment would increase the payments a few dollars, so the payments quoted are reasonably accurate, depending upon the term desired and number of days to first payment. Providing the interest rate used and term is not misrepresented (or omitted), this would, in my opinion, not constitute payment packing.

However, if the customer was quoted those same payment amounts, but the interest rate used was 2.9%, those are now inflated or "packed" payments. The actual payments at 2.9% would be $448.11 and $552.25, respectively.

If the customer's credit bureau report has not been obtained and he or she is quoted a payment on 60 months of $495 to $500 using an average rate of 7%, that is not a packed payment. Later, after obtaining their credit report and lender approval, you determine they qualify for 2.9%. If you inform them of the good news and disclose on the menu that their principal and interest payment is only $448.11 before reviewing their options, there has been no deception and no payment packing.

Using the same $25,000 trade difference, let's assume the desk includes TT&L fees of $2,500 in the payment, and the customer is quoted $545 to $660. But the salesperson conveniently "forgets" to disclose that the payment also includes TT&L. So even though the figures are accurate, the failure to disclose the additional items included in the payment make this a "packed" payment.

In fact, this is often how a deceptive manager will attempt to discern whether or not they have an informed consumer. If the customer has already calculated the payment on $25,000, they will object that the payment is not correct.

When this happens, it's easy for the salesperson to explain it away: "Oh, this payment also includes the tax, title, and license fees." Since this amount is unknown by the customer, the manager's attempt at deception is not discovered. It allows the salesperson to save face, and now the manager knows he can't play around with the payment. However, if the customer doesn't say anything, they now have $2,500 of profit already built into the deal. When this happens, things get ugly in a hurry.

Today, when a customer wants to know what the payment will be, everyone involved had better be telling them the truth. Customers are entitled to accurate quotes. They deserve it, regulators expect it, lawyers demand it, and ethical sales and F&I managers do it, period.

If you have a question or an objection you struggle with, send it to me. You'll get it answered and receive a free YETI, because it's a beautiful day to help another F&I professional.

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.