

Article from Dealer Magazine (http://www.imakenews.com/dealercomm1/e_article001356009.cfm?x=b11,0,w)

February 24, 2009

Straw or no straw

by Gil Van Over

Imagine this scenario. You have a customer who lost his job and now lives with Mom and took a job pumping gas. Very nice guy very simple, you talked for a little while. He does not meet the minimum income requirements, so you call Mom. She says "I will buy him the car, whatever the payments are I will make them, he is a good boy that got a bad rap, he can pay me back when he is back on his feet."

Straw or no straw?

Let's fast forward two years. Instead of you talking to the customer, the collector at the bank you sold the paper to is calling Mom for the payment. Mom says, "I only signed that note so that my son could get a truck. I never intended to pay and won't pay now. I told that dealer that. Go ahead and repo if you must."

Buyback or no buyback?

Here are some general rules that lenders tend to apply to transactions to determine if they are straw purchases.

A son or daughter under 21 who is still a student and not on the contract is generally not considered a straw.

A son or daughter over 21 with bad credit not living at home and not on the contract is generally considered a straw.

The best way to protect yourself is with full disclosure. If the lender knows about the other party not on the contract, it is not a straw.

Make sure that you indicate that the vehicle is for (name of son or daughter) on the application submission notes on Route One or Dealer Track and print a copy for your records. If the lender approves the offering with this information, you have a defense against charges of a straw purchase.

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