



**F&I**

Gil Van Over

# Federales Eying Discriminatory Pricing

Two tips to shield your dealership from prying eyes

I love to dissect, analyze and perpetually disagree with the airheads who claim to be college and pro football experts. Listen to any of the sports networks, log onto any of the many web sites, read any of the numerous magazines and they all have predictions and prognostications about the upcoming weekend's events. For example, as I write this, many of the airheads are predicting a Saints-Colts Super Bowl. It will be interesting to see how this turns out.

I am also amused that many of the experts have losing records when their picks are tabulated. Most of the time most of them are wrong, no matter how boisterously they proclaimed that their predictions would be correct.

I guess that another way of looking at it is to remember that light travels faster than sound. Perhaps that is why the analysts appear bright, until you hear them speak.

In our industry, another expert recently made a rather bold prediction that I tend to put a lot more credence in than the football experts' picks.

This consulting firm, which specializes in providing compliance consulting services to financial institutions, opined that the Federales are feeling their oats. That under the current administration, the Federales have become emboldened and empowered to actively pursue businesses for alleged abuses of consumers.

### Prediction

The Federales will be aggressively pursuing automobile dealers for discriminatory lending and sales practices. If this prediction turns out to be true, here are two process tips you should consider for your dealership.

### Consistent, defensible payment quoting methodology

I once had a sales manager say with a straight face, "I can tell what a customer's credit score is by looking at him across the

showroom." Talk about a dealer who did not have a consistent, defensible payment quoting methodology in place!

I am not saying that you should quote payments in the sales process. That is a business decision you must make. If you do quote payments in the sales process, you must have a consistent approach to the rate that is being used to calculate the

payment. You must also be prepared to defend the logic of the rate you use.

Being consistent means that every customer is quoted payments using the same rate as every other similarly situated customer. If you pull a credit bureau before you quote the first payment, establish a rate matrix driven by model year and bureau score. Then use it every time.

If you do not pull a credit bureau, establish a rate that is used to calculate every first payment.

Defensible applies to your rate matrix. The rates you establish based on credit score have to be appropriate to the risk. For example, establishing an 18% rate for customers with a credit score over 700 is not defensible. You would never be able to hang that deal with any creditor at that rate.

### Price caps for F&I products

F&I products are the second area where potentially discriminatory pricing can take place.

Take a look at your highest grossing deals. If an inordinate percentage of the deals were sold to members of protected classes, you may have issues.

Some states have regulated the pricing of certain products. Dealers in Florida must sell service contracts, etch and road hazard for rates they have filed with the state. Nevada and Texas regulate gap pricing. All states approve rates for credit life and disability insurance.


You might want to consider establishing product pricing for all of your F&I

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products. If you don't want to fully one-price your F&I products, you should establish price caps for all of the products sold in F&I.

Even if the Federales aren't targeting your dealership, establishing a consistent payment quoting methodology and price caps for F&I products can help to deflect inquiries from other members of the dark side looking to attack at the first consumer complaint.

Good luck and good selling. 

*Gil Van Over is the president of gvo3 & Associates, a nationally recognized dealer compliance consulting firm. He assists dealers with F&I and sales compliance. gvo3 & Associates specializes in F&I, sales, Red Flags and Safeguards compliance and training.*

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