F&I

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An Unlikely Compliance Model

Remember that time when you were driving down the freeway? On auto pilot, not paying particular attention to the satellite radio, no text messages to respond to, no one in the passenger seat blabbering away.

Your mind meanders through a thousand different thoughts, nothing in particular, everything in general. Like observing yourself in a maze from above, hitting dead-ends, turning down a different hall, finding your way through to the destination.

All of a sudden, a brilliant idea smacks you upside the head! A new way to improve your processes, your market share, your advertising, your employees' motivation, your whole business model. An enhancement to your business model from an unlikely source.

Today, I propose that your F&I and sales disclosure compliance model should mirror the F&I and sales processes at dealerships in California. What an unlikely source.

Because what is required by statute in California should be considered best practices in the other 49 states.

Why California?

Generally speaking, according to a few of my fellow consultant friends who specialize in leading 20 Group discussions or profitability training, California dealers maintain higher grosses, profits and customer satisfaction ratings than the dealers in a majority of the other 49.

One of my past employers saw fit to send this Midwestern boy to Southern California early in my management career. I like to say that I got a decade's worth of experience in my two years stint. I went there with trepidation. I had bought into the Kool-Aid that California dealers were aggressive to the point of being deceptive. That California dealers were innovative, after all, they perfected the spot delivery process about the same time Mr. Gore invented the Internet.

And, a few years after I left, the infamous expose of Southern California F&I managers going to jail for payment packing ran on one of the national morning shows and put California dealers right next to Washington dealers on the shelf of non-complying dealers.

What I now know is completely different. California dealers, like most dealers, are bright, driven, flexible, aggressive, adaptable, resilient business people.

When the California Car Buyer Bill of Rights forced disclosure by statute, the dealers used all of those qualities to modify and improve their processes. The process changes resulting from new legislation help complying California dealers to have a deal file that can withstand the scrutiny of a deceptive practices inquiry.

California RISC

The same California RISC that enabled dealers to pack payments in the mid-nineties now gives a California dealer its best defense against packing products.

There are three lines to disclose theft deterrent products.

There are two lines to disclose surface protection products.

There are five lines to disclose service contracts.

And, of course, a line apiece for gap and credit insurance.

Essentially, the purchase price of the vehicle, optional aftermarket items and every product purchased in F&I is separately disclosed on the RISC. Properly executed, a customer cannot support a claim that she did not know what she was purchasing or how much it cost.

Can you say that about the RISC in use in your state?

Optional products and services disclosure

By statute, California dealers must execute a form called an Optional Products and Services Disclosure (OPSD). On the OPSD, the base amount financed, term, APR and payment are disclosed. Also on this form is the list of the optional products, with pricing, that the customer agreed to purchase in F&I, including the total amount of the optional products purchased. Finally, there is a disclosure of the final agreed upon payment including the purchased products. It is very clear on the OPSD what the payment walk is and obtains the customer's agreement to it.

Sounds like a menu to me. Looks like a menu to me. Very definitely establishes a paper trail connecting the agreed upon vehicle purchase price from the sales department to the final transaction documented by the RISC or lease agreement.

The OPSD, properly completed, helps to create a defensible paper trail. A menu in the other 49 can do the same.

Notice to vehicle credit applicant

If you are reading this as it hits your desk, you have a few weeks to firm up your compliance with the new Risk-Based Pricing Notice Rule. This is the final rule expected from the FACT Act legislation passed in 2003. It requires that you provide a notice to certain customers with a disclosure of their credit score and where that score ranks amongst consumers across this great land of ours.

Guess what. California dealers have been providing a similar notice for a handful of years now and it really is a non-event. In fact, some California dealers tell me it helps to lower some haughty consumers' imaginations of just how good they believe their credit score to be.

In the past, I have put forth the notion that the Federal Sentencing Guidelines, the Safeguards Rule and the Red Flags Rule provide a good compliance model for dealers. I still maintain that thought.

The California disclosure model fits nicely into an overall compliance model.

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