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A Dealer's Guide to Compliant Paperwork

By Joe Bartolone

It's a safe assumption that most of you did not become F&I professionals because you had a secret desire to manage overwhelming amounts of paperwork. And it's probably a safe bet to say that most of you don't get paid by the number of forms you process each month. What is expected of you is that you generate acceptable levels of product sales and profits, while at the same time ensuring that the sales and F&I department are complying with all state and federal regulations and are operating within established dealership guidelines. Whether we like it or not, an F&I manager's role is to be the gatekeeper when it comes to paperwork.

Paperwork tends to be viewed negatively because most think of it as just another series of forms, reports, worksheets, contracts, etc. If we think of paperwork as purposeful documentation that can provide a means to mitigate potential litigation, as an irrefutable defense in a criminal investigation, as a mechanism to avoid violations of state and federal regulations, and as a fair and equitable basis to resolve customer complaints, then paperwork takes on a more positive tone.

Basically, you have two choices to resolve paperwork issues in your dealership. One way is to get the salespeople to think like accountants. Another way is to establish consistent processes in dealing with paperwork. From experience, I believe you will be more successful with the second approach. Let's take a look at some best practices for developing processes to help streamline the paperwork issues in your dealership.

1. Sales Worksheets

The ability to show a logical flow of the deal terms, from the first pencil to the retail installment sales contract (RISC), is an important part of the deal paperwork. In sales, the two areas of most importance are the first pencil and the final agreed-to sales terms, especially if you quote payments during the sales process.

Dealerships that excel in this area will start the deal with a standard worksheet for finance, cash or lease deals. The point is that you end up with a document that clearly recaps what the customer finally agreed to. At a minimum, this should include the vehicle selling price, dealer add-ons, discounts, agreed-to trade value, cash down, rebates, taxes and fees. If you quoted payments, then you should include the payment amount, the term and the rate. These deal terms should be the same as the deal terms on the top of the first F&I menu. Any included F&I products should be disclosed and priced separately. A preliminary buyer's order works very well for this purpose.

2. Photocopies of Driver's Licenses

There still seems to be some confusion as to why a dealer needs to make a photocopy of the customer's

and co-buyer's driver's licenses. The reason is due to a provision of the USA PATRIOT Act, which requires a dealer to positively identify the customers with which they do business. The identification must be government issued and not expired. The most commonly used forms of identification are driver's licenses, passports and military IDs.

Make sure the photocopy is legible, as it will be copied several times throughout the deal process. Don't make color copies of driver's licenses and always copy at 200 percent or at the original size.

Also make sure the name on the ID matches the name on the contract. Names that don't match usually means the individual was recently married. You should get evidence of the marriage, or, at a minimum, check the "AKA" on the credit report and make the proper notations.

Driver's licenses are also an important first step in identifying potential red flags under the Federal Trade Commission's Red Flags Rule (RFR). A best practice is to establish a process that requires a salesperson to make a checkmark indicating that the expiration date was reviewed and that the physical and personal characteristics on the license match the customer's appearance.

3. OFAC Checks

The USA PATRIOT Act also requires a dealer to make sure their customer is not on the government's list of Specially Designated Nationals. This is done by conducting what is known as an OFAC check. There are generally three methods dealers use to conduct OFAC searches. The most popular method is through the credit report, the second is through a menu function, and the third is through an Internet search.

Regardless of the method you use, you should consider the following best practices. First, make it clear that you reviewed the results of the OFAC search. This can be done by simply placing a check mark or circle around the results. In those rare cases when you do get a match, print the search result, note the date and the steps you took to clear the customer, and retain it in the deal file. If you cannot clear the customer, call the Treasury Department and follow its directions.

4. Credit Applications

It is highly recommended that the credit application you use is designed in accordance with the model credit applications offered in the appendix of the Equal Credit Opportunity Act's Regulation B. These applications provide all the necessary disclosures and will help guide you through the application process to ensure compliance. These forms are also state specific, so make sure the application you use has the required disclosures for your state.

The forms are readily available through your local or state dealer associations, captive sales finance companies, and companies such as Reynolds and Reynolds. Multi-part forms are also recommended so the customer can be given a copy of the application. Depending on your process, you could also print and use blank electronic applications, but make sure you provide a copy to the customer.

An excellent best practice is to have the customer complete a handwritten application, which can be used as the worksheet for the electronically submitted application. Only one signed application is required, but by keeping both the handwritten and electronic copies, you will see a dramatic drop in discrepancy issues between what the customer indicated and what was actually submitted to the dealership's finance sources.

5. F&I Menus

Most of the F&I menus in use today meet minimum compliance standards, but there are a couple of

operational guidelines to remember. The top of the first menu should agree with the final terms the customer agreed to in sales. As in sales, you may negotiate the finance term, rate, and product offerings, so it's important to retain both the first menu and the final menu.

The final menu should match the buyer's order and RISC, especially when recontracting deals. Another best practice is to have the customer initial the base payment and final payment. Finally, successful dealers will also use a second acknowledgement page and have the customer confirm the products purchased and the products declined. Not only will this help eliminate issues on whether products were offered or not, but it's also an excellent tool for second-chance selling.

6. Credit Reports

Credit reports continue to play an important part in securing finance approvals. They provide the customer's credit score, address, Social Security number and date of birth. They include auto and real-estate loan information, other trade history and public records. At a customer's request, they will also disclose initial and extended fraud alerts, as well as active military duty alerts. Customers can also put a credit freeze on the credit report, which restricts access to their report without their permission.

Within the last two years, credit reports have become one of the best tools to help you identify potential red flags because they can help detect discrepancies in the information provided by the customer. Most, if not all, of the credit consolidators are charging dealers a fee for this service. Some credit consolidators are also disclosing a RFR index score, which alerts a dealer to a potential risk of a red flag.

Some dealers have been shredding the credit reports after the deal is funded in support of the Safeguard's Rule. There is nothing wrong with this approach. However, I highly recommend that you retain pages of the credit report that include RFR information. The first page or two and the last several pages typically contain the RFR-related information. A best practice would be to use these pages to make any notations regarding RFR alerts, as well as how these alerts were resolved. The key to the RFR is documenting what you did when a red flag was identified or detected.

7. Used Car Buyer's Guides

Used vehicles offered for sale are required to have a FTC Used Car Buyer's Guide prominently displayed in the vehicle. This requirement also applies to retired demos, even if your state allows you to register the vehicle as "new." The purpose of the guide is to inform consumers of the warranties provided by the dealer.

Depending on state requirements, dealers will typically offer the vehicle with an "as is" or "implied" warranty. Dealers may also offer a limited warranty. However, they must disclose the percentage of parts and labor coverage, a time or mileage limitation, and the major components covered. Dealers also have the option of disclosing the balance of the remaining original factory warranty on a vehicle, or that a manufacturer's certified warranty is included.

Very specific verbiage is required when disclosing manufacturer warranties. Consumers are entitled to a copy of the Buyer's Guide, which should include the dealership's name, address, phone number and a contact person or position on the reverse side.

Many dealers have migrated to using outside services to fulfill their Buyer's Guide requirements. Depending on the size of the inventory, these services visit the lot several times a week, and will apply the appropriate guide as directed by the used-car manager.

One of the problems with using an outside service is that at any given moment 15 to 20 percent of your

used inventory may not have a required guide prominently displayed on the vehicles. Vendor-supplied guides are laser printed and many do not have the reverse side disclosing the required dealership information or a place for the consumer to acknowledge receipt of the guide. As a result, a second Buyer's Guide is prepared by the salesperson or by the F&I department. In many cases, however, the guide prepared by those departments does not match the warranty information posted on the vehicle.

A good way to eliminate these problems is to place a temporary guide on the vehicle until the outside service arrives. This should be done before the vehicle is put on the lot or "offered for sale." Make sure to complete the top of the form with the vehicle information and check the "as is" warranty.

When the outside service arrives, it will replace the temporary guide with a new guide with the appropriate warranty information. Some dealers are also requesting that the outside service print two additional buyer's guides — one goes in the glove box and another one goes in the used-car inventory file. When the vehicle is sold, you will have a guide already completed. Just make sure the customer acknowledges that they received a copy by signing the copy you file away. When it comes to the customer copy, you can make a photocopy or use the guide placed in the glove box.

8. Book-Out Sheets

Trade vehicles or outside purchases should always have a book-out sheet created when the unit comes into inventory. Automated systems or online services should be used for this purpose, as most have VIN decoders that can verify year, make, model, trim level, and standard equipment. Major options should also be included.

Whether you are using an automated or online service, make sure the person who runs the book-out sheet signs for the book-out sheet. This is an important step because most systems now upload the vehicle information from the inventory system to a variety of Internet marketing sites, including the dealership's own Website. So, you want the person who created it to be accountable. Another book-out sheet should be completed when the vehicle is sold. One copy should be sent with the funding package and the other retained to ensure that the first and last copies match.

9. Rebate Forms

Over the last several years, rebates have been used extensively to stimulate new-vehicle sales. With some rebates totaling \$10,000, it is critical that dealers have tight controls when it comes to rebate administration.

Rebate claims are commonly filed electronically with the manufacturer, and the accounting office submits the claims and makes sure the dealership gets paid. Rebates become problematic when the manufacturer comes back to conduct a rebate audit. I know of several dealerships that were charged back hundreds of thousands of dollars.

There are some best practices to help you avoid problems with rebate audits. An auditor will check to see whether the delivery took place during the rebate period. Even though the RDR card is submitted with an inclusive date, the auditor will verify the delivery date by reviewing the date on the RISC. This is typically not a problem unless you spot delivered the vehicle before the end of the rebate period, and then recontracted the customer after the rebate period. If you're a student of the Truth in Lending Act (TILA), you know that you should always use the current date on the RISC when recontracting a deal. This is one of those cases where you have to make a business decision.

The other area the auditor will check is supporting documents for college grad, farm bureau, first-time buyer, owner loyalty, and manufacturer employee/family discounts. Some manufacturers also require a

form to be completed that identifies the amount of the rebate, and the customer's acknowledgement that the rebate was assigned to the dealer.

It is also recommended that the dealership retain a printout from the manufacturer's system of the rebates available for the vehicle. Combine all the rebate related documents, retain them in the deal file and you should have no problem with your next rebate audit.

10. Forms Programming

There is one inevitable truth about forms programming — if the programming is right, it's right 100 percent of the time. If it's wrong, it's wrong 100 percent of the time. Most of the programming issues are with the buyer's orders, RISC, and the product enrollment forms.

One of the biggest problems with the buyer's order is that it doesn't balance. In other words, if you add and subtract the numbers on the form, they don't add up. Normally, the accounting department will catch this right away, but most accounting departments review the deal electronically and never double-check the actual form for accuracy or the proper disclosures. A best practice would be to foot each buyer's order as part of the review process.

Many F&I managers are under the false impression that they are off the hook for any TILA violation on the RISC if the deal gets funded. That's not a good premise to operate under, as the TILA is all about proper disclosure. So, there aren't any gray areas — it's either black or white.

There are two common issues with product enrollment forms. The first is that the price of the product is not disclosed. The second is that the terms and coverage are not properly checked. This leads to many handwritten entries on the forms — not a recommended best practice.

A good test is to load a deal into your system and include a co-buyer, every available F&I product, and a trade with negative equity. Print a buyer's order, RISC, and the product enrollment forms for each lien holder you send paper to. You'll be amazed at what you'll find.

I know some dealers are reluctant to pay for programming changes, but when you consider the exposure and potential risks, it's really not much of an argument. Remember, when you add a new funding source or a new F&I product, most of these companies will pay for the programming if you ask them to.

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