

The Poetry of Quoting Payments

by : *Gil Van Over*

I admit I'm not a Renaissance man. I hate cats, so I know I ain't that sensitive. My manicure frequency does not qualify me for metro sexual of the month.

I don't get poetry.

Why try to enjoy something that many college students flunk? I mean, if it takes 30 brains and a professor 10 weeks to figure out why e.e. cummings had an aversion to capital letters...and then arrive at 10 different answers, what's the thrill?

I spend as much brainpower trying to decipher the puzzles known as four-squares. Give 30 different sales managers a four-square and it is likely that you will get 10 different scenarios. The dark side attorneys count on it.

A simple test

Here's a simple test you can administer at your next sales managers' meeting.

Ask the managers to write down, without any discussion, what rate they would use to quote the first pencil in each of these scenarios.

Scenario #1

38 year-old male, 799 bureau score, 10 years on the job, homeowner, \$100,000 annual income, putting 20 percent down on a new car, no trade.

Scenario #2

20 year-old minority female, 625 bureau score, 3 months on the job, living with parents, \$7.25 an hour (part-time), no money down on a used car, no trade.

Scenario #3

A retired couple, both 60 years old, did not pull a bureau, owns home free and clear, \$3,500 a month retirement, buying a certified pre-owned with \$500 down and \$6,000 upside down on trade.

Next, write down the results for each scenario. Chances are, the only consistency will be the inconsistency in the rates.

And this inconsistency, my friend, is what can fry your dealership in a lawsuit charging either payment packing or discriminatory pricing.

The antidote

The best antidote for payment packing or discriminatory pricing charges is the application of a consistent, defensible rate matrix. Let's break this phrase down like a poetry professor.

Application means this is the process, the policy, the procedure.

Consistent means the applicable rate is used every time for every customer. In other words, in an audit

of 100 deals, we would be able to tie the first pencil APR to the rate matrix in place at that time on every deal.

Defensible means that the rate being used is a rate that, if the credit is approved, you would be able to fund the transaction with one of your primary lenders. Said differently, using a 25 percent APR on someone with 800 credit is not defensible, as this deal structure would not fit within any prime lender's rate cap.

Establishing a defensible rate matrix

It is a relatively simple task to establish and maintain a defensible rate matrix. Using 50-point credit bureau bands, establish four rates for new and four rates for used. For example, under 600, 600 to 649, 650 to 699 and 700 and over.

Use 60 months to quote the first pencil, as this is the standard term listed on lender's rate sheets. The National Association of Attorneys General doesn't object to using standard terms. Defensible.

Take your captive's rate for each bureau band and adjust by an appropriate amount of dealer reserve, not to exceed your captive's rate cap. I suspect a jury will agree that your Ford dealership using Ford Credit rates as the basis to build your rate matrix is logical. Defensible.

Change your rate matrix whenever your captive's rates change. Defensible.

Finally, the Federal Reserve Board just released updated information on Americans' average credit score, which sits at 678. Use this information as part of your defensible rate matrix policy. Anytime you quote a first pencil payment before you pull a credit bureau, use the rate you would use if you had a 678 bureau score as your "average rate."

Defensible.

Once your defensible rate matrix is established, your objective is to ensure that it is consistently applied. This requires training your sales managers and obtaining their concurrence. Then, as Mr. Reagan once opined, "Trust, but verify."

Good luck and good selling!

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