

Dealer

F&I Special Section

by Gil Van Over



The F&I Menu Paradox

I love golf. I can't seem to get it out of my blood. Even though I don't play as much now because my son is so heavily involved in baseball (and the golf can wait), I still find myself reading golf magazines, watching the matches on television and getting in the occasional nine.

I believe I finally understand why I am so enamored with this sport. One simple word: paradoxes. I savor paradoxes. I enjoy irony. Conundrums are fun. Monty Python is one of my all-time favorites.

Because golf has more paradoxes than the plaintiff's bar has conspiracy theories, I prefer golf to other sports (not to mention that the old bones can't handle the full court pickup games like they once did).

For example, many tee shots end up moving from left to right into the rough or the trees or the lake. Logic tells us that if we aim further left, our ball should end up in the fairway. However, the golf paradox attacks this logic our ball ends up in the rough, the trees, or the lake after embracing an even steeper parabolic action. Paradoxes.

Then there are the golfers who will tear a \$70 pair of pants going into a bramble bush looking for a lost \$4 golf ball. Paradoxes.

The labeling of irons and woods is extremely ironic. In the real world, a size nine waist cannot squeeze into a size four skirt. A pair of nines beats a pair of fours on the World Series of Poker. Most fourth graders are less educated than ninth graders, so why does a four-iron hit the ball farther than a nine-iron does? Paradoxes.

Perhaps my love of paradoxes helps to explain why I so enjoy working with dealers on F&I compliance. My chosen field has its share of paradoxes.

F&I paradox

Most learned people seem to understand and embrace the need for tort reform. Over the last two years, I've received notification that I am a class member in four class action lawsuits. I do not feel violated by any of the defendant companies: American Express, Palm Pilot, Pay Pal or my mortgage company. My potential compensation as a class member is not worth the effort to respond. Yet the attorneys that brought the actions are being compensated millions of dollars.

The Fellowship of the Evil Empire is constantly looking at your business practices to see if you can be a victim of their class action lawsuits. You are well aware of this, which is one of the reasons you installed a menu in the F&I process.

One F&I paradox is that an inadequate menu or poor menu execution can accentuate your compliance problem, not solve it.

Three types of menus

To paraphrase Teddy Roosevelt: "Bully for You" if you have mandated a menu in your dealership's process.

In my dealership reviews, I see one of three types of menus in place at those dealers that are using a menu:

- 1. Handwritten menus that start with a blank sheet of paper
- 2. Pads of pre-printed menus on which the F&I manager is to hand write most of the information. These menus have either been created in-house or supplied by the dealer's F&I provider
- 3. Electronic menus that display the base payment and product information

Nefarious F&I managers can and will manipulate the system you have in place. Again, my back-of-the-hand estimate of the comfort level you should have with each version:

- · Handwritten - absolutely no comfort
- · Pre-printed - 25 percent
- · Electronic - 90 percent, and can approach 100 percent with proper safeguards

Handwritten menus

A handwritten menu on a blank sheet of paper is nothing more than step selling with a Sharpie.

Most of the time I see the famous depreciation versus amortization curve to graphically show the reason why a knowing customer should buy GAP.

I never see the terms of the vehicle sale disclosed on a handwritten menu.

I never see the base monthly payment, the term or APR for the purchase of the vehicle only on a handwritten menu.

I never see the disclosures stating that the purchase of any of the products is optional and will not affect the interest rate or the ability to secure financing on a handwritten menu.

I rarely see the individual pricing of each product on a handwritten menu.

I frequently see payments packed to support the payment quoted in the sales process on a handwritten menu.

In the words of Robert Shimberg, a nationally noted dealer attorney with the firm of Hill, Ward & Henderson in Tampa, FL, "A Sharpie menu often documents more potentially deceptive practices than not using a menu at all".

Pre-printed menus

Okay. Now you've decided to break into your petty cash drawer to pay your squash buddy (who owns a group of print shops) to run off a gross of pre-printed menus.

You prominently displayed the best practices disclosures regarding optional and not required.

Listed at the top of your pre-printed menu are blank lines for the F&I manager to write the base payment, term, balance to finance and APR.

The benefits for each product listed are appropriate and are not misleading.

You have itemized all of the products you offer for sale in the left-hand column and labeled it as the Platinum selection.

In other words, the perfect setup.

How many times have you hit the perfect tee shot and then shanked your wedge into the bunker?

You can set up the F&I manager with the right tool, but he or she can still pack the base payment using a pre-printed menu.

He or she can still trade rate for product using a pre-printed menu.

He or she will always have the excuse that the deals were six deep and did not have the time to write the product pricing on a pre-printed menu.

According to Jim Ganther, vice president and general counsel, Continental National Services Corporation, "By definition, such menus need to be filled out by hand, which invites error, inconsistency, and corner-cutting. Worse yet, an F&I practitioner can go back after a deal is closed and recreate or alter a paper menu. This is a problem from a legal defense standpoint, should litigation ever arise from the deal."

Electronic menus

Congratulations if you have an electronic or software version of a menu in place. This means that either you dipped even further into the corporate coffers or have an F&I provider that is serious about helping with F&I compliance by providing an electronic menu as part of its services.

Most of the electronic menus I have seen do a wonderful job of setting up the best practices disclosures.

The base monthly payment without F&I products is clearly delineated at the top of the menu, along with the three variables that are used to calculate the payment: balance, term and APR. There is a place for the customer to initial by the base payment, confirming that the base payment was discussed.

- The customer is informed in clear and conspicuous language that the products being offered are optional and a purchase is not required to secure financing. The customer initials by this disclosure as well.
- The price of each product within each suite is clearly listed.
- Each product's description is consistent with the terms outlined on the product enrollment form.
- The new monthly payment for each suite of products is displayed and the term is consistent with the term used to calculate the base monthly payment. There is a place for the customer to accept each suite of products.
- The software crunches the numbers.

The pricing is pulled from the F&I vendor's table so that the vehicle service contract price

is correct for that vehicle and term. These features get us to 90 percent comfort. Why not 100 percent?

Just as we can't believe all journalists, we can't trust all F&I managers. Most journalists and F&I managers are honest, hard working, ethical individuals. Others are in it for the glory or the dinero. Editors should have appropriate safeguards against unethical journalists (see exception clause in Dan Rather's and Stone Phillips' contracts). Dealers should have appropriate safeguards against unethical F&I managers.

What to watch for

Here are some of the kinky menu manipulations I've unearthed.

1. Inflating the balance to finance. This is done in a number of different ways, by either increasing the amount of other fees, decreasing the amount of down payment or not including the rebate, decreasing the trade-in allowance or increasing the trade-in payoff. All of these actions drive up the amount financed, which in turn drives up the base monthly payment. Yes, a form of payment packing.
2. Increasing the days to first payment. Some electronic menus allow an infinite number of days to first payment. The software program then capitalizes the interest, increases the balance in the calculation of the base monthly payment, but does not change the printed balance on the menu. Therefore, a first payment due 245 days from contract date substantially increases the base monthly payment. Yes, a form of payment packing.
3. Completing the menu after the fact. Some F&I managers take the approach "You want a menu? I'll give you a menu." They continue to sell the old school way, and then print a menu after the customer leaves. Miraculously, the customer's initials somehow find its way on the printed menu after the bugs were busting on the windshield. How do you suppose that happened?

Menu manipulation safeguards

There are a few basic safeguards to prevent menu manipulation and its associated deceptive practices such as payment packing and forgery.

1. Pay attention. Make sure the billing clerk is using a checklist that requires a menu be in every deal. Additionally, the billing clerk should compare the balance to finance on the menu to the balance on the handwritten buyer's order. Finally, the billing clerk should bring any handwritten alterations (such as agreed upon payment or changes to the terms at the top) on a menu to your attention.
2. Affix a DMS-generated time and date stamp on each menu. Compare the time and date stamp to the date of the contract.
3. Lock down your menu's disclosures. In other words, don't allow the F&I manager to hide the required disclosures on any menu.
4. Integrate the menu with your DMS. This will permit the transference of data from the loaded deal in the sales system to the menu, increasing reliability, not to say anything about efficiency.

However, beware of the integration.

"It is shocking to us how many times we are implementing our product into dealerships and integrating with the DMS and find that warranties or GAP are still being loaded into deals on the front end," says Mike Absher, president of DealerWare, LLC, marketers of F&I Menu Wizard. "We strip the premiums out when we transfer the data to our menu."

Fore!

Gil Van Over is the president of gvo3 Consulting, LLC (www.gvo3consulting.com). He assists dealers in developing and implementing a litigation defense strategy for the F&I Office.

For more information contact [Gil Van Over](#)

[Return to Table of Contents](#)