

August 14, 2007

## **Best practices – Credit applications**

*by Gil Van Over*

This year's columns have been dedicated to describing this whole thing called compliance. We are now in the process of describing best practices that, if implemented, are designed to help reduce exposure to litigation and regulatory inquiries. Today's topic is credit applications.

### **Background**

Credit application processing involves a number of different compliance issues:

- Properly and accurately completing the credit application to avoid charges of bank fraud
- Implementing a process to avoid loopholes that identity thieves can jump through
- Establishing permission to pull a credit report
- Fulfilling your obligation under Regulation B



### **Issues and Solutions**

Here are some of the issues surrounding credit application processing and the best practices many dealerships have implemented to protect themselves.

#### *Issue - Bank Fraud*

When a dealer submits a credit application with inaccurate information that can be construed as an attempt to undermine a federally insured lending institution's underwriting guidelines, the dealer can be subject to the lender filing a Suspicious Activity Report against it.

Key inaccurate information that is considered bank fraud includes giving someone a raise, fudging the time at address or job, or providing a false address.

#### *Solution – Audit Process*

Periodically check the income on the credit applications to the proof of income provided. Take a close look at the proof of income to confirm it is real. Red flags include leaving the income section blank, writing the income on the back of the credit app or above the perforated line, altered figures without the customer initialing the change or unrealistic income amounts. Also check five to ten percent of a month's deals to confirm the consistency of the information on the handwritten credit application to the information submitted via Dealer Track, Route One or CUDL.

#### *Issue – Identity Theft*

Identity thieves love car dealers. You have a wealth of personal data that can be mined by the devious criminals.

An ID thief's favorite tactic is to use an aggressive salesperson as the conduit to confirm that the identity he has just stolen is worth stealing. After all, why spend a lot of time stealing someone's

identity whose bureau score does not qualify for sub-sub-prime financing?

One approach these nefarious hoodlums use is to call a dealer who is within reasonable driving distance, but more than an hour away. "Gee, Ms. Salesperson, I'd love to come in a buy that car you advertised, but I don't want to drive all that way if my credit can't get approved."

The ID thief then gives the Ms. Salesperson enough personal information to run a credit report.

"Mr. ID Thief, your credit is perfect. You can buy any car on the lot!" she enthuses. "When can I expect you?"

Problem is, she can't expect the ID thief. He now has all the information he needs to apply for credit cards and personal loans. It will be at least six weeks before anyone finds out about the theft.

### *Solution –Identity Theft*

Recognize the risk to accepting credit applications over the phone and make a business decision. Our recommendation is to refuse credit applications over the phone as being too risky to identity theft.

Faxed credit applications represent the same risk. Anyone can change the header on a faxed document to represent that the fax came from the employer.

If you absolutely believe that you must continue to accept credit applications over the phone, develop a script that must be followed every time. Also utilize identity verification software in which an applicant must answer a number of out-of-wallet questions before you will accept the credit application for processing.

### *Issue – Permission*

First, the law. You are not **required** to have a signature on a credit application before you pull a credit report. You are only required to prove that you had permission.

A consumer has up to five years after you pull a credit report to sue you for pulling a credit report without his permission. Without a signature, how are you going to prove it? Best practices (and logic) dictate that you have a signed credit application.

### *Solution – Permission*

Absolutely do not pull a credit report unless you have a signed credit application. Establish a retention policy so that these credit applications can be retrieved up to five years later to prove that you had permission to pull the credit report.

### *Issue – Reg B Compliance*

Part of Regulation B requires that the applicant declares whether she is applying for individual or joint credit. Financial institutions are telling me that their regulators are starting to audit them for compliance with this requirement. Their response is that the dealer obtains this information and provides it to the lender. Guess who is now on the hook?

### *Solution – Reg B Compliance*

This one is so easy it is shameful. Simply have the customer check the appropriate box on the credit application and ensure that this check box is consistent with what is represented to the lenders through Dealer Track, Route One and CUDL.

Gil Van Over is the President and founder of gvo3 & Associates, a nationally recognized F&I and Sales compliance consulting firm ([www.gvo3.com](http://www.gvo3.com)).

© 2007 by gvo3 Consulting, LLC. All rights reserved.

Published by [Dealer Communications](#)

Copyright © 2007 Horizon Communications Inc.. All rights reserved.

Information in this newsletter is provided by both proprietary and public sources. Dealer Communications makes no claims as to the accuracy of information provided by third party providers.

Powered by [IMN](#)