

Trading Rate for Product



BY RON REAHARD

A reader wonders if a scenario exists where trading rate for product doesn't cross that invisible legal line. The magazine's resident F&I pro weighs in.

This month's question is a twofor, as it concerns both compliance and ethics. It comes via email from David in Atlanta, home of the "Ramblin' Wreck from Georgia Tech," where, apparently, everyone is a "helluva" engineer.

David writes, "I feel trading rate for product is an area that needs to be addressed with guidance provided to F&I professionals. I believe some F&I managers may be putting customers at risk by not offering a proper solution to their payment problem for fear of crossing an unknown line.

"Let's say a customer objects to product options because he can't afford the payment. The customer is at 3.9%, with a payment of \$650 for 72 months. I can resubmit to a different lender that will go 75 months with a buy rate of 2.59%. Taking a flat vs. making reserve results in a \$678 payment, including F&I products. Doing so solves the customer's payment problem and meets his product needs, plus it increases F&I income from \$500 to \$1500.

"Recently, I was faced with this exact scenario. The customer objected after I presented her options, then said, 'I would be interested in the warranty if my payment did not change.' Knowing the customer is open to the 75-month term, and the second lender does not allow us to mark up the rate to 3.9%, what should an F&I professional do in this situation?"

Since I'm not a lawyer, I cannot give you legal advice. What we're talking about here is offering a customer a lower interest rate to enable him to purchase an F&I product he needs and wants. Whether or not something is legal depends on many factors. Doing what's right is a much easier answer.

In most dealerships, the initial payment comes from the desk using an estimated rate, since different finance sources have different buy rates and tier levels. Obviously, changing finance sources, the term or the down payment in F&I can affect the customer's interest rate. However, it could be considered an unfair or deceptive trade practice if an F&I manager offers the customer a rate reduction as an inducement for them to purchase a product — particularly if that customer is led to believe the lower rate is contingent upon his or her purchase of that product.

If the customer is offered a lower rate in the F&I office, there

can be absolutely no tying of the interest rate to the purchase of the product. The customer must be presented a new menu that includes the new lower APR, term and payment with no products included. More importantly, his or her principal and interest payment should always be disclosed first, so the customer knows the cost per month of any additional products. And if the buyer elects not to buy those products, he or she must still receive the lower interest rate.

Lowering the interest rate in an effort to sell F&I products can also create major credibility and customer satisfaction issues. "Why didn't you offer me the lower interest rate in the first place?" From a legal perspective, another major concern is whether or not rate reduction in the F&I office is a common

practice. If so, is an artificially high interest rate being used by the desk to inflate the payment to help the F&I department minimize the payment increase? Is the interest and term being used by the desk being disclosed?

In most dealerships, there is a paper trail in every deal jacket from the worksheet to the menu to the contract that documents exactly what happened. All this can easily be discovered by a plaintiff's attorney. Bottom line, when a dealership allows F&I managers to reduce the interest rate to sell F&I products, it had better have a compliant, consistent, documented and vetted desk and F&I process that everyone follows for determining interest rates, quoting payments, or lowering the rate.

In terms of guidance, here's what I would say: If you always do what's right for the customer and truly try to help them, not mislead, outsmart or take advantage of them, in my experience, neither you nor your dealer will be spending much time talking to lawyers. Plus, you'll both sleep better at night, have happier customers, and make a lot more money.

David, thanks for your question. Your YETI is on the way. Don't forget to submit your own video or email question for a chance to get it answered and receive a free YETI. Because it's a beautiful day ... to do what's right! ■

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ABOUT THE AUTHOR

Got a question or objection for Ron? Use your mobile phone to record a brief video (shot landscape style!) of your question and upload it to go-reahard.com/ask-ron.