Dealer Finance Training

July 22, 2020
1:00pm EST
Finance Series Curriculum

• Finance 1.0 Intro to Finance
• Finance 2.0 Sales and Finance
• Finance 3.0 Compliance

**Learning Objectives:**

- 1.0: Develop an understanding of the most common terms related to Automotive Finance.
- 2.0: Apply that understanding to your sales process to ensure a higher probability of success rate in getting a consumer financed.
- 3.0: Establish a compliance procedure at your dealership to protect you and your consumers.
Presenters

**Cassy Churchill**  
Dealer Development  
BraunAbility  
18 Years Mobility Dealership Experience

**David Yount**  
Finance Director  
Brandl Mobility Finance  
12 Years Mobility Finance Experience

**Juan A. Collazo**  
Director of Organizational Development  
MobilityWorks  
18 years Automotive & Mobility Sales Experience
Finance 1.0: Agenda

- Credit Application Information
- Participants in Lending Activity
- Financial Challenges
- Income Criteria
- Important Terms
Finance 1.0: Credit Application

Necessary Information

- Full Name and Date of Birth
- Social Security Number (Tax ID)
- Address – Rent, Own, Length of Time
- Employment
- Gross Income
- Other Income
- Co-Applicant
- Signature
<table>
<thead>
<tr>
<th>Loan Participants</th>
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<tbody>
<tr>
<td><strong>Signer/Primary Borrower</strong></td>
<td>When only one person is applying for financing, they are the primary borrower.</td>
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<td>Where there is more than one person applying, the primary borrower may be determined by whoever has the higher income.</td>
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<td><strong>Co-Signer/Co-Borrower</strong></td>
<td>The co-borrower is the person who agrees to go on loan with the primary borrower.</td>
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<td>A cosigner is often needed if the primary applicant has credit or income challenges.</td>
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Finance Challenges
Finance Challenges

- Legal proceeding customers initiate - to help them sort out not being able meet their financial obligations.
Finance Challenges

Charge-Off

• Defaulted Loan
• Unlikely to Be Collected
• Remains on Credit Many Years

Charge Offs

A single charge off can cause your credit score to drop 100 points and will remain on your credit report for seven years! ▼ 100+ Points
Collections

- Similar to Chargeoffs
- Lowers Credit Scores
Medical Collections

- Collections that are the result of unpaid MEDICAL bills.

- Not viewed as harshly as other, non-medical collections.
Income Terms

Debt to Income (DTI)

• Monthly outgoing payments in relation to your income.
• Under 50% Is Ideal
• More Income $$$ = Lower DTI
Income Terms

Payment to Income (PTI)

• How much can the customer afford?

• Calculation to Determine Auto Payment

• Current Bills + New Auto Payment vs. Income
Additional Terms

Simple Interest Loan

Prepayment Penalty
Finance 2.0: Sales and Finance

- Establish whether a client is paying cash or finance
- Recognize when you have a subprime credit client
- Act accordingly and set the requirements for lender approval
- Down payment
- Backing into a payment
- Work with your GM/Finance Manager on the right inventory and LTV structure
- Perform taking a proper credit application and asking for stips
- Perform a credit investigation
- How to take the client out of the market and close the deal on approved credit monthly payments
UNDERSTANDING CREDIT SCORES

579 or less
Lenders view you as a very risky borrower

580-669
Some lenders will approve loans with this score

670-739
Most lenders consider this a good score

740-799
Lenders view you as a very dependable borrower

800+
Lenders view you as an exceptional borrower

WHAT MAKES UP YOUR CREDIT SCORE?

LENGTH OF HISTORY
A short history isn’t a bad thing, if you show responsible credit management.

NEW ACCOUNTS
Too many new credit account inquiries can lower your score (multiple inquiries for the same auto or home loan will not).

AMOUNT OWED
Keep the amount you owe under 30% of your limits, or it could hurt your score (even if you make the payments in full).

TYPES OF CREDIT
Having a variety of credit types (mortgages, student loans, credit cards) could boost your score.

PAYMENT HISTORY
Late payments lower your score, so make sure to pay your bills on time and never skip a payment.
Subprime

- If a client says anything less than excellent for credit qualification question, we need to pull the credit report ASAP.

- “Ok, no problem. The first thing we need to do is start with a credit application. Once we evaluate your credit, together we will find you the perfect solution. One that is good for your needs, your lifestyle and ultimately your budget. So let’s go ahead and get started.”
(1st close) Getting a client to run a credit application, have the application ready with the Need Analysis, and privacy notice stapled together.

- Attention to detail, You take the application.

- Credit Investigation

- It’s a closing tool.
That's great that you're able to pay cash. Now is that coming in the form of greenbacks from under the mattress or will you be writing a check out of the savings account?

Are they really paying Cash? Or is it a local credit union or bank?

We must capture financing and offer a comparison when possible. Sell Financing

Third party funding?
To put together, close, and fund a subprime car deal you need accurate information. The best way to gather accurate information is to conduct a thorough customer interview during the auto loan application using open ended questions.

**Credit Interview**
To put together, close, and fund a subprime car deal you need accurate information. The best way to gather accurate information is to conduct a thorough customer interview during the auto loan application using open ended questions.

**Backing into the Payment**
Are we using a payment calculator and a tiered rate to work into the payment?

**Collect Stipulations (Stips)**
Current proof of income, proof or residency, 30 days current, confirm the math, gross vs net, bank statements.

**Book sheet (Inventory Value)**
The value of a used auto in a specific market area. A recognized wholesale appraisal guidebook provides guidance on the auto's value at any given time. Examples of these guidebooks include Black Book, Kelley Blue Book, or NADA Guides & conversion value.
WHAT LENDERS LOOK AT

- CREDIT WORTHINESS
- Similar Auto Trade, what's the amount of the current loan
- Minimum 15% - 20% down of total amount financed
Finance 2.0 Sales and Finance

BANK GUIDELINES AND HOW THY PURCHASE

- 700+ QUOTE 5.50% ON SHORT TERMS AND 7% ON LONG TERMS
- 670 - 699 SCORE - QUOTE 7%-9%
- 630-650 IS KIND OF GRAY AREA - QUOTE 12%-17%

Lorem Ipsum has two main data statistical methodologies which summarizes.
NEGATIVE EQUITY

I'M UNDER WATER, OWES MORE ON THE VEHICLE THAN ITS ACTUAL CASH VALUE

CORRECT INVENTORY, BOOK VALUE, LTV, MONEY DOWN!
Finance 2.0 Sales and Finance

• Structuring a deal for lender approval
• Model year and miles
• Debt to Income
• Payment to Income
• What vehicle will work?
• Know your lender programs
• Backing into a payment, give multiple options on approved credit O.A.C.
PLANTING THE SEED

Planting Seeds early on

During a test drive, ask the client if they know about the warranty the vehicle comes with.

Ask them to remind you later how they can have complete piece of mind while they own the vehicle.

Remind client that the proposal will include options for protecting their investment.

FINANCE PROTECTIONS
TOTAL 40%
TAKE AWAYS

Check in with Management

Properly Structure a deal based on vehicles that will get lender approved

Back into a payments that work for clients budget

Present a proposal on approved credit (OAC) payment and close the deal! Set expectation for communication with Finance for final approval.
THE END

QUESTIONS?

Check in with Management

Present a proposal on approved credit (OAC) payment and close the deal! Set expectation for communication with Finance for final approval.
Finance 3.0: Compliance

What is F & I Compliance?

A comprehensive Audit of Finance Department and Finance Manager practices including deal jacket examination. Detailed action plan to comply with Federal and State Regulations.

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What should you do?

- Develop a program to assess your complete Dealership Compliance
- Appoint someone to evaluate routinely, including regulatory knowledge
- Educate the staff on compliance procedures
- Reach out to third party for compliance review
- Prepare and file required documents
Federal Rules and Regulations:

**Gramm-Leach-Bliley Act (GLB Act):** Car dealers must protect consumers’ privacy and sensitive data that they collect such as names, Social Security numbers, and credit card or bank account information.

**CAN-SPAM Act:** Prohibits misleading or false statements in emails sent by dealership. Must provide valid physical postal address and a way to opt out of emails.
Compliance: F&I Department

**Truth in Lending Act (TILA) Reg Z:** Governs how auto loans and leases are advertised. You must be upfront and disclose all terms of loans to potential borrowers including, but not limited to: Interest Rates, Applicable fees.

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**Equal Credit Opportunity Act (ECOA):** Prohibits discrimination in credit transactions on the basis of applicant’s race, sex, color, marital status, religion, national origin, age, and public-assistance status.
Risk-Based Pricing Rule: Gives most consumers information about their credit scores when they apply for financing. Compliance by providing Credit Score Disclosure Notice.

Fair Credit Reporting Act (FCRA): Obligates car dealers to protect customers’ credit information and holds them accountable for the accuracy of that information.
Questions???