

Compliance Problems? It Might be the Paperwork

By Kevin Kopp

DIRECTOR OF INDIRECT LENDING, WOLTERS KLUWER FINANCIAL SERVICES

There are a lot of factors that can make the auto finance process complicated, but in many cases, you can track problems back to the same source - the paperwork. It is the starting point that can make or break a finance transaction, and ultimately affect the success of a dealership.

Proper loan documentation has always been critical, but with the state of the economy and growing focus on compliance, independent dealers need to pay attention to such details now more than ever. According to CNW Research conducted at mid-year, 2008 used-vehicle floor traffic at both independent and franchise dealerships was down nearly 30 percent versus last year. Given the current state of the marketplace, independent dealers cannot afford to make mistakes in the auto finance process that cause them to lose a sale or jeopardize their relationship with a lender.

A big step in preventing compliance problems is knowing how and when they are most likely to occur.

The Challenges

While a dealer's main focus is selling cars, there are so many pieces of their business that need to come together in order to reach that end goal. With resources stretched thin, most independent dealers must wear many hats within their business. They need to know and understand the sales process, who their target customers are and how to meet their needs. They must be knowledgeable about the vehicles they're selling and how to best manage inventory.

But perhaps one of the most difficult and intimidating areas independent dealers have to address is finance. In order to provide indirect lending services to customers, a dealer needs to build relationships with lenders. This can take months or years since lenders want to develop trust with the dealers they do business with and have confidence that they are meeting regulatory requirements.

At the same time, dealers must stay on top of all of the new regulations that are constantly affecting the auto finance process. Each year, there are several thousand new pieces of legislation introduced in the state, federal and District of Columbia governments that affect the banking industry. In 2007, about 400 pieces of legislation directly resulted in changes to the documents that auto dealerships use on a daily basis. So while physically completing forms may sound like a simple task, ensuring the forms are compliant with current regulatory requirements can be more challenging than it seems.

The Consequences

To ensure they are sending compliant loan documentation to lenders, dealers need to know that the loan documents they are using are up-to-date. This can be challenging for independent dealers who have manual processes in place.

Many dealers simply pull retail contracts and other forms from their existing inventory that may have been purchased months ago—leading to an increased risk that the documents they're using are outdated and non-compliant.

Those non-compliant forms are then inserted into a dot matrix printer, where the information that's typed in often doesn't line up with the blank fields on the documents. Due to this manual and inefficient process, a dealer can easily send a non-compliant document with a number of inaccuracies related to the consumer's finance information to the lender without even realizing it.

Not only will this mistake hurt a dealer's relationship with the lender, who ultimately takes ownership of the loan, but if the dealership makes the same mistake on a number of the vehicles it sells, there is potential for a lawsuit for violating the Truth in Lending Act.

The Resources

It can be hard to determine where to obtain the right forms, let alone make sure


that all loan documentation meets the ever-changing regulatory requirements. But there are a number of resources dealers can turn to.

In addition to offering various services and educational materials to their dealer members, many state associations also provide access to the forms required to complete compliant auto finance transactions. These associations are dedicated to helping dealers improve and protect their business. Even if they don't offer forms directly to their members, chances are they have preferred vendors that they can recommend.

There are a number of compliance and technology providers within the auto finance industry who can help independent dealers simplify the challenges related to forms management. However, dealers need to be cautious and take time to ensure that the documents they are buying are fully compliant with industry regulations. There are three key questions dealers should ask when selecting a provider:

- How are the loan documents generated?
- Is the content regularly updated to meet all current regulatory guidelines?
- Are the documents covered by a compliance warranty to provide protection against compliance claims?

Working with a trusted provider greatly eases the compliance burden for independent dealers. Not only can a provider help ensure forms are compliant, but it can also help the dealer determine which forms it needs to document specific finance transactions according to current requirements.

While the risks related to auto finance will never go away completely, they can be greatly mitigated if dealers are proactive in assessing the way they handle loan documentation. Once compliant processes are in place, they become second nature. Dealers who take these steps will be best positioned to build and strengthen lender relationships and maintain a successful business over time. 

Kevin Kopp
is the Director of Indirect Lending at Wolters Kluwer Financial Services, a leading provider of regulatory compliance solutions to the indirect lending, banking, mortgage, insurance and securities markets. For more information, visit www.wolterskluwerfs.com.

