

# **F&I's 7 Deadly Sins**

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The number of regulations placed on dealerships is constantly increasing. With the Truth in Lending Act and the addition of 10 Federal Trade Commission (FTC) regulations and five federal laws, dealers must stay current with changes to compliance requirements. Even if a dealership is hit with a federal charge, the fine may be reduced if the noncompliant act is not something that happens frequently, and if the dealer can show evidence of compliance programs in place.

The National Association of Attorney Generals recently reported more than 40,000 consumer lawsuits filed against dealerships in the last two years. Of those, more than 6,000 were filed against the F&I department. More than 90 percent of F&I lawsuits were caused by the same problems, which are repeated again and again in dealerships around the country.

Let's review the seven deadly sins of F&I, as identified by AFIP's David Robertson.

## **1. The Word "Best"**

"Best" should never be used when discussing the finance charge (APR). Although the F&I practitioner views the word "best" as the "buy-rate" plus a couple of points, a reporter or plaintiff's attorney understands the word to imply that the quoted rate is either the dealer's "buy-rate" or the lowest rate known to man. A better way to address an inquiry on the rate is to say it is the rate that is available for the person if he or she wishes to finance at the location where buying his or her car.

## **{+PAGEBREAK+} 2. Forging Signatures**

A customer's signature may never be forged on any document, as it is a felony.

## **3. Overstating Income**

Overstating a customer's income on a credit application might help you get the deal financed, but it can eventually lead to repossession and charge-backs. This action is a felony, costing the dealer a lot of money and negative attention from the media. At Gunderson Chevrolet in El Monte, Calif., the F&I department's inflation of customer income led to the dealer paying a \$2.5 million charge-back.

## **4. Mousing Menus**

Menus are being configured to hide the loaded payment, or altered after the fact to document acceptance of products the customer did not agree to buy. If a menu is used, a copy should be kept on file to avoid any future legal problems.

## **5. Packing Payments**

The payment quoted to a customer during the purchase process must be limited to the agreed-to cash price of the vehicle — as well as any applicable taxes and fees — at a representative APR and term. The California Car Buyer's Bill of Rights specifically addresses the practice of payment packing. If the payment quoted is an estimate before checking a customer's credit, it must be clearly stated that it is an estimate. In such instances, it is recommended that the APR be based on the average retail rate charged for that class of buyer (new or used, prime or nonprime) over the past 90 days. This gives the dealer a good basis for the quoted rate. The term should also reflect the repayment conditions for most deals.

## **6. Noncompliant Disclosure**

The customer must be given ample time to review the contents of a contract before being asked to sign it. You cannot recite the disclosures for the customer. The new mantra for Reg. Z is the customer must hold, for the purpose of reviewing, the contract before signing. A customer must also be allowed to take a contract home to review prior to signing.

## **7. Flying Blind**

This refers to executing contracts without knowing what they contain. In a 30-day period, an F&I practitioner will execute more contracts than a lawyer. The F&I practitioner must be knowledgeable in all of the terms and conditions found in the documents he or she is asking the customer to sign.