

Are You Prepared For The Red Flag Ruling?



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You've no doubt heard enough about Identity theft and the risks it poses to your dealership. You may even know of a dealership – perhaps even your own – that's been victimized by the nation's fastest growing white collar crime. **How big is the problem?**

Big enough. According to a 2007 report from Javelin Strategy & Research, in 2006 8.4 million Americans were victimized by identity fraud. While there are many forms and categories of identity theft, five percent of all claims involve loan fraud. And to hit just a little closer to home, nearly two percent of all loan fraud cases involve auto loans and leases – equating to millions of dollars lost annually to dealerships like yours.

To make matters worse, identity theft and the thieves that perpetrate the crimes know no boundaries. According to the FTC, in 2006 victims of identity theft were sprinkled throughout the nation, with heavier concentrations in the following states (in no particular order):

- Arizona
- Nevada
- California
- Texas
- Florida
- Colorado
- Georgia
- New York
- Washington
- Maryland

Red Flag Guidelines

As a result, in May last year the federal banking agencies and the FTC approved for publication proposed interagency rules regarding “Red Flag” guidelines. Simply put, the Red Flag guidelines will require financial institutions – that includes auto dealerships – to establish a written, risk-based identity theft program. The goal for such a program is to motivate financial institutions to take proactive steps to fight identity theft, rather than adopt a passive stance on the issue. This is good news for dealerships, as it will help protect you from fraud-related losses. But it does mean a change in the way you do business.

The guidelines will address reconciliation procedures required by sections 114 and 315 of the Fair and Accurate Credit Transactions Act of 2003 (FACTA). The agencies behind the ruling have proposed guidelines for identifying patterns, practices and specific forms of activity that indicate the possible existence of identity theft. They've also proposed joint regulations requiring you to establish reasonable policies and procedures for implementing a formal identity theft program.

When approved, they will address financial, operational, compliance, reputation and litigation risks as they relate to your dealership, including policies and procedures to:

1. Identify Red Flags
2. Verify the identity of persons applying for credit
3. Mitigate the risk of identity theft using a risk-based approach
4. Train staff to implement an identity theft program

Are you prepared?

The Red Flag guidelines are a significant step forward in the fight against identity theft – and towards protecting your dealership profits. But when it goes into effect, will you be ready? “Now's the time to adapt dealer operating procedures to include a consumer verification component.”

Though no specific timeframe has been offered up by the agencies, the new Red Flag guidelines will happen – and it's being speculated that it could take effect as early as the end of this year.

Let's face it, the Red Flag Ruling will impact your dealership; it's just a matter of when. That's why now is the perfect time to adapt your operating procedures to include a consumer verification component. For dealers not already taking steps to protect their dealerships with identity theft programs, the potential impact to suddenly do so could be great. If caught unprepared, researching and implementing a comprehensive identity verification program could be taxing on your most valuable asset – your time.

So, it goes without saying (but I will anyway), that waiting until the last possible moment to implement an identity theft program could prove to be unnecessarily disruptive to your operations. Especially since there are turn-key, customized ID verification solutions available now that will satisfy the new requirements. After all, today's ID verification programs are designed to do the one thing you should be most concerned about – preventing identity theft and the associated losses, before they happen.

Is there an ID verification solution for you?

Absolutely. The whole time you've been hearing about identity theft and the coming Red Flag ruling, reputable information providers have been working hard to develop proven solutions to address your needs – and to keep you compliant.

ID verification solutions are simple, easy-to-use and reasonably priced. More importantly, most can be seamlessly integrated into your dealer management system or F&I platform. That means you can be up and running – and one step closer to being compliant – quicker and easier than you might think. So be sure to designate someone on your team to take the lead on shopping for opportunities, even special promotions, that will get you on track a little quicker with products you can trust.

So, given the coming Red Flag ruling, you may not want to wait for any “Red Flags” of your own. The sooner you adapt an identity verification program, the better. After all, you can't argue with the two best reasons to do so (aside from being a requirement): It will protect your dealership, and your customers. 