



Jason Blair

RED FLAG RULE AND YOUR DEALERSHIP

On Oct. 31, 2007, the federal government announced a rule that specifically deals with the prevention of identity theft. Identity theft is the fastest growing crime in America and is projected to touch one out of eight people in the

coming year. The Red Flag Rule went into effect on January 1 of this year, and has a mandatory compliance date of Nov. 1, 2008. Time is of the essence to fully meet this regulation.

You are probably asking, "What does this

mean for my dealership?" Auto dealers who engage in financing activities are required to establish an Identity Theft Prevention Program that is designed to detect, prevent and mitigate identity theft.

Your program must consist of six components:

1. Identify relevant "red flags" (patterns, practices or activities that indicate the possibility of identity theft) relevant to the credit origination process
2. Detect and evaluate these "red flags" in connection with individual customer transactions
3. Respond to the "red flags" you detect in an appropriate way to prevent identity theft
4. Ensure your program is updated periodically to reflect changes in risk to customers from your experiences and new identity theft activity
5. Policy generation and reporting capabilities with annual audits
6. Employee training for those involved in the origination of new accounts

Identity theft continues to be a major threat to and a significant concern for American consumers. Identity theft costs time and money for financial institutions and auto dealers, which can create significant risks to safety and soundness. Even worse, such fraud wreaks havoc on its victims by destroying credit histories, violating financial privacy and ruining good names. Any financial institution or auto dealer should be vigilant and proactive in helping to protect their customers from this serious financial crime.

This new rule is involved and complicated but completely manageable with the right personnel and the right technology to assist in becoming compliant.

"So, do yourself a favor – carefully vet new technologies with your compliance counsel. While certain parts of the Rule lend themselves to technological solutions, other parts may require some good old fashioned subjective thinking. Be sure you know which parts are which, and you'll keep the regulatory wildfires to a minimum."

— Michael Benoit, Hudson Cook LLP

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