5 WAYS TO CONVERT

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With credit unions becoming more prominent players in the vehicle industry, F&I managers must be equipped with informative rebuttals about why dealership financing is a better option for customers.

It's imperative that dealership personnel understand that there are several different ways for a customer to finance his or her vehicle purchase. The key is to anticipate what objections the customer may have for dealership financing. Let's review some key word-tracks to help you overcome those objections.

1. CONVENIENCE AND CONFIDENTIALITY

Customer: I'm going to finance the car through my credit union.

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F&I Manager: There are two important factors you should think about before making this decision — your time and your privacy. If either is valuable to you, you may want to reconsider.

Let's start with time. To secure a loan at your credit union or bank, you have to fill out an application and then wait for approval. Credit union loan committees don't meet every day — some meet only once a month. Then, once your loan is approved, you have to pick up your check and bring it back to the dealership.

Privacy is an even bigger issue. Remember who makes the loan decisions at your credit union — credit union reps, your supervisor and a panel of your coworkers. They'll be examining your personal finances, the bills you pay and those you may not pay. They'll know how much money you owe and to whom you owe. They'll also be looking through your employment file.

On the other hand, we can do the financing right here and be done with the process quickly, and without exposing your personal information to the people with whom you work. Which process do you feel more comfortable with?

2. KEEP YOUR LINE OF CREDIT AVAILABLE

F&I Manager: It's important to keep in mind that there is a limit to the amount of money you can borrow from your credit union. Credit unions extend lines of

CREDIT UNION CUSTOMERS

credit much like banks do. By financing your car through the credit union, you may not have funds available to you in the event of an emergency, or if an investment opportunity comes up. If you finance your car through the dealership you keep your credit union line of credit intact. That's money that will be available when you really need it.

3. RIGHT TO OFFSET

F&I Manager: Do you have a checking or savings account at your credit union, or any other assets?

Customer: Yes.

F&I Manager: I'm not sure if you realize it, but credit union contracts contain a clause known as the "right to offset." What that means is that you pledge all your assets with the credit union as security for the loan, not just the car's title. On the other hand, if you choose to finance with our program, the only security you would need is the car itself. Which financing plan makes you feel more comfortable?

4. ESC vs. MECHANICAL BREAKDOWN INSURANCE

F&I managers can also use an extended service contract to tout the benefits of choosing the dealership to finance the customer's purchase.

F&I Manager: That's fine. Then would you like to pay cash for your extended service contract, or did you want to put that on your credit card?

Customer: Can't I finance it with my car?

3 STEPS TO CONVERTING CASH BUYERS

The availability of better financing rates with extended terms, wide use of sales incentives (either from manufacturers or dealers) and lower or no down payment requirements have all played a role in the sale of new and used vehicles. However, they're also one of the reasons why a small percentage of customers opt to pay cash for their purchases. What's important is that F&I managers identify the customer's motivation for wanting to pay cash.

There are several reason for a customer wanting to pay cash, but there is an equal amount of reasons why they shouldn't. The key is not to fall into a defeatist attitude just because the customer said he or she would like to pay cash for the purchase. Most importantly, the F&I manager must remember that conversion creates a chance to make products and services affordable to the customers.

STEP 1 ASKING QUALIFYING QUESTIONS

The first step should be asking qualifying questions, as the F&I manager needs to have an idea about the customer's liquid assets. In most cases, the funds the customer is relying on are coming from various investments, such as stocks, bonds and 401(k) plans. It is seldom the case that someone is keeping that kind of money under their mattress.

Here are some qualifying questions:

- How do you intend to handle the balance?
- Is the cash coming from your checking or savings account?
- Do you pay cash for most of your major purchases?
- Did you pay cash for your last car?

STEP 2 CUSTOMER AWARENESS

Benefits of the dealership financing should be pointed out to the customer using a soft, non-confrontational approach. This is also not the time to go into lengthy explanations. The key is to provide the customer with something to contemplate while the finance manager proceeds with his or her presentation.

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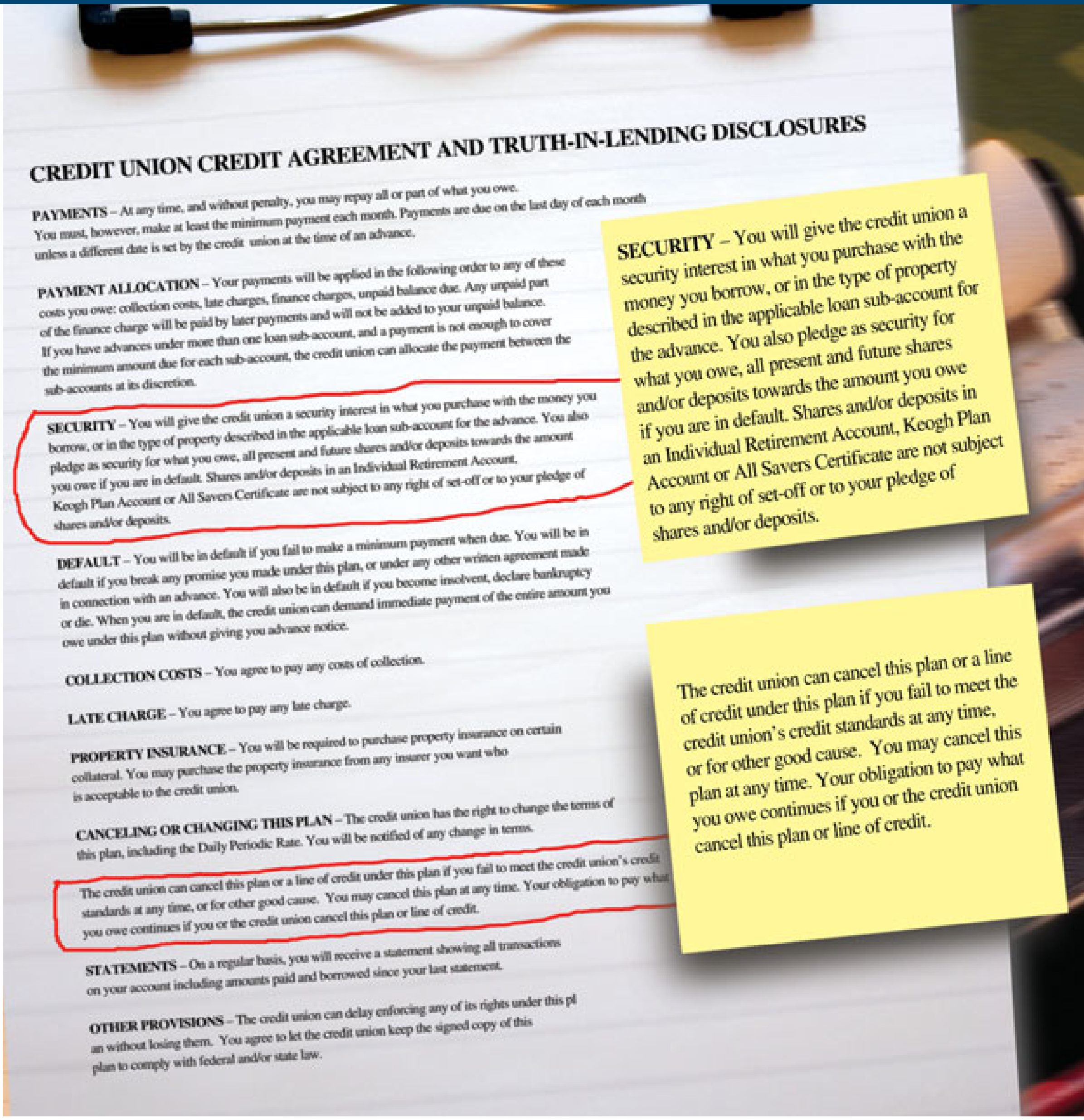

CREDIT UNION CREDIT AGREEMENT AND TRUTH-IN-LENDING DISCLOSURES

PAYMENTS – At any time, and without penalty, you may repay all or part of what you owe. You must, however, make at least the minimum payment each month. Payments are due on the last day of each month unless a different date is set by the credit union at the time of an advance.

PAYMENT ALLOCATION – Your payments will be applied in the following order to any of these costs you owe: collection costs, late charges, finance charges, unpaid balance due. Any unpaid part of the finance charge will be paid by later payments and will not be added to your unpaid balance. If you have advances under more than one loan sub-account, and a payment is not enough to cover the minimum amount due for each sub-account, the credit union can allocate the payment between the sub-accounts at its discretion.

SECURITY – You will give the credit union a security interest in what you purchase with the money you borrow, or in the type of property described in the applicable loan sub-account for the advance. You also pledge as security for what you owe, all present and future shares and/or deposits towards the amount you owe if you are in default. Shares and/or deposits in an Individual Retirement Account, Keogh Plan Account or All Savers Certificate are not subject to any right of set-off or to your pledge of shares and/or deposits.

DEFAULT – You will be in default if you fail to make a minimum payment when due. You will be in default if you break any promise you made under this plan, or under any other written agreement made in connection with an advance. You will also be in default if you become insolvent, declare bankruptcy or die. When you are in default, the credit union can demand immediate payment of the entire amount you owe under this plan without giving you advance notice.

COLLECTION COSTS – You agree to pay any costs of collection.

LATE CHARGE – You agree to pay any late charge.

PROPERTY INSURANCE – You will be required to purchase property insurance on certain collateral. You may purchase the property insurance from any insurer you want who is acceptable to the credit union.

CANCELING OR CHANGING THIS PLAN – The credit union has the right to change the terms of this plan, including the Daily Periodic Rate. You will be notified of any change in terms.

The credit union can cancel this plan or a line of credit under this plan if you fail to meet the credit union's credit standards at any time, or for other good cause. You may cancel this plan at any time. Your obligation to pay what you owe continues if you or the credit union cancel this plan or line of credit.

STATEMENTS – On a regular basis, you will receive a statement showing all transactions on your account including amounts paid and borrowed since your last statement.

OTHER PROVISIONS – The credit union can delay enforcing any of its rights under this plan without losing them. You agree to let the credit union keep the signed copy of this plan to comply with federal and/or state law.

SECURITY – You will give the credit union a security interest in what you purchase with the money you borrow, or in the type of property described in the applicable loan sub-account for the advance. You also pledge as security for what you owe, all present and future shares and/or deposits towards the amount you owe if you are in default. Shares and/or deposits in an Individual Retirement Account, Keogh Plan Account or All Savers Certificate are not subject to any right of set-off or to your pledge of shares and/or deposits.

The credit union can cancel this plan or a line of credit under this plan if you fail to meet the credit union's credit standards at any time, or for other good cause. You may cancel this plan at any time. Your obligation to pay what you owe continues if you or the credit union cancel this plan or line of credit.

F&I Manager: Not if you finance your car through the credit union, which offers another product called Mechanical Breakdown Insurance (MBI). Rather than repair your vehicle like an extended service contract will do, MBI reimburses you for repair expenses. The difference is that to make a claim you have to get the car fixed, pay the bill, keep the replaced parts, retain the mechanic's work order, contact the MBI company to request a claim form, complete the form and ship it with the old parts, repair receipts and work order. Then you have to wait to see if the MBI company is going to reimburse you for all or part of your claim. Usually, the MBI company will evaluate the old parts and will only pay on the remaining life on each part, plus labor. The MBI company also deducts for taxes, lubricants, fluids and more. You may wait up to three months before your claim is fully processed.

Of course, if you finance your vehicle through our program, you can finance your extended service contract along with your vehicle. This will allow you to take advantage of a superior protection plan.

5. RATE DIFFERENCE

Customer: I can get a better interest rate through my credit union.

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Some of the benefits that dealership financing provides are:

- It costs less
- It will allow you to protect your assets and credit
- You will have more money available to you
- You will be protecting your savings and obligations
- A monthly obligation can be arranged to fit any budget

STEP 3 OVERCOMING OBJECTION

The customer will definitely have questions after the menu presentation is concluded. And these questions will provide the F&I manager with his or her approach to overcoming the customer's objecting to financing his or her purchase.

If cost is the customer's objection, determine the average percentage of interest that can be earned. Now use that figure to outline the following:

F&I Manager: Yes, you could pay cash, but then you'd be using up your savings, stocks, bonds, etc. Keeping that savings account open for an emergency could be well worth the extra cost, which, if you look at the figures, isn't that much money in terms of dollars.

8.5% (*dealer rate*) costs $4.58 per hundred/per year
7% (*interest earned*) costs $3.74 per hundred/per year

$20,000 x 0.84 = $168 a year.

Our rate is 8.5 percent, which costs $4.58 per hundred/per year. You can earn 7 percent in interest on that account, which costs $3.74 per hundred/per year. The rate difference is 84 cents per hundred/per year. Multiply that by the $20,000 financed, and you're looking at a difference of $168 a year.

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4 MOST COMMON REASONS FOR PAYING CASH

- Finance Charges: Specially with availability of extended terms
- No monthly obligation: Higher monthly payments due to increasing car prices and lower down payments
- Confidentiality: Nationwide concern with privacy and confidentiality
- Habit: Always pays cash

That's not much difference after all, and you still have a $20,000 available to you. Doesn't it make sense to keep that money for a time of emergency or for a better investment opportunity?

F&I Manager: You could, but then you'd be using up your credit union line of credit. Keeping that line of credit open for an emergency could be worth the extra cost. And if you look at the figures, the rate difference isn't much money in terms of dollars.

PHOTO: ©ISTOCKPHOTO.COM/MARK EVANS

Our rate is 8.5 percent, which costs $4.58 per hundred/per year. The credit union is offering 7 percent, which costs $3.74 per hundred/per year. The rate difference is 84 cents per hundred/per year. Multiply that by the $20,000 financed, and you're looking at a difference of $168 a year. That's not much of a difference after all, and you still have a $20,000 line of credit available through the credit union. Doesn't it make sense to keep that money for a time when you may really need it? ■

The information was provided by Arzu Algan, Dean of Education for the Automotive Dealership Institute, a Scottsdale, Ariz.-based automotive management school that specializes in educating the next generation of finance and insurance managers and service advisors. For more information, visit autodealerinstitutecom