Quoting and Selling Interest Rates

By George Angus

Making more finance reserve does not necessarily mean more F&I profit. Dealership consultant discusses what top-performing F&I departments do, and how they maximize PRU by setting interest rates during the F&I process.

"How much finance reserve should I be making?" is a question I've received more and more from F&I managers around the country. The reason for this heightened interest could be attributed to the change in consumer attitude and awareness regarding rate.

The constant advertising of subvented rates has helped sell more cars, but it has also created a keen awareness for interest rates among consumers. They use the interest rate as their primary guide in choosing a finance source, and they are willing to shop for the best rate. While the old considerations of convenience and dealer control of customers still have an impact on their decisions, consumers are aware of their options. That's why there are several priorities that need to be examined before an F&I manager addresses this issue.

One obvious goal of the F&I department is to make money. Logic would suggest that the more finance reserve we make, the more money we make in F&I, right? Unfortunately, the facts tend to prove the opposite.

In examining hundreds of F&I departments around the country, we find one thing in common when it comes to the top performers in income per retail unit (PRU), percentage of charge-backs, and customer satisfaction. They have a relatively even balance of income from all of their products and tend to concentrate on product sales and percentage of deals financed rather than finance reserve. They also tend to average less than two points in rate spread. Their finance reserve also shows a percentage of income under 30 percent.

One possible reason for this fact is customer attitudes. We found that negotiating rate with the customer tends to create a loss of credibility, which impacts not only reserve income but the customer's willingness to consider F&I products. It's much more effective to set the rate up front, and then deal with the rate issue only as an objection put forth by the customer. While this difference seems subtle, it seems to have an impact on customer response.

The other reason may be increased finance penetration. The fastest way to increase F&I income is to increase the number of deals financed. We make almost all of our money on finance deals. The only way to increase the percentage of deals financed is to convert buyers to our financing from another source of repayment. Interest rate speaks directly to conversions.

Case Study: Changing the Dealership's Focus

One dealership we work with saw its PRU go from $483 to $1,186 after it began setting rates during the F&I process. And while its percentage of income from finance reserve decreased dramatically, the balance the dealership achieved led to a higher PRU. Additionally, the dealer’s finance penetration went from 46 percent to 67 percent. The increase can be attributed to four changes the dealership made:

1. Setting a standard for points of interest over buy rate

2. Began using a menu selling system

3. Proper introduction, turnover and attempted conversion of every customer

4. No pre-exposure of F&I products by sales department.

These results were also accomplished without any change in personnel, and initial cancellations of products sold stayed under 2 percent.

Why did more customers choose to finance with this dealership? The only explanation has to do with the handling of rate quotes. By addressing the issue of rate in an honest and open manner, the F&I managers were able to keep a good income from reserve while converting more customers and selling more product.

Setting Interest Rate

There are several ways to set rate. Some dealers are even posting their rates based on the tier system. However you do it, it's clear that setting the rate and disclosing that rate to the customer without dancing around the issue is, by far, the most effective way of dealing with the rate question.

Trying to make your living on finance reserve costs you income and credibility. It also sets you up for frustration. Make a reasonable amount of finance reserve income and concentrate on product sales and conversions. The rate will take care of itself.

Dealers should also make sure salespeople are trained in the areas of pre-exposure, proper introduction, and the importance of seeing every customer at the point of sale. Dealers should also make sure their F&I personnel are trained on product presentation and sales. And remember to present a reasonable rate to every customer, and make sure to do whatever it takes to convert customers to your financing. Do these things and you will get results, guaranteed.

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