Power Booking Today

by : Gil Van Over

I started in this business as a management trainee for one of the domestic captives. The first step as a management trainee is the collection desk, working the phones and beating the streets to collect the deals our credit analysts put on the books.

As a metrics driven company, each employee had numbers driven performance objectives. Meeting these objectives would mean higher performance review ratings, which meant bigger raises and quicker promotions.

One of my performance objective metrics was credit losses due to repossessions and charge-offs. The smaller the loss, the better the performance rating. Power booking would exaggerate the amount of the loss. The first time I approached my supervisor with a case of power booking and requested that we ask the dealer for a check for the amount of the missing options, I learned a very important lesson.

"We will overlook this one because it is a loyal dealer and we don't want to risk future business over $500."

This was the general opinion in the lending industry oh so long ago. Today, it couldn't be further from the case.

Today's environment

I saw a fax from a significant independent prime lender last week informing the dealer of a change in the invoice value used to calculate advance percentages. Going forward, this lender intends to start reducing the invoice amount by the amount of the rebate used as the down payment on the deal to calculate the advance.

Still another fax from another lender to a different dealer stated its intention to begin using auction sales as the basis of used vehicle valuation instead of Black Book or NADA book values.

The credit and automotive economic environments are continuing to tighten up advance ratios in the indirect auto financing sector.

What this means

Third-party lenders will be much more prudent in confirming that the vehicle values represented to them at the time of credit decision is consistent with the options on the vehicle at the time of repossession.

No longer will lenders be willing to wink and nod in the interest of retaining an ongoing stream of credit applications and contracts.

Potential litigation risk

Another risk associated with power booking is from the plaintiffs' bar. There have been lawsuits filed against dealers that include charges associated with power booking.

The theory goes like this. The dealer power booked to increase the amount approved by the lender. This higher amount led to higher payments, which the consumer could not afford. Because the consumer could not afford the higher payment, the consumer's car was repossessed and now owes a deficiency to the lender.

The lawsuits usually also allege that the dealer profited by the higher sales price.

What a dealer needs to do
Recently a general manager argued with me during a recap session on my finding of a potential power booking. His people submitted a like invoice on a used 2008 vehicle that did not yet have a book value. This like invoice was for the correct 2008 make and model, but contained three additional options that were not on the vehicle sold.

His argument was that his job was to find a like invoice with the most options on it as long as the first 10 digits of the VINs were the same so that he could get a higher advance.

This philosophy is the first change you will need to make. You must send the message to the troops that power booking is not permitted under any circumstance.

Next, you need to establish processes, policies and procedures to document that power booking is not taking place. Many dealers have a used car manager or another manager who is responsible for acquiring used vehicles and placing them into inventory.

Make it the policy that this manager generates a bookout sheet with all applicable options listed. This manager is to sign and date the bookout sheet attesting to its accuracy. This bookout sheet is the one that is submitted to the lender. If a used vehicle is not yet listed in the books, substitute an accurate like invoice.

Finally, implement a modest audit process to confirm your policy is being followed. Pull a random sampling of used car deals and confirm that the bookout amount listed in DealerTrack or Route One is consistent with the bookout sheet signed by the used car manager.

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