

# Dealer

## F&I Special Section

by *Gil Van Over*



# Defining Moments - Prohibited Practices

## *Part two of trouble-making activities - and how to avoid them*

How much fun was last month's homework assignment? As a refresher, I discussed defining moments in life and how engaging in prohibited sales and F&I practices can define your life, affect your livelihood and diminish your net worth.

Here again, in alphabetical order, is my list of 20 common prohibited practices still being employed by reprehensible sales managers and F&I practitioners. Last month I discussed the first 10 of them. This month I'll conclude with the remainder. The Evil Empire has its laser gun aimed squarely at violators!

- 1. Blank, signed documents
- 2. Bundling products
- 3. Completing documents after the fact
- 4. Credit card down payments
- 5. Dealer rebates
- 6. Falsifying information to lenders
- 7. Forging customer's signatures
- 8. Front end improvement (a.k.a. selling air)
- 9. Handwritten entries
- 10. Including F&I products in the vehicle price
- 11. Inconsistent product pricing
- 12. Menu manipulation
- 13. Missing enrollment forms
- 14. Payment packing
- 15. Power booking
- 16. Product stuffing
- 17. Scooping rebates
- 18. Signature on file

- 19. Straw purchases
- 20. Trading rate for product

Let the firing commence!

### **11. Inconsistent product pricing**

The customer must sign at least three documents acknowledging and accepting the price of the vehicle, aftermarket items and F&I products. The pricing of these items must be consistent on all forms. Hopefully, even the most skeptical of Darth Vader's troopers must acknowledge that the customer knew she was purchasing an ancillary product if she signed three different forms that disclosed the price of the product.

#### *Detection Methods:*

1. Inspection and comparison of the various forms where the product price is disclosed:

- a. F&I menu
- b. Buyer's order
- c. RISC (retail installment sales contract)
- d. F&I product enrollment form

2. The product pricing on forms 1a through 1d above is consistent with the retail price on the internal washout sheet.

### **12. Menu manipulation**

Now that you have likely joined the growing list of dealers who have an F&I menu in place in your business office, you are probably sleeping better at night. Well, wake up!

My completely unscientific estimate is that the majority of transactions that were closed with a menu in the last year were flawed and probably helped to support the Dark Side's conspiracy theory that your dealership is purposely misleading customers.

I see just about as many different versions of menus as I see different versions of buyer's orders in the dealerships I consult with. For example, there are:

- · Handwritten menus that start with a blank sheet of paper
- · Pads of pre-printed menus on which the F&I manager is to handwrite most of the information. These menus have either been created in-house or supplied by the dealer's F&I provider
- · Electronic menus that display the information in what Arlo Guthrie would describe as "8 by 10 color glossies," what with all the color and graphics and cute little icons

Depending on which menu iteration you are on, rest assured that nefarious F&I managers can and will manipulate the system you have in place. Again, my back of the hand estimate of the comfort level you should have with each version:

- · Handwritten - absolutely no comfort
- · Pre-printed - 25 percent
- · Electronic - 90 percent, can approach 100 percent with proper safeguards

Next month I will discuss menu manipulation in detail, along with some safeguards and remedies you can implement so that you can fall asleep without the figuring out how many sheep are in the herd.

### **13. Missing enrollment forms**

Customers must sign enrollment forms for every product purchased. Under no circumstances should F&I managers be paid on a deal if an enrollment form is missing. Enrollment forms obtained after the customer leaves must be scrutinized for inconsistent signatures.

**Detection Methods:**

1. The product is selected on the F&I menu, the buyer's order or the RISC and the enrollment form is not in the file.
2. Check with the office manager to determine if copies of the product enrollment form are kept in a separate file.

**14. Payment packing**

Payment packing takes place in both the sales and F&I process. This practice occurs when a payment quoted to the customer exceeds the actual payment required to purchase the vehicle for the price(s) agreed upon at that point in the negotiation.

*Detection methods:*

- 1. The payment quoted on the four-square is the same as the payment on the RISC with a number of products sold.
- 2. The payment on the four-square is substantially higher than the base payment on menu.
- 3. The payment range on the four-square exceeds \$10.
- 4. The base payment on the menu is equal to the payment on the RISC with products sold.
- 5. The payment on the RISC does not increase over the payment on the four-square or base payment on the menu by a logical amount, given the dollar amount of the products sold.
- 6. The agreed upon payment at the bottom of a software-generated menu is crossed out and a lower payment is handwritten.

For a more definitive discussion on payment packing, go to the archives of [www.Dealer-Magazine.com](http://www.Dealer-Magazine.com) and read my article in the March, 2004, issue titled "Stop Payment Packing - Now!"

**15. Power booking**

This old practice of defrauding lenders to secure an increase in the credit approval amount has catapulted onto the top 20 list because of the recent lawsuit filed out west. Power booking is the practice of showing non-existent options on vehicles, which in turn increases the vehicle's value.

Normally, the lending community pursues dealers for power booking. However, in the lawsuit mentioned above, consumers, not lenders, have filed against the dealer, the F&I manager, the public company that owns the dealership and the lenders that bought the tainted receivables. Regardless of the outcome of this case, how long do you think it took those lenders to tighten up their underwriting on that dealer's applications?

*Detection Methods:*

1. Create a parallel system that you likely have in place for new vehicles:
  - a. Create a "used invoice" that shows the vehicle's year, make, model, mileage and options at the time you put the vehicle into inventory.
  - b. Obtain the used car manager's signature on the used invoice affirming that he or she agrees with the equipment and mileage.

- c. File this invoice either in a book or in deal jackets, depending on how new car invoices are filed.

2. Implement a requirement that this used invoice be the only bookout sheet permitted to be supplied to lenders as part of the deal.

3. Instruct the billing clerk to bring any non-approved bookout sheets to your attention.

4. Instruct your lenders to bring any non-approved bookout sheets to your attention

### **16. Product stuffing**

Product stuffing occurs when a product is included in the amount financed/capitalized cost without the customer's knowledge or consent. It is usually perpetrated using a few other prohibited practices: Signature on file, forging customer signatures, or missing enrollment forms.

True story from the trenches, this one a case I was working on as an expert witness:

I found that the F&I manager was stuffing GAP insurance into the captive's lease deals, a captive that provides GAP protection as part of its lease agreement. The price the dealer was charging started at \$750 per deal and escalated to more than \$1,400 within a year. When I asked the dealer why he would sell GAP since it was included in the lease, he replied that the GAP protection provided did not cover the customer's deductible. True, but the maximum deductible allowed by this captive is \$500. There is no way to justify charging a customer \$750 to \$1,400 for the possibility of covering a \$500 liability.

My next question floored him, and more than anything else, convinced him to stop the practice. "If you did not have to pay the GAP provider a premium or the F&I manager a commission, where would the entire \$1,400 have gone?" The answer, obviously, is gross.

The point is, stuffing products not only is deceiving the customer, but frankly, also stealing from the dealer, the sales manager and the salesperson.

#### *Detection Methods:*

- 1. Unsigned F&I product enrollment forms.
- 2. F&I product enrollment forms that have blanks or "NA" in the product pricing section.

3. The product is not disclosed on the F&I menu, the buyer's order, the RISC or on the F&I product enrollment form, yet is shown on the washout sheet.

### **17. Scooping rebates**

This practice is not as prevalent as it once was now that Regulation M requires rebates to be disclosed on the lease agreement. Scooping rebates occurs when a dealership does not disclose an available consumer rebate, does not include the rebate in the retail or lease agreement as a reduction to the amount financed/capitalized cost, and absorbs the rebate into profit.

#### *Detection Methods:*

- 1. More common on leases than on retail transactions.
- 2. Compare the amount on the rebate form in the file to the rebate disclosed on the RISC and/or lease agreement.

**18. Signature on file**

Signature on file is a form of forgery.

Not so long ago, in a universe governed by the Dark Side, I was reviewing deal files. The very first file had an etch agreement in it that showed "signature on file" where the customer's signature should go. I immediately went to the F&I manager and asked her about it. She replied that the customer forgot to sign the agreement, that she had called the customer after he left and asked him his permission.

I had to lift my pants legs and plug my nose it was so bad.

If this customer sued the dealer for deceptive practices, do you honestly believe that the customer will remember the conversation and agreement to put signature on file on the agreement; of course not. As an aside, every file that particular F&I manager closed had an etch product and every etch agreement had "signature on file." She is now working somewhere else.

*Detection Method:*

1. Line for customer signature is completed with "signature on file," "SOF," "On file," "As agreed" or "File".

**19. Straw purchases**

A straw purchase is a specific form of falsifying information to lenders. It occurs when the person who is purchasing and driving the vehicle is not a party to the retail or lease agreement, typically because the purchaser does not have sufficient credit to finance a vehicle. In some states, such as Texas, straw purchases are specifically against state law.

*Detection Method:*

- 1. Evidence of straw purchase in the file:
  - a. Photocopy of a driver's license for someone not on the RISC.
  - b. Third-party name on the initial four-square or customer welcome form.
  - c. Insurance in third party's name.
  - d. A credit bureau report in the third party's name.
  - e. The third party signs the delivery receipt.
  - f. Down payment receipts in the third party's name.

**20. Trading rate for product**

It is a potential violation of the Sherman Anti-Trust Act to tie the price of a product to the purchase of a second product. Trading rate for product does just that; it ties the price of a product (a reduction in the APR) to the purchase of a product (vehicle service contract, maintenance, etc.).

In a trading rate for product scenario, the F&I manager innocently states, "If I reduce your interest rate by half a point, you can purchase the service contract we discussed and keep your payments the same. What do you think?"

Trust me, if your F&I manager uses this word track once, he uses it extensively. It will only take one mystery shopper working for the plaintiff's bar to hear the message to start changing the tee times in your PDA to depositions.

*Detection methods:*

- 1. The APR at the top of the menu is higher than the APR on the RISC.
- 2. The agreed upon payment at the bottom of a software-generated menu is crossed out and a lower payment is handwritten.

There you have it. I guarantee you that if I audited files in your dealership I would find at least one of these 20 prohibited practices. Now is the time to beat the Evil Empire to the punch and correct these practices before they find out about them.

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