

## Yo-Yo Transactions are Nothing to Toy With

by : Gil Van Over

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Around the world. Walk the dog. Rock the cradle. Lose a lawsuit.

All possible with a yo-yo.

Many of today's sales managers probably grew up wielding the little round toy attached to a string and learned to win quarter bets from their friends with cute little tricks by manipulating the orb and cord.

Today's judges and sharks aren't as amused with the latest yo-yo trick, charging that it is a deceptive auto sales practice to defraud consumers out of more than mere quarters.

The hammerheads that are attacking dealers (including the biased media and the plaintiffs' bar) allege that a majority of the automotive sales transactions today constitute a deceptive practice they have labeled as yo-yo transactions.

As usual, these blowhards have exaggerated the facts to further their cause, whether it is ratings or settlements. More on that in a moment.

### Yo-Yo defined

The allegation is simple, but what did you really expect from simple-minded people?

They allege that dealers engage in the spot delivery practice simply to get a customer to fall in love with the vehicle, show it off to all of his friends, neighbors, co-workers and call his relatives across the country boasting of his new vehicle purchase. After a sufficient incubation period during which the consumer takes physical and emotional ownership of the vehicle, usually within one to three weeks, the dealer then calls the customer back to inform him that the financing did not go through as anticipated.

The theory holds that now the customer will be more amendable to a higher rate, a higher payment, more cash down or a different term.

The simple minds say that the dealer let the customer out on terms that the dealer knew were not acceptable to any of its third-party lenders, and then pulls the customer back in to accept terms more to the dealer's benefit and the customer's detriment. Just like a kid lets the yo-yo out and brings it spinning back to him.

In our language, the deal is recontracted to meet the terms of a third-party lender who is willing to purchase the receivable under certain terms.

This, as promised earlier, proves that the blowhards have exaggerated the facts. In order for a transaction to qualify as a yo-yo transaction, it must be recontracted. In order for a majority of the sales transactions to be yo-yo transaction, a majority of the sales must be recontracted. I do not know of a single dealer who recontracts over half of his spot deliveries. The blowhards, as usual, are wrong!

### Protect yourself

Even though we can prove that the majority of transaction are not yo-yo transactions, this fact does not protect you from potential class-action litigation or nefarious news coverage if even 5 percent of your sales fit the classic yo-yo pattern. Protect yourself against these charges by understanding the elements of a yo-yo transaction and ensure that your policies, processes and procedures do not promote a potential pattern of abuse.

These elements generally are:

1. Spot delivering customers on terms that you know will not be approved by any of your third-party lenders, which will require you to recontract. For example, an E-1 who just arrived in town out of boot camp with a 535 bureau score that your sales manager delivered Saturday night on an 84-month contract at 5.9 percent APR.
2. Waiting three weeks to contact a customer to recontract, especially if you have answers from all of your third-party lenders in three days.

3. Holding open the dealer's contract rescission rights by refusing, omitting or forgetting to sign the retail installment sales contract as the seller at the same time the consumer signs the RISC.

**Implement these procedures**

Implementing these procedures will go a long way towards keeping yo-yo transactions from becoming the de facto operating procedure in your dealership.

1. Establish a rate matrix for your sales managers to use when quoting the first payment with the consumer. This matrix should use four 50 point bureau score ranges on the vertical axis (under 600, 600 to 649, 650 to 700, over 700), and the vehicle's model year on the horizontal axis (new, current model to three-year old used, and four-year and older). Use your captive's rates for each quadrant and add an acceptable rate mark-up, usually 200 to 250 basis points. If you do not always pull a bureau before quoting the first payment, use the 600 to 649 bureau rates as your average rate.
2. Require that your sales managers use this matrix to quote every single first pencil with every customer. Use 60 month terms on new and newer used, and 36 months on older used cars.
3. Monitor your contract-in-transit. Analyze your contract-in-transit. Abhor your contracts-in-transit. Don't just look at your average time in transit, look at the ranges. Require that any deal on the street for five days be unwound immediately, lest you levy a fine per day against the sales manager. This should not only eliminate the emotional ownership argument that the sharks say is a common component of a yo-yo transaction, but should also drastically improve your cash flow. What a wonderful thing!
4. Demand that each F&I manager sign the retail installment sales contract as the seller at the same time the consumer signs the RISC as the buyer and that the customer leaves with a fully executed copy of the RISC.

By implementing these policies, you can keep your grown up kids masquerading as sales managers from playing with yo-yos and your hard-earned equity.

As always, please call or e-mail if I can help.

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