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What compliance looks like: Bank fraud

by Gil Van Over

We have covered fraud and potentially fraudulent practices the last few weeks. Today, a look at bank fraud. Bank fraud at car dealerships has caught the eye of the Feds. The Department of Justice collects reports aptly named Suspicious Activity Reports (SAR) from federally insured institutions whenever the institution receives a tainted transaction. Enough of these reports on a particular car dealership and the DOJ unleashes the FBI to figure it out.

Furthermore, these institutions are not allowed to tell you that they filed an SAR on your dealership. Just be sure, if a federally insured institution asks you to pay off a deal because of bank fraud, you just got SAR'd!

Now, too many news stories and too many complaints have elevated bank fraud in the Feds eyes. They reportedly have started training agents on the nuances of auto sales and financing and will likely start attacking dealerships in every state.

Common Types of Bank Fraud
The Feds seem to be focusing on four types of bank fraud: Straw purchases, falsified down payments, falsified credit application information and power booking.

Straw purchases – A straw is when a deal is put into a third party's name while the true buyer is not on the contract or lease. As soon as the deal goes bad, the straw gives up the real buyer to the bank collector and the bank asks you for a payoff.

Some dealers mistakenly believe that since the bank only finds out about ten percent of the straws that the dealer still gets 90 percent of the straws through. The ten percent will create a SAR filing and too many SAR filings could put your dealership on the hit list.

Falsified down payments – This usually happens when the lender requires a down payment and the sales or F&I manager increase the cash price and the down payment so that the net is the original sale price. Since many underwriting scorecards at lenders place value on cash down payment, submitting a contract with a falsified down payment is an attempt to sabotage the lender's credit decision. Thus, an SAR gets filed.

Falsified credit application – Showing more income, or longer time on the job or less rent are tactics that rogue F&I managers sometimes use to circumvent credit policies. These blatant attempts will result in an SAR filed against the dealership and all partied involved in the transaction.

Power booking – Representing non-existent options on used vehicles to support a higher amount financed, and thus a higher sales price, is the fourth type of bank fraud the feebies are being trained to ferret out.

There is still time to protect yourself, your assets and good name. Establish policies and procedures that strictly forbid bank fraud of any type. Make termination the only remedy. Develop an audit process to verify that your policies are being carried out. Immediately terminate anyone you catch involved in bank fraud.

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