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Dealers face allegations of payment packing after media investigation

State regulators in Colorado have launched an investigation into allegations of payment packing and falsifying customer credit information on deals. The investigation follows a news report by a local TV station that featured former F&I managers at the stores saying the illegal practices were commonplace.

"The complaint is that the customers were not aware of products that were inserted into deals," says David Dechant, director of enforcement for the state Department of Revenue, which licenses and regulates dealers. In addition, the complaints also allege that the dealerships' F&I managers falsified customer incomes on credit applications and loan documents, and inflated the values of vehicles to make deals more attractive to lenders.

The investigation will focus on two Denver stores, Phil Long Ford and Don Massey Pontiac Buick GMC, which is owned by public dealer group Sonic Automotive. At least one of the complainants has reportedly initiated a class action case against the Ford store. Execs at Phil Long and Sonic did not return repeated calls from the Insider for comment. In published reports, both stores pledged to ferret out any problems and stated the former employees mentioned in the news stories were unethical and trying to extort money.

Word of the news report and state investigation spread quickly among dealers across the country for two key reasons:

1. The self-proclaimed industry whistleblower, Duane Overholt, who has aided plaintiffs' attorneys in bringing class action causes against other Sonic stores and helped the consumer group Public Citizen craft a report a year ago citing widespread consumer abuses, had a role in helping the TV station with its report. "He's getting pretty darned organized," says dealer litigation defense consultant **Gil Van Over** of gvo3 & Associates. One concern among dealers: Overholt's web site, www.stopautofraud.com, encourages whistleblowers to share in-store practices that may be unethical. The site also offers to review consumer deal documents for possible fraud for free.
2. The news report included references to copies of deal documents reporters obtained from both stores - ostensibly through the former employees. Dechant confirms that Phil Long Ford has filed a complaint with authorities about the unauthorized removal of confidential customer information from its store.

The news reports showed footage of customers reviewing their deal documents and pointing to income levels and vehicle extras that did not square with reality. In addition, the reports featured former F&I employees describing how they were instructed by managers to juice deals to boost store profits.

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Dechant says the news reports have triggered customer inquiries to the state agency about concerns with their deals. He adds that the TV reporters flagged the state attorney general about their findings, which then triggered the Department of Revenue decision to launch an investigation.

"It's been an appalling thing for the entire auto retailing community in Denver," says Hank Held, senior vice president for Burt Automotive, Denver. "We're all going to be pained by this." He adds that at least one store manager in the Burt network received a call from a customer with concerns about a deal, but the stores hadn't received a spate of inquiries.

A coincidental opportunity: Last Wednesday, Burt held its own press conference to announce the receipt of an award from the Association of Finance and Insurance Professionals for successfully certifying all of the dealer group's F&I managers. Held says Burt had planned to do the award presentation the prior week but a scheduling conflict made it fall during the week of the media firestorm.

One reporter asked Held how AFIP certification would prevent F&I troubles like those alleged at the other stores. Held says he explained that only two of the thousands of F&I managers AFIP has certified have been involved in any cases of deceptive practices or fraud at dealerships.

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