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Creative financing

by *Gil Van Over*

I recently had a conversation with a dealership manager about creative financing.

As sales tighten, some employees are tempted to use shortcuts or whatever means necessary to sell a vehicle.

One such means is to give cash back to the customer in order to seal the deal.

This type of creative financing could put you at risk of having to pay off the deal if the lender finds out about the cash back.

My point

Most lender agreements in place today define the amount financed that the lender is willing to advance as the cost of the vehicle plus tax, title, license, registration fees, doc fees and approved options and F&I products.

Increasing the vehicle cash price (and subsequent amount financed) to include a check to the customer for whatever purpose is a potential violation of the lender agreement.

The manager's point

The manager was adamant that the lender allowed up to 125% as an advance guideline and he only needed 105% to cover the price of the car and the tax, title and license. Why shouldn't he be able to give the customer the difference?

It is an interesting concept, but here's the flaw in his thinking.

The lender's guideline on advance is to provide the dealership with a maximum structure. It is not permission to take any or every transaction up to the maximum advance to provide customers with a side loan. The lender agreement limits what comprises the advance.

Not bank fraud

However, if the lender knows about the cash back, for whatever reason, and still approved the advance, it is not bank fraud. If you do obtain the lender's approval to make a side loan, make sure you get it in writing and keep copies of the approval.

Advertising?

As an aside, you may also be running a risk of a deceptive advertising claim if you advertised the vehicle at one price and sold it for a higher price.

Gil Van Over is the President and founder of gvo3 & Associates, a nationally recognized F&I, Sales and Red Flag Rule compliance consulting and training firm (www.gvo3.com).

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