

A Positive Outlook for the Future

By Tony Dupaquier



As we move further into the 2010 model year, the automotive industry gathered for NADA's 93rd Annual Convention and Expo. This year, it was in Orlando, FL, and I am sure that you have seen a fair amount of coverage on the convention by now. What you may not have read about is American Financial Services

Association's (AFSA) 14th Annual Vehicle Finance Conference & Exposition that preceded the NADA convention. For a comparison, the NADA convention is for dealers, managers, vendors, manufacturers, lenders, and politicians to meet, exchange ideas, and look for the next new item that will help with business. In contrast, the AFSA conference is for the financial services industry to meet and discuss trends and ideas as well as allow a few representatives of the retail automotive industry to ask questions and participate. I was fortunate to attend this conference and sit on an advisory panel in which the topic was "How the retail automotive industry may look like in the future and what the financial services side of the industry can do to help sell more vehicles."

The information discussed at the AFSA conference directly impacts business managers and the automotive industry. At this conference, we heard from various experts, economists, vice presidents, and presidents of the financial services industry. The following is a snapshot of topics that were discussed and what needs to be taken into consideration in regard to automotive retail lending.

The continuous message from several different speakers was, "It is getting better." Regardless of the person speaking, the positive theme of the industry improving

was predominate. That is good for everyone. Not only did we hear the same message, we heard it in many different interpretations. One speaker said, "It was the worst since the 30's and it [the worst] is far behind us." A senior vice president of a major captive lender said, "...things are getting better" and, "We have to keep loaning out money, we affect 10% of the US economy." Another important speaker said, "We were scared last year, however, lending has improved." The most quoted individual of the entire week said, "We hit bottom in 2009 at 10.4 million vehicles and it is estimated the U.S. auto industry will sell approximately 11.9 million in 2010."

Regardless of who said it, most seem to agree the automotive industry is rebounding and 2010 will be better than 2009. So how does this impact the retail auto industry and, more specifically, how does this impact the business office? Overall, you may draw your own conclusion; however, I see nothing but positive impact. More lenders willing to loan money, plus more vehicles delivered, equals better revenue for the business office and the dealership as a whole.

The lenders are still looking for the relationship. Although the delinquencies have decreased a bit and the repossessions are down, the lenders are continually looking for a relationship with the dealership and the business manager. The lenders need to believe in business managers. If a business manager tells the lender something, the lender needs to believe they can "take it to the bank."

This relationship is also based on the accuracy of the information provided to the lender. Some business managers noticed the amount of time it is taking to secure approval or conditional approval. In many cases, the lenders are verifying information prior to sending a call back. To secure a relationship with a lender, a business



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manager needs to be sure of the accuracy of items such as income, job, and time at residence. To further strengthen the relationship, business managers can provide the lender the name and extension of the person who can verify the customer's job and income information. Once a lender sees consistent and accurate information from a business manager and his/her dealership, this will further strengthen the relationship.

Customer participation is more important today than ever before. I spoke privately with an individual who works for a nationwide lender and he/she said to me, "If the customer is unwilling to participate in the purchase of his/her new vehicle, neither are we." The lenders were hurt by customers, who were not at the time, a credit risk. The lenders freely financed loans with no money down and when the economy got difficult, a surprising amount of delinquencies and repossessions came from the high tier credit, zero money down customers. This left the lenders owning vehicles worth more than MSRP or retail book value twelve and eighteen months after the loan was originated. The industry is still feeling the ripple effects of this today and this is why we are seeing lenders requiring some amount of money down from a customer.

There was some interesting talk about some lenders charging fees to the dealership for accepting a customer application. Does this mean every time you send an application over, you pay a fee? This is not the forward progress we need to see from our lenders. Unfortunately, this may be the result of dealerships sending every applicant to every lender every time. The 300% Rule for our customers applies to offering products and not submitting customers to lenders. The industry is moving toward targeting specific lenders for specific customers and steering away from the old fashioned, run it up the flag pole method.

The one point that I know will make some of you shiver is the lenders limiting the amount of participation and/or going to 100% flat fees. This has been a long time coming and will happen. Whether it happens by state and federal legislation or by self imposed limits, either way, be prepared. An AFSA representative spoke about self imposed limits and suggested going exclusively to flat fees. There are some larger dealer groups who have worked out flat fees with all of their lenders. The

time frame of this was unclear, so work on your product sales and reduce your reliance on finance reserve in your paycheck.

The one topic that had me scrambling for more information was Section 311 of the FACT Act adding a new section 615(h) to the Fair Credit Reporting Act (FCRA) to address risk-based pricing. This new law goes into effect January 1, 2011. We know what risk-based pricing is. It is the tier system that most of our lenders utilize in regards to advance, rate, and term of a loan. According to the new act, the creditor must be the party to provide the notice to the customer. In most circumstances, the dealership is the original creditor and is the one to provide the notification. To obtain the specific language of the notice and when it needs to be given to a customer, visit the FTC website, www.ftc.gov. The good news is I was told that credit reporting agencies are working on a letter that will be available for dealerships to use and will satisfy this new requirement. Although the letter is not completed yet, business managers should continue to check with these agencies to obtain a copy of this letter.

Overall, the mood at the AFSA conference was upbeat and positive. This is important because the 2009 conference was somber and negative. Even though additional paperwork is in the near future and the amount of participation the dealership will have in regards to the finance reserve may become more limited, it is evident the lenders are ready to loan money. They need to believe in the business manager, believe in the customer, and believe in the merit of the deal. Work on creating and securing those relationships and business managers will have the ability to secure funding for more customers this year and in the future.

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