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AUTOMOTIVE NEWS ILLUSTRATION

Pre-owned profits

Used cars are plentiful, and consumers are latching on. Are F&I departments prepared?

In this special section, *Automotive News* takes a look at how the booming used-vehicle market can and will affect dealerships' F&I business and practices. Discussions include the best F&I sales approach and product mix for used customers, how rising certified pre-owned sales provide extra F&I opportunity, and which risk tier's used-car buying habits could dent service contract growth.

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The used-vehicle market is booming.

With 8.7 million used vehicles sold at franchised dealerships through July, according to the National Automobile Dealers Association, and 3.1 million off-lease vehicles expected by year end, according to Manheim, dealerships are developing strategies to cope with the flood.

That includes looking at the tools they need for solid F&I numbers on used-vehicle sales.

For dealerships, securing F&I profits on used-vehicle sales will be essential as the new-car market tightens and the margins on those vehicles narrow, industry experts say.

Dave Robertson, head of the Association of Finance & Insurance Professionals, is confident dealerships will rise to the challenge.

Robertson: Up to the challenge

"Over time, the situations that impact car sales and F&I change dramatically," he points out. "Dealers and F&I departments and product providers have been able to survive because they can respond quickly to what the situation requires."

Many F&I products already complement the used-vehicle market. The trick for dealerships will be developing F&I presentations that lure those customers. For used vehicles, more information on factors such as what parts of the vehicle may still be under warranty may be necessary, says Rick Kurtz at F&I product provider Protective Asset Protection. Customizing presentations to buyers' individual needs will be key, he says, adding that F&I managers would be "missing an opportunity by taking a one-size-fits-all approach."

For sure, F&I managers will have their work cut out for them. Rising used-vehicle sales could dent the outlook for extended service contract sales, J.D. Power's Mike Buckingham says. And Greg Oltman of Dent Zone warns that F&I managers could be limited in the products they can offer to some used-car buyers.

Still, used-car F&I prospects look good, says Jim Maxim, president of MaximTrak Technologies. "As dealers bring in more used business, how does the F&I process really change?" says Maxim. "It naturally breeds more opportunity." AN

Used sales? Service contracts make sense

Not all F&I products work for older cars

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As new-vehicle margins tighten, dealers should focus on services for used vehicles to make a healthy profit, experts say.

Much of that profit will come from parts and service, but if dealers have effective ancillary offerings, a bulky share of their profit will likely come from F&I, too.

Most dealerships have a large variety of F&I products that apply equally to new- and used-vehicle transactions. But the burgeoning used-vehicle market gives dealers an opportunity to rev sales of the F&I products that would particularly benefit used customers, especially service contracts.

A used-car customer is buying a vehicle that "had someone else's issues before they bought it," says Matt Woods, director of training and development at Service Group. "A vehicle with 30,000 miles is closer to having a potential problem than one with zero miles."

Because of that and because there is little or no factory warranty on a used vehicle, he says, used-vehicle buyers are "prime candidates" for service contracts.

"Cars are not break-proof; most people recognize that," says Rasheed Creary, business manager at Sutliff Volkswagen in Harrisburg, Pa., whose best-selling F&I products are service contracts.


Creary: No car is "break-proof."

Used-vehicle buyers tend to be budget-conscious, but "a service contract is an excellent choice because it is one of the main products that allows them to maintain their budget during their time of ownership," says Dwayne Wiggins, who trains for F&I University at American Financial & Automotive Services, an F&I development company offering training, products and services.

On used-vehicle transactions, service contract penetration "should be double new all day long," says Jim Maxim, president of MaximTrak Technologies. "So if you're not [at] 60 to 70 percent [penetration] on used, you're doing yourself a disservice," he says.

Service contracts appeal to used-vehicle buyers because they can foresee a day when their vehicles will break down as the result of age and mileage. But products that restore vehicles that fall victim to chance occurrences are also popular among used-car buyers. A situation where a tire-and-wheel product might be helpful "doesn't care how old your vehicle is," Woods points out.

Maxim says bundled products also can add value because customers can get the coverage they want that a service contract and guaranteed asset protection, or GAP, leave out.

Industry insider Greg Oltman warns, though, that F&I managers could be limited in what they can offer to some used-vehicle buyers because some used cars are ineligible for F&I products. For example: "Used cars are not all eligible for a service contract because they are too old" or the mileage is too high, says Oltman, director of business development at Dent Zone Cos. Inc.

If a dealership offers a service contract to cover such a vehicle, the price is usually very high because of the risk to the insurance company, he says. "On a new car, during the first three years of a service contract, there's really no risk to the insurance company."

Other ancillary products may be limited based on the year of the used vehicle, too, Oltman says, so F&I managers may not be able to sell them either.

Another difficulty in trying to sell F&I products on used vehicles is that used buyers aren't as inclined as new-car buyers to come back to the dealership for service work.

Used customers often first see a vehicle online and travel farther to buy it than they would for a new car, according to Maxim. So convincing them to come back to that faraway dealership for service could be a challenge.

Loyalty programs and perks such as free oil changes could help.

"One of the opportunities is to get more creative with used-car service contract sales in the service lane," Maxim says. "As a whole, as the used-car market grows, giving [customers] broader options with the proper parameters is going to be imperative." AN


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Growing CPO volume offers F&I opportunities

Experts suggest wraparounds, appearance packages

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Certified pre-owned sales are growing, and they give F&I managers a fresh opportunity.

CPO customers get a shiny, like-new car at a lower price than they'd pay for a new vehicle, and F&I managers get a chance to offer them the warranty wraparound products, service contracts and appearance packages that keep vehicles in like-new condition.

U.S. sales of CPO vehicles were 1.6 million this year through July, up 4.1 percent compared with the 2015 period, according to the Automotive News Data Center.

For the F&I department, CPO sales are the "midpoint between a brand-new vehicle and a used vehicle," says Rick Kurtz, senior vice president for distribution at F&I product provider Protective Asset Protection. "It's like a new vehicle, but the coverage tends to be shorter term and sometimes less comprehensive," he said.


Miller: Bring customers back

George Angus, president of F&I consultant Team One Group, believes used vehicles gained a new image with certified sales. "The used-car department has become in some ways like the new-car department with the sale of CPO vehicles," he told *Automotive News*. "CPO vehicles come with a warranty from the factory, so the service contracts are sold much the same way as [they are with] new cars."

And CPO vehicles are prime candidates for war-

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New car or used, make the sales pitch personal

Advice: 'Find out what's important to the customer' and talk about that

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Many consumers are skipping dealers' new-vehicle showrooms in favor of their used-car lots. According to the National Automobile Dealers Association, franchised dealerships sold 8,704,716 used vehicles through July this year.

But the popularity of used cars shouldn't leave F&I managers scrambling to revamp their sales approach to appeal to those used buyers, industry insiders say.

Whether a customer is buying a new vehicle or used, F&I managers' strategy should be the same: Zero in on the customer's personal needs and offer the products that meet them. For used-vehicle customers, that includes explaining what parts of the vehicle may still be under warranty to give them the opportunity to extend that coverage or add to it.

> **"It's up to the customer to decide whether they want something and up to the business manager to find value in products most important to them."**
> Matt Woods
> Service Group

Dwayne Wiggins, F&I University trainer at American Financial & Automotive Services, refers to the strategy as prioritizing the customer's "hot buttons." Whether selling a new car or used, he said, "find out what's important to the customer, and that's what you talk about."

Rick Kurtz, senior vice president for distribution at F&I provider Protective Asset Protection, summed up the strategy along similar lines. "Everything has to be tailored to the consumer's individual needs and the motivation for the purchase of that vehicle," he said.

Matt Woods, director of training and development at Service Group, agrees. "It's up to the customer to decide whether they want something and up to the business manager to find value in products most important to them," he said.

"On the new-car side, customers are thinking, 'Well, I've got 36,000 miles [under warranty].' But if a [used-car] customer only has 6,000 miles" of warranty remaining, Woods said, F&I managers should tell the customer how he's protected and what products he would benefit from purchasing.

Educate, learn

The key, Woods said, is explaining to customers even before introducing any products just what their coverage entails and what they would have to pay out of pocket if they had a problem. "When you educate a customer like that," Woods said, "it makes it so much simpler" to sell. "You let them know 'I have solutions for these things.'"

All presentations are about transparency and meeting customers' individual needs, says Mike Casey, group vice president of sales for JM&A Group. F&I managers should ask "questions around what their driving habits are and what's most important to them and [figure out] what products align with what their concerns are," he said. "Whether

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Will prime buyers dent service plans?

Analyst: Used-car shift cuts demand for coverage

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Consumers' trend toward used cars, especially certified pre-owned, could eventually slow the growth in sales of extended service contracts, says Mike Buckingham, senior director of J.D. Power and Associates' automotive finance practice.

Indeed, service contract penetration is slowing among prime-risk borrowers, which Buckingham links to purchases of certified pre-owned vehicles. Those vehicles come with a factory warranty.

"There are some attractive certified 2- or 3-year-old cars out there, with low interest rates and a low price point, which dealers are telling me is causing some people to switch" from new to used, Buckingham told *Automotive News.*

U.S. certified pre-owned sales this year through July totaled 1.6 million, up 4.1 percent from the first seven months of 2015, according to the Automotive News Data Center.

The popularity of leasing, which reached an all-time high of 36.4 percent of new-vehicle financing in the second quarter of 2016, according to Experian Automotive, also could crimp service contract sales. Lease customers buy fewer service contracts because they usually turn in their cars before the original warranty expires.

Buckingham said the net result is a cloudier outlook for extended service contract sales, although he cautioned that sales are unlikely to decline outright.

> **"There are some attractive certified 2- or 3-year-old cars out there, with low interest rates and a low price point, which dealers are telling me is causing some people to switch" from new to used.**
>
> Mike Buckingham
> J.D. Power and Associates

Narrower gap

Changes in service contract penetration for new vehicles vs. used are apparent over time, with new vehicles showing a much bigger increase in penetration.

This year through July, among prime-risk borrowers, extended service contract penetration for new vehicles was 50.8 percent, compared with 49 percent for all of 2015. For used vehicles, it was 51.3 percent, up from 50 percent, according to the Power Information Network.

In 2007, though, service contract penetration for prime-risk borrowers was 39.3 percent for new vehicles and 46.3 percent for used. Since then, the "gap has shrunk considerably," Buckingham said.

New-car service contract penetration increased 11.5 percentage points for prime-risk borrowers since 2007, while used penetration increased just 5.1 percentage points.

The gap between new- and used-car penetration shrank from about 7 percentage points in 2007 to just 0.5 percentage points this year through July 26, he said.

Move to used

At the same time, used vehicles are gaining share among prime-risk borrowers, Experian Automotive data show. According to Experian, 60 percent of prime-risk borrowers who got an auto loan in the second quarter of 2016 got a used-vehicle loan, a 6.6 percent increase from a year earlier. And superprime borrowers are latching onto used vehicles at an even higher rate: 43.3 percent chose a used-vehicle loan in the second quarter, up 10 percent from the 2015 period.

Experian defines prime-risk borrowers as those with credit scores of 661-780 and superprime borrowers as those with scores of 781-850.

Melinda Zabritski, senior director of automotive finance for Experian Automotive, said that in response to higher sticker prices, consumers are turning to leases, longer loan terms — and used cars — to keep monthly payments low. "A lot of it speaks to affordability," she said.

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The outlook isn't entirely bad for extended-service contracts; it's just not as rosy as before, said Buckingham of J.D. Power.

Positives for extended-service contract penetration include longer loan terms and the fact that dealerships are trying harder to sell service contracts and other F&I products to make up for thinner margins on new and used cars, he said.

"If you think about it," Buckingham said, "the customers that are financing cars now are financing them for a lot longer."

Add the increasing F&I focus at dealerships to "consumers with those long loan terms and complex cars that are more costly to fix if something breaks," Buckingham said, and service contract penetration is unlikely to decline. AN

Hannah Lutz contributed to this report.

Experts split over F&I sales on lease deals

Vendor: Try pitching protection products

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For dealerships, there are pros and cons to high lease penetration.

Most, if not all, industry experts agree that lease customers likely will be shopping again in three years, an obvious positive.

Insiders are divided, however, on how lease deals affect F&I product sales and profit. Some say lease customers are unlikely to opt for F&I products while others view lease customers as an F&I sales opportunity.

"The only money to make on lease is reserve," says Rasheed Creary, business manager at Sutliff Volkswagen in Harrisburg, Pa. Because lease customers tend to choose only prepaid maintenance at Creary's dealership, "to us it's almost like a cash deal," he said.

Leasing accounted for a record high of 31.4 percent of new-vehicle transactions in the second quarter this year, compared with 26.9 percent in the 2015 period, Experian data show.

The F&I profit per vehicle on a lease is typically half as much as on a loan deal because lease customers focus on the short term, says Jim Maxim, president of vendor MaximTrak Technologies.

Maxim: Worry-free ownership

"The customer is buying a lease to have a new car under the manufacturer warranty," he said. "Sometimes maintenance is even thrown in."

Maxim suggests that F&I managers introduce protection products with the lease of a vehicle, reminding the customers that the products will lead to a more worry-free ownership experience, a priority for many lease customers.

The challenge in selling F&I products to lease customers has to do with timing and familiarity, says Marie Knight, vice president of strategic relationships at Zurich North America. Knight has seen an increase in leasing F&I profit in the past year as F&I managers become more savvy with lease deals.

Leasing has always been popular among some luxury brands. But it dropped during the downturn in 2008 and 2009 as lenders pulled back on auto financing. It returned to pre-recession levels in 2013 and has grown steadily since, especially as customers of mainstream brands latched onto the option.

> **"Most people are doing three-year, 45,000-mile leases. There is a portion in there where the customer is exposed to mechanical failure liability."**
>
> Margot Miller
> Mills Auto Group

Over time, Knight said, as finance managers become more comfortable dealing with lease customers, their F&I sales and profits will increase.

Lease customers target a low monthly payment and low maintenance responsibilities, she said. "Any product that meets those needs would have appeal to a lease customer."

Some lease customers are also prime candidates for an F&I product designed to wrap around the manufacturer warranty, says Margot Miller, corporate director of finance for Mills Auto Group in Fort Mill, S.C.

"Most people are doing three-year, 45,000-mile leases. There is a portion in there where the customer is exposed to mechanical failure liability," she said.

In that situation, if the manufacturer warranty covers 30,000 miles, F&I managers could sell a short-term service contract or wrap to fill in the 15,000-mile hole.

Miller's stores also have a bundled product popular among lease customers that offers roadside assistance and key, tire, wheel, windshield and dent-and-ding protection. "Those things typically happen within three years of ownership," Miller said.

Many people in the industry say lease penetration hurts F&I, says Mike Casey, group vice president of sales at JM&A Group. But "if profit per vehicle is growing and penetration is growing," he said, "it's not a factor." AN

New app enables lease customers to skip the showroom

Dealers expect software to boost deals

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Toni Anne Fardette believes a new app can help Atlantic Auto Group recapture business from leasing companies that made inroads with consumers who prefer to avoid the "runaround" they get at some car dealerships.

The Long Island, N.Y., dealership group is testing out Honcker — an app that enables consumers to complete the leasing process without entering a showroom — at eight of its 22 stores.

The app sends lease offers to consumers after a "soft credit check" that's completed based on information such as name and address that is provided upon registration, said Nathan Hecht, CEO of Honcker Inc. Clients can have their vehicles delivered to them by the dealership once the transaction is done.

If a customer has a trade-in, the dealership will take it from the customer when the new vehicle is delivered.

Some leasing companies have made a living on being the middlemen for shoppers. Consumers know they're going to pay a fee to have the companies do the leg work on a lease, but Fardette says certain buyers feel this method is more transparent than dealing with salesmen.

"That's what we're up against and that's what I feel like this app is going to help us to combat, because they won't need to go to a leasing company if we're providing that transparent information as a dealer," Fardette told *Automotive News*.

She's hoping the app will make the leasing process as easy as booking flights or hotel rooms online. Around 55 percent of the group's business comes from leasing.

Hecht said he's going after the leasing market because of the momentum there.

Lease penetration reached a record 31 percent of all new-vehicle transactions in the second quarter, up from 27 percent in the year-earlier period, Experian Automotive data show. Used-vehicle leasing is also on the rise. It accounted for 3.7 percent of the lease market in the second quarter, up from 3.3 percent the year before.

"We are nothing more than a marketplace," Hecht told *Automotive News*. Dealers "control their inventory and their pricing. Customers see it, get a real-time price and can actually complete the transaction."

Honcker went live earlier this month in the New York, New Jersey, Pennsylvania tri-state area and in Southern California, from Los Angeles to San Diego. Hecht said a lease can be completed in three

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F&I job-sharing makes for full-time satisfaction

Flexible schedule improves Ford store's workflow

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F&I managers at Soerens Ford of Brookfield in Brookfield, Wis., no longer fret about working inordinately long days.

That's because they have developed a system that has almost eliminated time-sapping schedule crunches.

BEST PRACTICES

Anne Fredrickson had the idea when she agreed to work temporarily at Soerens after the full-time F&I manager left. Fredrickson enjoyed returning to the dealership where she had worked for years but could not commit to the full-time demands required of a solo F&I manager. When she became aware that another former Soerens' F&I manager was eager to continue her career on a half-time basis, she wondered whether dealer Stephanie Soerens would agree to let them job-share.

"We approached Stephanie about it, and she thought it sounded kind of strange but she thought it was fine to give it a try," Fredrickson said. "That was seven years ago."

Dealer Stephanie Soerens, center, says she sees no downside to her store's flexible F&I schedule. Barbara Nobile, left, job-shares. Ella Golovina works full time.

Many dealerships rely solely on one F&I manager and count on temporary help during absences, which was done at Soerens. The downside is that the temporary staff may struggle to adapt to a dealership in which they don't have histories or connections.

"It has really worked out so well for us," Soerens said. "I leave it up to them to work out the schedules, and they often work them out two to three months in advance. I would say 99.9 percent of the time there is no problem."

Soerens holds the job-sharing managers to the same accountabili-

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INDEPENDENT ANALYSIS

A look at used-only stores' F&I practices

Franchised dealerships' used-vehicle departments compete daily against independent retailers. So how do the independents do F&I? The National Independent Automobile Dealers Association provided some insights in its 2016 used-car industry report.

Compiled by James B. Treece

Financing

Q: What finance options do you supply to your customers? (Multiple answers allowed)

TYPE	PERCENTAGE OF RESPONDENTS 2015	2014
Buy-here, pay-here	46.4%	44.7%
Finance company	48.3	56.2
Banks	53.8	56.2
Credit unions	21.7	54
Other	11.1	3.1

Average down payment

AMOUNT	PERCENTAGE OF RESPONDENTS 2015	2014
Up to $1,000	48.3%	52.4%
$1,001-$1,500	6.1	28.3
$1,501-$2,000	33.1	11.5
$2,001-$2,500	1.2	2.2
$2,501+	11.3	5.6

Average contract term

MONTHS	PERCENTAGE OF RESPONDENTS 2015	2014
0-12	9.7%	12.8%
13-24	9	15.5
25-36	35.6	24.9
37-48	20.9	23.4
49+	24.8	23.4

Service contracts

Q: Do you sell warranties/service contracts?

	PERCENTAGE OF RESPONDENTS 2015	2014
Yes	58.3%	58.5%
No	41.7	41.5

Q: If yes, how many warranties/service contracts do you sell per month?

	2015	2014
1-5	53.1%	53.2%
6-10	20	23.4
11-20	13.6	10.6
21-30	6.7	7.4
31+	6.6	5.4

Note: Percentages may not add to 100 because of rounding. NIADA pulled the data from its members in the first week of April and published the results as a supplement to the July issue of its *Used Car Dealer* magazine.

Source: "NIADA's Used Car Industry Report 2016," Infogroup

Report: Lease deals lack transparency

Finance website calls for more payment, price, residual data

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Finance rates on lease offers are difficult to understand, and automakers haven't done enough to make understanding them easier, concludes a report by a personal finance website.

WalletHub, in its 2016 Labor Day Auto Finance Report released Aug. 31, gave the industry an average "transparency score" of 4.68 out of 10 for leasing.

"Leasing offers are the most difficult type of car-purchasing arrangement for consumers to understand, as they lack the equivalent of an [annual percentage rate] that can be used for comparison purposes," WalletHub said in the report.

"As a result, the transparency of manufacturers about these deals is integral to a consumer's ability to make informed decisions."

But the report, which looks at where things stand for the third quarter of 2016, also recommends that consumers in the market for a new-vehicle loan start their search by examining deals offered by automakers because their interest rates are often lower than rates offered by other financial institutions.

The report researched loan interest rates and lease finance offers from automakers representing 22 vehicle brands, 52 credit unions and 84 national, regional, small and community banks.

WalletHub analyst Jill Gonzalez said new-vehicle loans offered by automakers merit consumer consideration because their average interest rate of 1.45 percent is lower than the average of rates of credit unions and banks. (See chart, below.)

The study also points out that new-vehicle loan interest rates are the lowest they've been in three years.

"Car manufacturer rates are about 50 percent below average," Gonzalez said in an interview. "We're not saying that most people qualify for them, but if they do, that should be the first source that they look at."

The report measures lease finance transparency by how much information dealers and manufacturers include on their websites about monthly payments, vehicle prices, down payments and residual values. It also measures whether such information is available offline.

"Car manufacturer rates are about 50 percent below average. We're not saying that most people qualify for them, but if they do, that should be the first source that they look at."

Jill Gonzalez, WalletHub analyst

On a scale of 1 to 10, with 10 being the most transparent, 13 of the vehicle brands in the study scored 6, which was the highest score attained.

They are Acura, Audi, BMW, Honda, Hyundai, Infiniti, Kia, Mazda, Mercedes-Benz, Mini, Nissan, Toyota and Volkswagen.

Subaru scored 5, and Chrysler, Dodge, Ford and Lexus 3. Buick, Cadillac, Chevrolet and Volvo scored 2, the lowest score attained.

WalletHub obtained manufacturer loan and lease data from manufacturer websites, whenever available, or contacted manufacturers directly.

Gonzalez said the company has been conducting the report for a "number of years" and she had hoped that leasing information would be readily available and presented clearly online by dealers and manufacturers.

But that is not the case, "especially for those [brands] at the bottom of the list, and even those that did well only scored 6 out of 10," she said. "So there is a lot of improvement to be had." AN

Loan shopping

A WalletHub report recommends consumers examine captives' loan offers first.

	Q3 AVERAGE INTEREST RATE
Auto company captives	1.45%
Credit unions	2.2%
National banks	2.92%
Regional banks	4%
Community, small banks	4.2%

Lawyer warns lenders on illegal repos

Legislation protects service members on active duty

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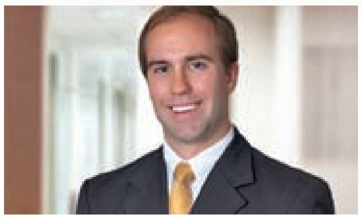
The U.S. Department of Justice is rigorously enforcing the Servicemembers Civil Relief Act, and auto lenders had better take note, a lawyer who represents financial services clients says.

The act doesn't apply to dealerships. But dealership F&I managers who routinely do a lot of business with service members — including reservists — would do well to be familiar with its provisions. After all, a lender who makes headlines for treating military customers poorly is unlikely to reflect favorably on the dealership that sent the customers to that lender.



Leonhardt: Protect service members

"This is not an area where anyone wants to play fast and loose, and take any unnecessary risk," said Sasha Leonhardt, a lawyer in the Washington office of BuckleySandler.

Leonhardt conducted an Aug. 18 webinar, aimed primarily at lenders and the repo industry, titled "How the SCRA Can Get You into Trouble," and sponsored by Canvas Business Media, whose websites include RepoPulse.com.

Protection

The Servicemembers Civil Relief Act is intended to protect civilians and military reservists who take out a loan and later get ordered to active duty in the military, Leonhardt said. The underlying concept is that active duty can limit service members' ability to pay their bills in full and on time, and they shouldn't be penalized for going on active duty.

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Leonhardt said the legal roots of the act date to before World War II. It was formerly known as the Soldiers' and Sailors' Civil Relief Act.

The Servicemembers Civil Relief Act protects service members two ways.

1. It imposes a 6 percent interest rate cap on loans, including mortgages and auto loans.

2. It requires lenders to get a court order before foreclosing on a mortgage or repossessing a vehicle from someone who's covered by the act.

To take advantage of the 6 percent rate cap, the borrower must notify the lender that he or she is on active duty and provide appropriate documentation, Leonhardt said.

But with regard to defaults or repos, the lender must verify whether the borrower is protected by the act before taking action.

Costly errors

Penalties for violating the law can be stiff. In the webinar, Leonhardt said on average, the Justice Department demands consumer restitution of $10,000 per improperly repossessed vehicle plus any equity in the vehicle the service member may have lost.

On Aug. 8, the Justice Department announced a consent order with HSBC Finance Corp. of Arlington Heights, Ill. HSBC agreed to pay $434,500 in compensation to the affected borrowers to resolve allegations that it violated the Servicemembers Civil Relief Act by repossessing 75 cars owned by protected service members without obtaining a court order.

In February 2015, under a consent order between the Justice Department and Santander Consumer USA, the Dallas lender agreed to pay at least $9.35 million in connection with 1,112 repos.

In 2012, Capital One Bank, of McLean, Va., reached a settlement with the Justice Department worth about $12 million. That included $7 million in damages, plus $5 million to compensate service members who did not receive the appropriate amount of Servicemembers Civil Relief Act benefits on their credit card accounts, vehicle loans and consumer loans. Alleged violations of the act involved mortgages and auto loans, and included alleged interest-rate cap violations as well as repos, the Justice Department said.

To-do list

Leonhardt said before repossessing a vehicle, lenders should routinely check borrowers' active duty status on a website of the Department of Defense Manpower Data Center.

The Servicemembers Civil Relief Act doesn't protect service members who were on active duty when they took out a loan, he said. Legally, what counts is whether the service member was on active duty when he or she made a down payment or made the first monthly payment.

It's possible to repossess a vehicle that belongs to a service member covered by the act, but it takes a court order or a waiver signed by the service member, Leonhardt said.

But for getting it wrong, he warned, "The penalties are significant and can add up quickly." AN

F&I vacancy? How dealers find the best fit

Avoiding the pitfalls of promoting internal candidates

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Dealers hate to think about experienced F&I staffers leaving. Being short-handed in F&I not only can ding profits, it can create a dilemma: Is it best to look inside or outside the organization for a good replacement?

Promoting from within sparks opportunities for employees, but the selection must be made carefully. F&I requires finesse that is difficult for some employees to attain, dealership executives say.

Neal Coppola, general manager of Findlay Volkswagen Flagstaff in Arizona, looked in-house for a candidate when he needed more F&I help but not a dedicated, full-time staffer. He trained one of his top salespeople, Phil Deasy, on F&I. Now Deasy handles F&I for his deals and fills in as needed on F&I for the sales manager and Coppola.

"It works for [Deasy] because it gives him a chance to grow and increase his income opportunities," Coppola said. "It works for the customers because they don't have that transition from sales to F&I manager."

The proof is in the numbers. Deasy has a 72 percent F&I product penetration rate for his customers and a 64 percent rate when he handles F&I for other salespeople.

"We found that very interesting," Coppola said. "That disproves the conventional wisdom that customers [who are passed from a salesperson to F&I staff] are more willing to buy."

Sensitive role

Coppola says there were some bumps, mainly on time and project management, as Deasy merged his sales and F&I duties. Once Coppola worked with Deasy, the latter's vehicle sales returned to their previous levels. Although some salespeople might need to rework some of their selling strategies to best suit F&I, Deasy had the personality and detail-oriented skills that eased the transition, Coppola says.

Bob Tasca Jr., owner of Tasca Automotive Group in Cranston, R.I., also says promoting from within for F&I can be successful. But he cautions that candidates must be carefully evaluated because of the F&I role's sensitive nature.

When Findlay Volkswagen Flagstaff's general manager, Neal Coppola, right, needed more F&I help but not a dedicated, full-time staffer, he trained salesman Phil Deasy, left.

"We are very careful," he said. "We have menu pricing. We want to make sure everything is done according to plan. I had to fire one person, the biggest producer in my company, because he was [hard selling F&I] products. We only want to sell products when they are beneficial to the customer. That's what my company is all about."

> **"We are very careful. We have menu pricing. We want to make sure everything is done according to plan. I had to fire one person, the biggest producer in my company, because he was [hard selling F&I] products."**
>
> Bob Tasca Jr., owner, Tasca Automotive Group

When the right person is selected, though, as happened at Findlay Volkswagen Flagstaff, it's a win-win for the employee and the dealership.

Coppola says Volkswagen's diesel emissions scandal has made it especially difficult to keep successful salespeople. Allowing Deasy to take F&I training and gradually increase his responsibilities and earning potential has benefited him and the store.

Niche issue?

Still, some dealers think it's unwise to promote from within for F&I.

Jeff Grossman, general manager of Norris Acura West in Ellicott City, Md., who has two experienced F&I managers on staff, says that if a vacancy arose, he would hire an experienced F&I manager.

"I'm sure there are some places that works," Grossman said of promoting from within for F&I. "But you need such a level of expertise to [excel] as an F&I manager, we will hunt for the one that can fit right into place."

Tasca agrees that, in most cases, those who excel in F&I or sales are best suited to their niches. "If I had a salesperson that wanted to do F&I, hypothetically, I wouldn't have a problem promoting them," he said. "But most salespeople want to remain salespeople. And most F&I people want to remain F&I people."

Tasca says that in his experience, most salespeople lack the accuracy and attention to detail needed for F&I. He's found that those who work in finance, as cashiers or in similar positions have those qualities.

"We had two younger [staff members] who showed an interest in F&I. We sent them for training and they came back and are very, very good in F&I," he said. "One nice thing is that they don't have any bad habits [that they've carried over from other dealerships]. We've given them life-changing opportunities to go from earning $25,000 to about $100,000. They are very, very loyal to our dealership."

Such success doesn't just happen, though. Tasca says giving the employees plenty of internal and external training is key to ensuring success.

"You have to put them in the position to win. You have to train them extensively," he said. "Without training, they will fail. But once they're trained, it's ideal." AN

Choose carefully

While it's impossible to know how employees will work out until they are in the job, dealers and general managers who have had success promoting from within for F&I offer these 5 tips.

1 Use extreme caution when promoting hard-charging salespeople. F&I requires a less aggressive approach than auto sales. Even if top-producing salespeople want the post, they may come across as too forceful in F&I. Explain to top producers why their skills may be best suited for the sales floor.

2 Look for detail-oriented, organized candidates. You can train people to sell. It's much more difficult to train them to overcome a natural tendency to cut corners on paperwork or diligently follow regulations. If paperwork is done improperly, it can unravel the best dealership.

3 Don't skimp on training. Yes, consultants, trade groups and schools offer F&I training, but your help is also important to most newcomers. Make sure you carve out time to work closely with new F&I staffers to continually evaluate them and immediately correct errors.

4 Ease new F&I staffers into the role, focusing on time and project management. That's especially true with salespeople moving to F&I who have developed habits on the showroom floor. Have new F&I staffers do 20 percent of the job 20 percent of the time and spend 80 percent of their time in their past position. When they have 20 percent of F&I duties down, allow them to do 30 percent of the job 30 percent of the time and so forth.

5 Have an escape plan. If you pluck staffers from their current positions with great fanfare and they fail at F&I, it's demoralizing for them, you and other employees. Allow those who don't excel in F&I to easily return to their past positions.

PITCH

'You have to read the customer'

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they're new or used, I don't think that changes all that much."

George Angus, president of F&I consulting firm Team One Group, still encourages F&I managers to present every product to every customer, but sometimes those product pitches should be molded by what the consumer would specifically benefit from. He said: "If someone is going to keep a car for two years, it's hard to sell them a four-year service contract."

Rasheed Creary, business manager at Sutliff Volkswagen in Harrisburg, Pa., also advises F&I managers to personalize presentations. "You have to read the customer and figure out how to relate to them," he said.

A used car is especially an "individual buy" because every used car is different and has its own history, he said. "The products are more centered on what might possibly be coming up as opposed to a new car" he said.

Regardless of whether a car is new or used, Creary said, "you really have to know how to connect with the customer quickly." AN

APP

Financing, used-car leasing planned

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minutes on the app.

After a few months, the plan is to roll out used-car leasing and financing options as well.

Piece of the pie

Honcker launched with more than 75 dealerships on the platform. The stores upload their products to the app through inventory providers such as DealerSocket or vAuto. The dealerships operate on a dashboard where they can control details such as pricing, add-ons and warranties offered.

A store can go into the app, for example, and trim $500 off the invoice prices for specific vehicles or the entire inventory. The leases are then calculated from those discounted prices.

Hecht said the app automatically applies the available conquest or loyalty rebates when a customer registers by asking them what vehicle they are coming out of.

The app also will offer virtual reality in limited doses in the beginning. Users with Samsung Galaxy S7 phones or better will be able to take virtual test drives and check out showrooms if they have access to Gear VR goggles. Virtual reality isn't available for iOS users.

Ron Dubin, COO of Jack Daniels Motors, with five stores in northern New Jersey, says Honcker will help his dealerships reach consumers who are nervous about dealing with salespeople.

The Bergen County-based group, which has Porsche, Audi, Volkswagen and Kia stores, uses leasing companies on a limited basis. Dubin predicts the app will help the group pick up around 10 to 20 extra leases per month, with the added benefit of cutting out the middlemen on certain deals.

"We'd rather be dealing with the consumer directly that [leasing companies are] getting and sending over to us," Dubin said. "There's obviously a piece of the pie that's going to them that we would like to be able to eliminate." AN

CPO

Expert: Wraparound is a 'great upsell'

continued from Page 24

ranty wraparound products, says Margot Miller, corporate director of finance at Mills Auto Group in Fort Mill, S.C. "It's an easier sell to customers," she said. But it's important for F&I managers to offer CPO buyers maintenance products, too, she added. Those products get customers back into the store, and dealers can be confident that vehicles have been maintained properly if customers trade them in later.

John Stephens, executive vice president of dealer services at EFG Cos., agrees that a product that wraps around the manufacturer's warranty is a "great upsell." F&I managers should also learn customers' driving habits and needs and form the presentation around them, emphasizing the products that make sense with their priorities and lifestyle, he added.

"When they're taking a CPO off the floor, we [remind customers that] this vehicle today is showroom-ready, but for the next three to five years, we can protect your vehicle" with products such as paintless dent repair and tire-and-wheel protection, Stephens said.

A CPO customer, like a new-vehicle customer, is a "value buyer," he said. "They want to make sure they get a new-car-type feel and coverage," so they will embrace appearance packages and other products that keep their vehicles looking like new.

Service contracts are great products for CPO vehicles, too, says Dwayne Wiggins, F&I University trainer at American Financial & Automotive Services. CPO wraparound products mirror new-vehicle protection, "but with the advancement in technology, service contracts give F&I managers a great opportunity to protect customer technology," he said.

CPO vehicle sales make the F&I department stronger, says Matt Woods, director of training and development at Service Group.

F&I managers are "really helping customers understand what kind of coverage [they] get when they buy," he said. That helps F&I managers show that they are customer advocates. They are explaining to customers how a particular add-on product "can protect their investment, instead of saying, 'Hey, buy this.'"

If F&I managers pitch products with the mindset that they are providing a service to the customer, Woods said, they will be successful. AN

SHARING

No need to rely on temporary F&I help

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ty as she does the full-time F&I manager, who was hired when the dealership's sales volume swelled. She also pays the duo base salaries, provides them with health insurance and allows them to compete for contest bonuses.

"If I kept everything they worked hard to win, they would have no motivation to participate," Soerens said. "Let's say I win $400 [from Ford]. I will give them each $100. That isn't huge, but it's a reward for their hard work and a tangible benefit."

Barbara Nobile, who job-shares with Fredrickson, took the gig when she returned to Wisconsin after working at a major Iowa dealership. The job suited her desire to work for her past employer while allowing her flexibility she would not have had as a full-time F&I manager.

"I didn't know Anne before I came back, but I knew she had a similar background to mine," Nobile said. "After being [in F&I] for so many years, I knew all the paperwork, how to offer products and that sort of thing. This is ideal because of the income, the increased freedom and the face-to-face interaction with the customers."

Fredrickson: She asked to share F&I job.

Ella Golovina joined Soerens last year as a full-time F&I manager when sales volume swelled. As a 15-year veteran of F&I, she said her colleagues' job-sharing creates one of the most fluid and relaxed atmospheres she has ever worked in.

"That type of job-sharing position is very hard to find because dealers always look for a full-time F&I person. That's understandable, but this makes the workflow so much better," Golovina said.

"When things get busy or someone has an emergency, you don't have to rely on someone who doesn't know the store or the customers to come in for a few days or a few weeks.

"When you work here permanently, this becomes your store, these become your customers, and that makes a big difference."

Permanent F&I employees are "much more effective," she added. "Thanks to our employer, we have that."

Golovina believes many experienced financial managers would like to find such a job-sharing situation. Soerens, too, was stumped when pressed to find any minuses to the store's F&I arrangement, noting that she hopes to persuade those in sales and other departments to consider job-sharing.

"There just isn't a downside," Soerens said. "The work is satisfying to them, and the flexibility allows them to come to work refreshed and clear minded," she said, adding that it would be an ideal position for working parents.

"The key is to find [two people] who communicate, have the same goals and work well together. You must have that, or it wouldn't work." AN

Why shorter F&I menus work best

Hannah Lutz
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Many dealers look to offer customers every F&I product they might ever need, which can result in a dizzying array of options for customers to digest.

To hone menus and keep them in check, dealers should periodically review their F&I product offerings against the vehicles they sell and the general wants and needs of their customers to "make sure everything aligns," suggests Marie Knight, vice president for strategic relationships at Zurich North America.

When customers are overwhelmed, it reduces the chance they will understand the value of any products presented.

"If they've got products consistently in low-single-digit penetration levels, they should consider removing them for products that have more appeal and value in the market," Knight said.

She encourages dealers to stick with core products — such as service contracts or maintenance products — that "add value to the customer and create retention."

After a review, a dealership typically ends up with around six products, Knight said.

It's frustrating for customers to have to scroll through a tablet menu or turn over a paper menu when trying to understand all the product offerings, Knight said. And when customers are overwhelmed, it "reduces the chance the customer will understand the value of any products presented," she said.

Even with a short list of six products or fewer, Knight suggests that F&I managers point out which products might be most valuable to that specific individual. Dealers should inventory their F&I product portfolio to make sure they have products to meet the needs of all buyers, whether they opt for a new vehicle or used or choose to pay via loan, lease or cash. And dealers should follow a consistent F&I process, Knight said.

She added, "When you do all those things, the penetration and profit go up." AN

Start prepping now for mobility sea change

Car ownership and financing are ripe for innovation over the next 25 years, with most changes leading to more options for consumers and decisions for dealers.

"Futurismo," the new *Automotive News* podcast, dissected the future of car ownership and vehicle financing in Episode 4.

Here are a couple of the ways experts say the auto finance industry could change:

■ In some markets, fleet companies could own and finance cars and offer them to customers on a subscriptionlike basis. To establish a place in the new market, some dealerships may become mobility management providers, competing with fleet operators and ride-sharing and rental-car companies.

■ Experts also have visions on how customers will pay for cars in the future. One said he sees ride-hailing drivers using the earnings they make from driving to pay for the car. Drivers for ride-hailing companies often have lower credit scores than the average buyer and some don't qualify for loans. In this case, though, they would because lenders would know their vehicle payments are coming from their paychecks.

So where does that leave dealerships? Some will likely ride out the change, but others may be left out.

Hannah Lutz is Automotive News' staff reporter for F&I.

COMMENT

Some sources I interviewed for the podcast said dealerships could benefit from the sharing economy because, in the aggregate, more miles driven, even through ride-hailing companies, would result in an overall increase in service business. But with fleet companies or other large corporations in the mix, other experts doubt that dealerships will thrive as service hubs. After all, what would stop fleet companies from opening service drives?

In many cases, business for dealerships may not change. In certain areas, there will likely be enough demand for personal vehicles.

But elsewhere, such as in big cities, dealers may start losing profits. That might be dealers' incentive for morphing their image and business model into more of a subscription service.

Research firm Deloitte Consulting broke the future of vehicle ownership and financing into four visions. The final vision pointed to self-driving fleets of cars that customers could call on for a ride. Deloitte also emphasized that consumers will have varied preferences. Some may prefer to buy a car as they do today, but others may prefer ordering a ride on-demand over vehicle ownership.

But if most consumers rely on the subscription model, many parts of the car-buying experience could disappear.

These long-term visions may stay visions. Dealerships or other industry experts could even come up with a brand-new idea that could take over. Much of the advancement depends on how fast technology progresses.

Whatever happens, dealerships probably won't be affected for a while. Still, dealers would be wise to start preparing now. Most dealers are savvy businesspeople, so it's time to do a couple of the things they do best: Keep up with the trends and develop a plan to stay on top.

To listen to Episode 4 and all of Season 1 of "Futurismo," go to **autonews.com/podcast**.

You may email Hannah Lutz at hlutz@crain.com.

SCREEN PLAY

DocuPAD exemplifies the F&I debate over price vs. value

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Melissa Cole remembers her first impression of Reynolds and Reynolds' docuPAD: "It was a $170,000 mistake."

Sullivan Automotive Group of Santa Monica, Calif., had installed 17 of the machines, designed to aid F&I sales, in its dealerships at a cost of $10,000 each.

DocuPAD, a flat screen that nearly covers the F&I manager's desk, lets the manager and customer see every step of the process simultaneously, watching video presentations of products and signing documents on the screen with a stylus.

Cole, now finance director for the group, had to convert the F&I staff at her dealership to a new way of doing business. It wasn't easy. High performers in particular saw no reason to switch from sales pitches that had worked for them to docuPAD's rigorous menu-selling approach.

In addition, Cole says, the developers hadn't accounted for all of the compliance intricacies of regulation-heavy California, and the first wave of training was inadequate.

Fed up, Cole resorted to a tactic she doesn't recommend for everyone: Her group stopped paying its bill for six months. That got Reynolds' attention, she says, and the company changed the docuPAD processes to meet the dealership group's needs and bolstered its training.

Today, Cole is a convert. "Now that it works," Cole says, "I love it."

More than a million vehicle sales have been processed by docuPADs, Reynolds says.

Price vs. value

The sales pitch for F&I products often comes down to the question of price vs. value. Does the value that the product offers justify the price?

That question dominates discussion of docuPAD.

While many docuPAD users swear by it — dealerships often advertise that they use docuPAD as a way to lure job applicants — even its most ardent defenders acknowledge that price can be an issue.

"It's expensive," says Cole. She ticks off the costs: roughly $10,000 per machine up front and $1,000 a month in maintenance, plus additional charges if a dealership wants to alter anything. "It's very pricey, because nobody can program a form for you," she says. "Every change you make is $297, even if you just blink an eye."

That said, she extols the system's virtues, including higher revenue per vehicle, the ability it gives her to monitor F&I staffers' performance and heightened assurance of compliance with all regulations.

Executives at privately held Reynolds, of Dayton, Ohio, decline to confirm or even comment on pricing. Jon Strawsburg, Reynolds' vice president of product planning, who has been closely involved with the system's software development and rollout, says only, "It's a premium product, priced accordingly."

DocuPAD was introduced in 2007 by COINdata, of Atlanta. Reynolds saw its potential and in 2009 signed an exclusive marketing agreement that included further development jointly. A reworked version, designed to share data with Reynolds' dealership management system, was released in spring 2011.

Reynolds continues to work with automakers, lenders and F&I product providers to create product videos and other upgrades embedded in the system. Among the improvements: In the second quarter, docuPAD was integrated with RouteOne's system, so dealerships no longer need to send contracts overnight to, say, Ford Motor Credit Co. or Toyota Financial Services.

Today, docuPAD is hitting its stride. Although fewer than half of the stores that use Reynolds' dealership management systems also use docuPAD, the number of sales processed by docuPADs grew by double digits in 2016 to more than a million cumulative vehicles, the company says. "It has reached critical mass," Strawsburg says.

Two or three years ago, "we had the guinea pig discussion" with dealers considering whether to buy it, says Kasi Edwards, vice president of marketing. "Not now."

Profit

In true F&I style, Edwards and others at Reynolds would rather talk value than price. DocuPAD pays for itself within 18 months, "maybe sooner," Edwards says. "It's an investment and there's profit to be made."

Dealerships that used docuPAD in 2015 saw an average $224 additional F&I revenue per vehicle, representing one additional F&I product sold per vehicle, says Reynolds President Ron Lamb. Adds Product Manager Tim Yalich: "And what people bought, they kept," because they felt engaged in the purchase process.

Strawsburg says, "The consumer is no longer subjected to the F&I process. Now they're part of the F&I process. Their perception and experience is totally changed."

Rather than peering around the back of a computer monitor, wondering what the F&I manager is typing, customers can see exactly what's happening.

Rivals tout their iPad-based systems, but Reynolds counters that only one person at a time can hold and control the iPad, while both sides have equal access to docuPAD. "It becomes something you collaborate over," Strawsburg says. "It's like a screwdriver with interchangeable heads. The consumer controls the process, while the F&I manager oversees it."

The process is so consumer friendly that some dealerships have taken to touting their use of the system in their ads.

"Spend less time finalizing your car purchase with our cutting-edge technology," says Dave Cannon, general manager of CrossRoads Nissan in Wake Forest, N.C., in the dealership's TV spots. The camera shows a customer and staffer working on a docuPAD.

Compliance

DocuPAD requires a step-by-step menu sales approach; it won't allow users to skip a step. That helps to ensure compliance with regulations. All legal forms are the exact size and font mandated by each state. The system creates a digital deal jacket, allowing dealerships, at the end of a sale, to hand a customer all documentation on a thumb drive, rather than an inch-thick stack of paper. That also helps dealership storage and retrieval.

"Back-office personnel are some of our biggest fans," Yalich says. "Nothing grows legs and disappears. All is protected. No documents are lying around in a folder."

He cites an example he heard from a dealership. "In March, a customer called, saying, 'I bought a van in February last year and I need the documents to claim the van as a business expense in my IRS filing.' If the documents had been sent to Iron Mountain for storage, it would have taken a week, and fees, to get those documents."

But this store used docuPAD, Yalich says. "The manager pulled the documents [from his computer system] and had them all in the customer's email inbox before the customer got off the phone."

The system closely tracks each step of the process, allowing F&I directors such as Cole to see what her staffers are and are not doing. "I can see how long they were on the menu, what products they demo'd, if they showed a video of a product," she says.

Cole there are still occasional problems. "You can trick it and pretend you were doing a presentation, but I video everything," she says, then laughs and adds, "I've found guys plugging in their iPads and watching [sports] games on it."

But her more substantive complaints are being steadily addressed with multiple updates every year.

Among some colleagues who wrestled with the initial version, "I still have some haters," she says. "It's unfortunate they don't go back and look" at today's docuPAD. AN