

## Selling Lenders on F&I Products

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With auto sales plunging to a 15-month low in June, maximizing profits on every deal is the challenge every dealership faces in today's tough economic climate. In other words, this is not the time to dwell on how tough it is out there.

One of the most common challenges I hear from business managers across the country is that lender policies unrealistically cap the advance amount on certain F&I products. Some finance companies are even refusing to advance on certain products. Make no mistake about it, this is a challenge but it is not necessarily an uncontrollable one.

In order to understand the lenders' reasons for this policy, we must first ask the question, "Why have lenders adopted these policies?" The question really answers itself when we consider the way we priced F&I products in the past. As a result, many dealerships are now setting maximum and minimum selling prices to insure higher product penetrations, compliance with lenders, and to show the consumer greater value.



A successful product sale is achieved because the customer sees the value is equal to or greater than the cost. However, the lender is, in essence, the ultimate buyer of what we are selling for the term of the loan? The first thing we need to do is show lenders that allowing the customer to choose these protections and conveniences is worth their risk in advancing for the product. We need to do this for all F&I products.

We need to step up and become better business managers rather than having no business being managers. We sometimes accept situations as uncontrollable, when, in fact, there are proactive things we can do for our dealership. Understanding this lender-created challenge we must determine what attitudes we need, what solutions are viable, and what actions we must take to overcome these obstacles. With that said, let's discuss the practical solutions and proactive actions we need to take.

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### New Approach, New Attitude

The challenge for F&I managers is we must make the lender cooperate with us and be flexible about their advance policies. As F&I professionals we know the monthly payment isn't the only expense of owning a vehicle. Aside from gas and routine maintenance, there are expenses that can seriously hinder the customer's ability to make his or her monthly payment. And that's the value of F&I products. Not only do these products provide a great value to the customer, but they also represent a form of risk protection for lenders.

The criteria lenders use to approve a deal and approve the advance requested are based on the three Cs: credit (the customer's past payment history), character (are there extenuating circumstances that explain less than perfect payment history?), and capacity (their debt-to-income ratio, or their ability to pay). I won't discuss how you should handle the three Cs, but I would like to add three more conditions to the list: A lender's perception of the product's value to the customer, the ethics involved in how the product was presented and sold to the customer, and the lender's risk to reward for advancing on these products. These factors are what lenders use during their decision-making process.

We already know that a lender will not lend \$20,000 for a vehicle with a \$10,000 book value so we need to demonstrate the value of F&I products to them in order to get advances. Lenders need to be "brought out of the box" just like we do.

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### Sellings Lenders on F&I Products

The first step toward demonstrating value is to set maximum selling prices for every product. These selling prices must be fair to the customer, and be equal or less than the value of each product. Next, develop a compliant selling process that requires the additional costs of all products offered to be fully disclosed. Dealership also need to make sure that this process is used consistently with each customer.

Instituting such a process might lead to less profit per product sold than the dealership might hope, but such a process should increase acceptance rates and generate more overall profit. The reality is high acceptance rates generates more gross profit. It's also extremely important to one's service department, which, in today's market, is paramount to a

dealership's survival.



At the time of purchase, customers who enroll in a service maintenance program, purchase an extended service contract, tire and wheel protection, GAP protection, appearance protection, or any other F&I product are more likely to return to the dealership for their routine maintenance and repairs. They will also have a 72 percent chance of buying their next vehicle at your dealership. So how do we get lenders to loosen their restrictions on advancing for F&I products? It really comes down to how you sell these products to the lender.

Remember the additional Cs I suggested earlier in this article — conditions of value, selling ethics and risk to reward. The lender must know, see, and buy in to the value of the products, the dealership's selling process and pricing policies in order for them to relax their advance policies.

Make no mistake about it, not all lenders will be flexible with their policies. But the ones who realize that we are their customers and look for ways to improve the relationship will be impressed with our initiative, honesty and persistence.

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### **5 Ways to Secure Advances**

Getting a lender to advance on an F&I product is definitely a challenge these days, but there are ways to make a product more appealing to the lender. Here are five suggestions for doing just that.

- Give your lenders cost sheets for all of your products. Include the maximum markup you'll charge your customers and get your lenders to agree to fairness of the markup.
- Present the products to your lenders using the process you plan to use for each customer. In other words, do a mock selling presentation for your lender, which will demonstrate to them the dealership's policy for full disclosure and for preventing payment packing.
- Sell lenders on the features and benefits of all the products, as well as the credibility of the companies providing the products. Not only do the lenders need to know about the products your dealership is offering, but also the company providing them.
- Get your dealer and/or GM involved. They have the clout to make sure the lenders are attentive to what the dealership is trying to accomplish.
- Stick to the promises you've made to your lenders. Do not step outside the pricing structures you have laid down. Also make sure the dealership consistently follows the established sales process.

*Denny Sims is the national S.O.S training specialist for Easy Care, which provides VSCs and other F&I products. He can be reached by e-mail at [dsims@easycare.com](mailto:dsims@easycare.com).*

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