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IS THE ART OF F&I DEAD?

Every dealer believes they are dedicated to finance, but too many are complicit in an ongoing effort to eliminate the F&I middleman and let sales and desk managers cut deals on the bank's terms.

BY LLOYD TRUSHEL

When I began my career in the car business nearly 30 years ago, the position of F&I was, in my opinion, hands down, the best job in the store. Sure, the general manager ran the dealership, but there was something so alluring about F&I. Becoming an F&I manager became my obsession and, in large part, my passion for much of my adult life.

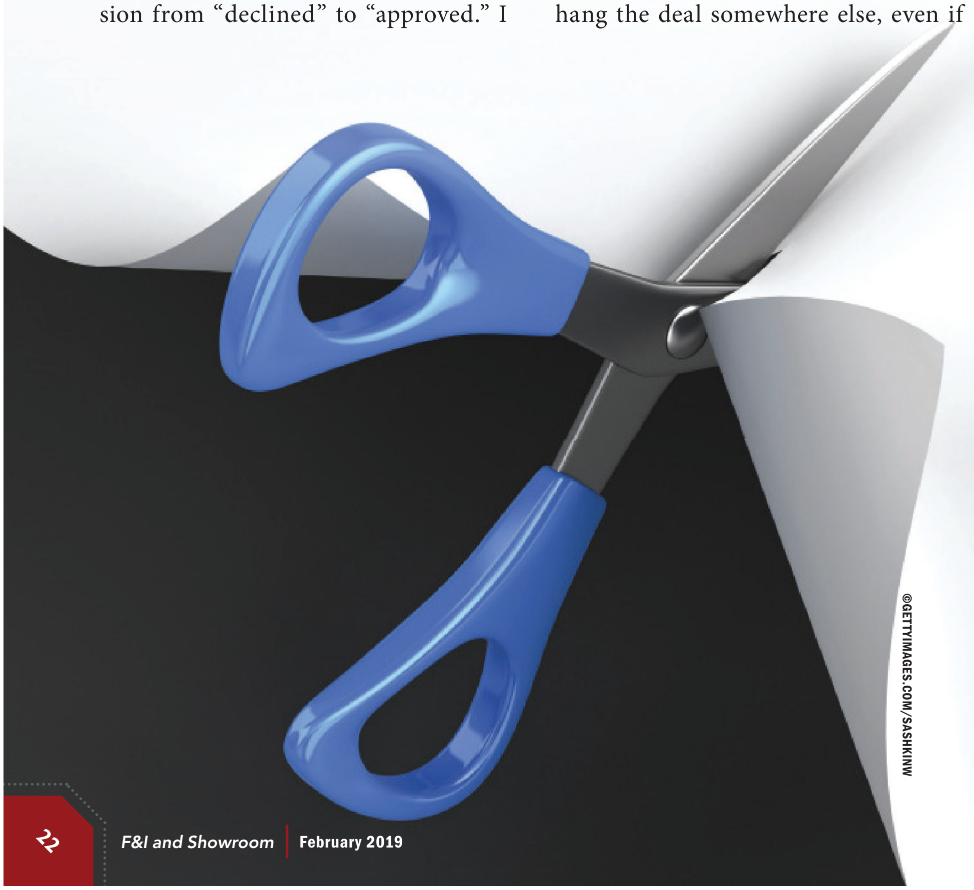
Back then, finance directors sat in the back of the store, reviewing stacks of deals, crunching numbers, and talking with banks. As a young salesman, I would sit and listen to calls with buyers and marvel at how a short conversation about credit guidelines and deal structure could shift the decision from "declined" to "approved." I thought understanding how to "hang paper" was the coolest part of the job.

Buyers and F&I managers were often friends that helped each other hit goals. Accordingly, decisions were about program knowledge, how to make a deal "fit," and factors greater than just one deal.

As an F&I manager, I valued my buyers and wanted them to succeed. When I spoke with marginal or subprime customers who felt extra risky or displayed an indifference toward rebuilding their credit, I would place those loans with a finance source that would welcome the risk rather than one that wouldn't see it coming. I'd just hang the deal somewhere else, even if it meant losing a few dollars. The relationship was simply more important.

As a young salesman, I once watched a mentor of mine send 70-plus deals to our captive finance company, which was not our normal practice. His preferred source had refused to buy a deal he "spotted" on them. This may sound crazy, but it worked, and it allowed us to roll 600 units a month with very quick transaction times before internet portals even existed.

It was impressive to watch the combination of leverage, finesse, knowledge of programs, and relationships that great F&I directors and managers had with their banks. They were more than "another closer"; they were the conduit between the dealership and the money. During this time, a quality F&I manager could not only add units and gross, they could literally change the entire culture of their dealership.



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A SHIFT IN THE BALANCE OF POWER

An easy way to see who controls society is to look at who owns the biggest buildings in town. For thousands of years, cities were ruled by government buildings and churches. Accordingly, the skyline was decorated with castles, courthouses, and cathedrals. Today, you can look at any metro skyline or Main Street in America and you'll see the biggest buildings belong to the banks. The banks control most of the money, too, which is a necessary ingredient for any successful F&I department.

True captives create a space for dealers that often keeps competition healthy through programs designed specifically to move units. Even if the captive is really just part of a big bank, the manufacturers still have some leverage in keeping the programs favorable for their dealers. Without this system, it's likely there would be higher interest rates for everybody, which in turn, would slow car sales: Higher rates equals higher payments, slower buyer equity, and longer trade cycles.

Fortunately for us, captives were formed to help move the metal a very long time ago.

In 1919, General Motors didn't rely on outside banks. Instead, they saw the need (and opportunity) to *become* the bank in the automotive transaction. So GM formed General Motors Acceptance Corp., better known as "GMAC" (1919–2006 R.I.P.), which drove GM sales forward for decades. Imagine if GM had only relied on outside banks during the Great Depression that began in 1929. The entire concept of the F&I department as we know it may have died as a result.

In 1932, the Glass–Steagall Act was enacted to prevent another crash, and it worked very well. The law prevented investment banks from holding deposits, such as savings accounts, IRAs and 401(k)s. The law also prevented commercial banks making investments with your money.

Unfortunately, in 1999, Congress voted to repeal the law. This change allowed commercial and investment banks to merge, and that led to billions of dollars' worth of people's IRAs and 401(k)s being used for investments by the banks themselves, eventually requiring the $700 billion bailouts of 2008.

Initially, the merger of investment and commercial banking became a big money business. It was sexy to work for a bank. Banks were posting enormous profits and executives enjoyed cashing the corresponding paychecks. But, like all public companies, they wanted more.

As the Great Recession approached in the late 2000s, banks were looking everywhere for more profit, and it was nearly impossible to find. That's when a few savvy finance sources began to outsmart their dealers by circumventing F&I when they could.

MODERN BANKING

With portals like Dealertrack and RouteOne completely solidified into the dealership and pressure from customers and staff to reduce transaction times, sales managers began submitting deals at the desk. This practice, while intended to help transaction times, had an unintended side effect: It took structure and finesse out of the initial deal submission.

Now, rather than have sales review the deal with F&I and maybe get the F&I manager on a TO early in the deal, many just moved forward with whatever the bank was willing to give.

The art of crafting deals, working relationships, and rehashing began to fade. Today, in many stores, it's effectively gone. The dealership culture is suffering as a result. Many deals are just cut by sales managers upon receipt of the first green checkmark or counteroffer instead of working the deal.

MANY DEALS ARE JUST CUT BY SALES MANAGERS UPON RECEIPT OF THE FIRST GREEN CHECKMARK OR COUNTEROFFER.

For banks, it's more about algorithms and formulas. This new auto finance model is also a very easy way to ensure they only gets clean business because they can move specific parameters, at will, to achieve their goals. Asking your buyer to stretch on a deal is often met with, "I can't. The computer won't let me." And that may be the case, but not always.

If your loan portfolio is performing well, that's great for your source. But it also needs to be great for your store. Otherwise, it's just a one-way relationship. Stand up and ask anyone in your store how the "book of business" is performing — whether by app count, volume, yield, or delinquency. They probably won't know, and many banks don't even want to discuss it — unless

it's bad. In other words, most dealers and F&I directors don't know whether the bank is profitable on your business or not. But you should!

We know that lenders must expect some delinquency and some defaults. If the paper they are buying from your store is performing perfectly, this is actually a red flag. Some debts are not repaid. It's standard economic theory.

Think about this: A perfect portfolio means the finance source could only be buying the good loans and passing on the marginal ones. This is a problem. This means that, a certain percentage of the time, you're missing opportunities for approvals and more favorable callbacks.

How does this affect your store? How about lower unit sales, lower sales morale, lower F&I profits, lower customer satisfaction, and lower service department revenue?

I suggest all dealers take a hard look at who is allowed to submit and rehash deals. If the "profit prevention manager" is calling in your paper, it will cost you a lot.

Also, I believe stores should routinely review their lending relationships. This requires meeting with your each of your sources, asking questions about their programs, and finding out how your business with them is performing. Learn which will partner with you to ensure your success. Who has flexibility built into their programs? Who will stretch for your deals when needed?

It's never been more important to find out where mutually beneficial relationships exist. Right now, I'm seeing too many dealers fighting for profit while margins continue to shrink. ◾

ABOUT THE AUTHOR

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