The CFPB and Top F&I Development Companies Agree

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The CFPB, top dealers, and F&I development companies have a similar mission of being consumer advocates, and it would be in the best interest of all to find common, recommended best practices.

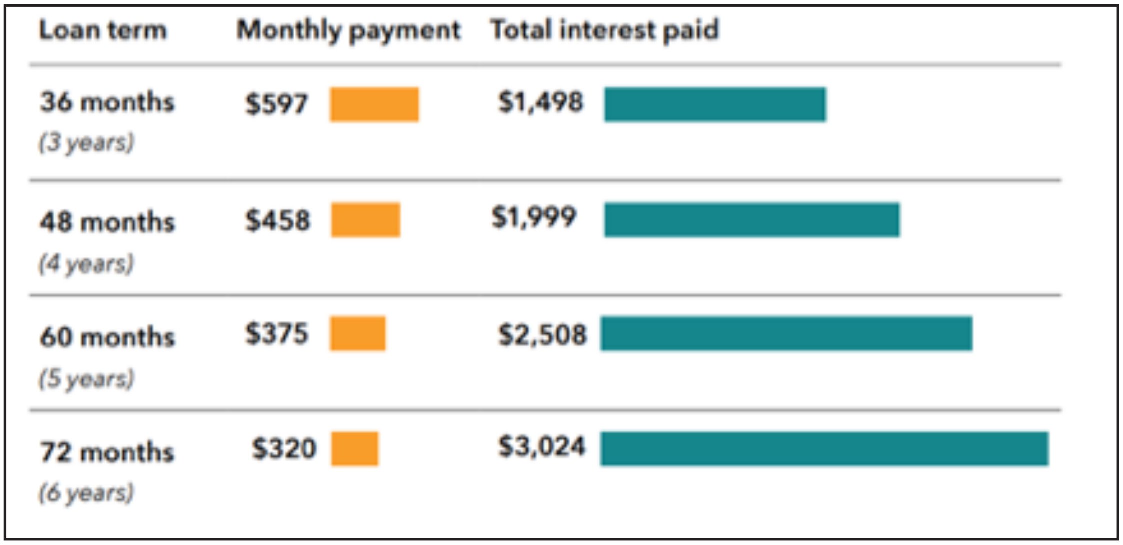
For the last 15 years, the top F&I development companies have been advocating a larger down payment and shorter term when borrowing money for an automotive purchase. It is reassuring to see that in this regard, the CFPB also agrees that this is a best practice. Let us review an exerpt taken from the CFPB's "Take control of your auto loan: A step-by-step guide."

Negotiate to lower the total cost, not just the monthly payment*
When you [the customer] are looking for a loan, you [the customer] may find it easy to focus just on the monthly payment or the price of the vehicle. But looking at just one factor doesn't give you [the customer] the whole picture. A lower payment doesn't necessarily mean a lower interest rate; it might just mean that you [the customer] are paying for a longer time. The best way to compare auto loans is by using the total cost of the loan.

For example:

- *Getting a lower interest rate and APR means the customer will pay less to borrow money. The total cost of the loan will be lower.*
- *A shorter loan term will reduce the total loan cost. A longer loan can reduce the monthly payment, but the customer will pay more interest over the life of the loan.*
- *A higher down payment or a higher price for the trade-in, will reduce the total amount financed because the customer will have to borrow less money.*

Below is a sample comparison to illustrate how the customer would pay less in the long run if he/she has a shorter loan term. The table below assumes a $20,000 loan and an interest rate of 4.75%.



While the lower monthly payment with the longer term may look like the way to go, the customer really needs to consider the total interest cost over the life of the loan. If the customer paid off a $20,000 loan in three years, he/she will pay $1,498 in interest. For a six-year loan, the customer would pay $3,024 in interest – more than twice as much. Some financial advisers recommend keeping the length of vehicle loans to five years or less. This is because the longer the loan, the longer the customer will owe more than the vehicle is worth, which is called negative equity.

The customer does not benefit from putting zero down and financing for 72 months or longer. As highlighted above, a larger down payment and shorter term loan is a much better option for customers. All dealerships who truly want the best option for their customers should be advocates of this practice.

Be Sure to Look at All Loan Options

Another best practice that the CFPB, dealers, and top F&I development companies agree with is shopping for the best loan. Lower interest rates, better contract terms, etc. all benefit the customer. When the customer looks at all loan options (including those options provided by the dealership's F&I department) and does not limit themselves to one bank or credit union, they put themselves in the best position to have the best loan option for their vehicle purchase and lifestyle. Below is another excerpt from the CFPB's "Take control of your auto loan: A step-by-step guide" which highlights the fact that it is in the best interest of the customer to review all aspects of the terms and features of a loan, prior to consummating the deal.

Know what is negotiable*

While you may know that you [the cutomer] can negotiate over the price of the vehicle and the interest rate, it's also important to know all the factors that you [the customer] can negotiate over that may impact the cost of your [the customer's] auto loan. You [the customer] should consider all these factors when you [the customer] buy and finance a vehicle. In addition to the price of the vehicle, here are some other terms or costs that you [the customer] can negotiate:

- *Trade-in value (if you trade in your vehicle) and down payment amount*
- *Annual Percentage Rate (APR) and interest rate*
- *Length of loan*
- *Whether or not there will be a prepayment penalty*
- *Price of optional features and services for the vehicle or the loan such as extended warranties, credit life insurance, GAP insurance, alarm systems, tire and wheel protection, window tinting, and other products, fees charged by the dealer such as dealer preparation fees, delivery charges, and document fees*

All loans are not created equally. Loan options from the dealership's F&I department may have a more competitive rate, no prepayment penalties, no additional fees associated with the loan, no cross-collateralization, no acceleration clauses, etc. It is in the best interest of the customer that the business manager reviews all the loan choices and contract terms prior to the customer making his/her purchase decision.

Dealers, F&I development companies, and the CFPB should work together to provide the best options for the customer so they can have the best possible situation when completing a vehicle loan. This will enable the customer to be financially sound, and allow them to make multiple, fiscally responsible purchases over their lifetime.

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