Why you should consider a subprime finance department

BY CHRIS SCHULTHIES

Many dealers' initial reaction to subprime financing is the fear of "that type of customer or element" subprime supposedly attracts.

Dealers with high ethical standards are also concerned for their customers' well-being and at the exorbitant interest rates they are charged.

If you happened to have felt either concern, you are not alone. However, many others dealers who have had had them soon discover how they could embrace subprime a.k.a. "special financing" without tarnishing their brand or image and have come to feel comfortable with the higher interest rates.

DEALING WITH BRAND OR IMAGE

Dealers who had these concerns soon realize that there is a very viable solution: segregate the subprime effort from the prime. For example, many dealerships create a separate company and advertise under that name, as for example, "Dr. Credit," "You Deserve a Second Chance," etc. They run classified ads in newsprint or magazines, use direct mail flyers, radio spots, infomercials and host multiple websites marketing to credit-challenged customers.

There don't refer to the dealership by name, thus preserving their store's image.

These dealerships use multiple telephone numbers to track their leads and continually adjust their advertising mix. These dealers have proven that marketing to and servicing this increasing market segment only enhances their operations and overall profitability.

FEELING GUILTY ABOUT THOSE HIGH INTEREST RATES?

On the surface, many would agree that an interest rate of up to 29 percent is excessive. Consider, however, one of your customers who has an accident and then repairs their vehicle in your collision centre. I'm sure that you appreciate their business but you really never get a chance to see their automobile insurance renewal premium. It often jumps by as much as 100 percent or more.

If their vehicle was written off in the accident, I'm sure that you would also be pleased to sell them a newer vehicle as a replacement, but how guilty do you really feel about their increased insurance premiums?

Insurance companies will charge higher risk premiums to those drivers with accident histories or to those drivers with a poor driving record. These drivers are considered high risk and thus the insurance companies charge accordingly.

Your garage policy and most dealership group health insurance plans work exactly the same way. The fact is that because you don't see their premiums and because it's out of your control, you likely don't feel guilty about the extra burden that your customer must endure.

Similarly, the interest rate that a financial institution charges is based on risk, just as an insurance company's premium is based on risk. The customer who has had "credit accidents" along the way is likely to be a high-risk candidate for a higher interest rate auto loan, and that's a good thing!

The worse thing that could happen to a customer who wants to get a newer vehicle is to be denied insurability because of their accident or driving history. In the past, we discarded credit-challenged customers who wanted to buy a newer vehicle from us because they were refused financing from prime lending institutions. Today, we see a plethora of special finance lenders who are able to help these individuals get into a vehicle and more importantly, re-establish their credit. And, let's not forget that many consumers with excellent credit will pay upwards of 24 percent interest on credit cards from established companies and 18 percent to 19 percent on Visa, Mastercard and American Express.

Dealers who cater to the credit-challenged are providing a highly needed service for their customers. If they don't, someone else will and do it with a clear conscience.

> "that is precisely what you will be asking your customer to do: invest an additional $50 to $60 per month on top of what would have been the normal payment to re-establish their credit."

Today, many special finance lenders have renewal or loyalty programs that allow a customer who makes their payments on time — 10 payments with VFC — to qualify for a prime or near-prime interest rate on another auto loan. These customers are more often in a position to get a better vehicle and at a lower interest rate within a year!

Imagine a credit-challenged customer seeing an advertisement in a newspaper that reads as follows:

> **RE-ESTABLISH YOUR CREDIT THIS YEAR- JUST 12 EASY PAYMENTS @ $60 PER MONTH!**
> **CALL CREDIT RECOVERY AT 1-(888)-555-555**

Many credit-challenged customers would register for a program like this in a heartbeat! In many cases, that is precisely what you will be asking your customer to do: invest an additional $50 to $60 per month on top of what would have been the normal payment to re-establish their credit.

Over the course of a year, the customer may have paid $700 or more than they normally would have on a lower interest loan. Most importantly, however, the customer becomes mobile once again and if they maintain a payment history, they will more than likely qualify for a respectable interest rate, often times even qualifying at many prime lending institutions. You can feel good about your services!

If you are not in the special finance business or are just dabbling in it, developing or tightening your focus could mean up to a 25 percent increase in volume and a tremendous gross earning opportunity.

Here are some of the benefits of a subprime department:

- save declined regular finance deals;
- help customer with "special needs" — better terms for prime customers on older models;
- help first-time buyers;
- deal with large, negative-equity, trade-in situations;
- buy trade-ins more aggressively;
- increase new and used volume;
- eliminate aged inventory;
- fuel reconditioning for fixed operations;
- more front-end and back-end gross profit;
- breeds a new brand of loyal customers and outstanding referrals.

Subprime is one of the fastest-growing profit centres in dealerships today. Successful operations are generating $25,000 to $45,000 gross profit per month which can mean a profit infusion to over $500,000 annually with increased bottom line profits, increased repeat and referral business and decreased aged inventory.

It's no wonder every dealership must develop a subprime special finance department.

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