



What's First on the F&I Menu?

By Mac Gordon

Many publicly owned dealership chains, captive lenders and major dealers — in the wake of lawsuits and bad publicity — have begun capping loan reserve rates at 2%-3% levels.

This has solved one problem but created another. Income from F&I loans and leases is certain to be reduced. To offset that blow, dealers should re-focus their F&I offices on other profitable services and cost-reducing steps.

Megadealers already have realigned their F&I menus. Selling more extended service contracts, credit life and disability insurance, GAP and maintenance agreements have been pushed hard by lenders and F&I trainers.

Service contracts, however, face sales hurdles in the form of improved quality among Big Three vehicles and generous extended basic warranty coverage on Hyundai, Kia and Mitsubishi brands, as well as most top luxury brands. Opening an F&I sales pitch with an extended service contract presentation could invite "who needs it?" objections right off the bat.

That's where it behooves F&I managers, who have been drilled and re-drilled on the need to comply with full-disclosure practices and avoid "hidden packing" practices that can lead to legal troubles, to recast their menus and sales techniques.

At the **Dealers Resources** F&I school, based in Northville, MI, veteran trainer **Jeannine L. Dailey** advises students to present credit life and disability insurance as the first product on the menu.

"It's a peace-of-mind product that can be crucial if claims develop," says **Dailey**, a former F&I manager whose presentation is regarded as one of the most insightful and productive by alumni and other F&I trainers.

"Too often, credit insurance has been downplayed in the F&I sales process, or ignored entirely," **Dailey** says. "But claims are growing and families are often being stuck for payments when the breadwinner is disabled or deceased.

"Premiums can be added to loan payments, of course, and the cost of credit life and disability remains relatively low. Of all the insurance products on your menu, that's the one you should pursue right at the top, because even the youngest buyers can be shown examples of claims paid when accidents or serious illness occur."

Dailey's students are asked if they can cite examples of disability and life claims they have encountered. Nearly all of them can. Debbie English, of Dave Hall Chevrolet-Buick-Pontiac, Marlette, MI, tells of a claim paid by GMAC when an auto accident idled a friend six months into a 36-month loan on a Grand Am.

"I find that credit insurance objections like 'don't need it' or 'it's too expensive' fade away when you show how often it's used, especially for disabilities," English says. "And emphasis on it being presented first, especially if a couple is sitting across the desk, is very effective."



Yet a Consumers Marketing Group survey indicates the average dealership's penetration on credit life sales was only 14% on new cars and 17% on used, while credit health and accident was 11% on new and 16% on used.

"That's because it's so seldom sold as the first menu item after financing," **Dailey** insists. "Also, it doesn't necessarily have to be sold at point-of-sale. It could be done the next day or two on a 'think-it-over' basis."

F&I manager Matthew Demmer, of Demmer Lincoln Mercury, Wayne, MI, says he raised his credit insurance penetration to an average of 25% by following **Dailey's** advice and offering it before an extended service contract or GAP.

"Attention is highest at the beginning of the F&I process," Demmer explains. "Credit life and health insurance addresses the buyers, rather than their vehicles. They've already bought the car, so they're satisfied and receptive to a product that would protect them in case of personal hardship."

Dailey doesn't ignore extended service contracts and GAP insurance. She spends a day of her 4-day seminars on those. But she's a devotee of credit policies.

"With less loan reserve coming in, and that subject to chargebacks, it's good to note that commissions on credit insurance policies can run up to 40%-50%," she says, adding that customers are fortunate to be so insured. "The policies are not cancelable by the insurer, except for nonpayment of premium. Mental illness is covered, including depression as a cause of inability to work. It's a win-win for dealers."