Why Should you Consider Special Financing?

by Hector Bosotti

Many dealers' initial reaction to special financing is fear of having "that type of customer or element" hanging around their dealership. Dealers with high ethical standards are also concerned for their customers' well-being with the exorbitant interest rates that they are charged. If you have felt either concern, you are not alone. However, many others dealers who had these same concerns have discovered how they could embrace special financing without tarnishing their brand or image and have come to feel comfortable with the higher interest rates.

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Dealing with brand or image

Dealers who were concerned about the image of their store and the tarnishing of its brand realized that there was a very viable solution: create a separate marketing execution. For example, a dealership creates a separate company and advertises under that different name (e.g."Dr. Credit," "You Deserve a Second Chance," etc.). They will run classified ads in newsprint or magazines, use direct mail flyers, radio spots, infomercials and host multiple web sites marketing to credit-challenged customers. There is no reference to the dealership or its name, and thus the original image of the dealership is preserved. They utilize multiple telephone numbers to track where their leads are coming from 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 the high interest rates?

On the surface, anyone would agree that an interest rate of up to 29 percent is excessive. Consider one of your customers who has an accident and then repairs his vehicle in your collision center. I'm sure that you would appreciate his business, but you really never get a chance to see his automobile insurance renewal premium. It likely jumps up by as much as 100 percent or more. If his vehicle was written off in the accident, I'm sure that you would also be pleased to sell him a newer vehicle as a replacement, but how guilty do you really feel about his 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 premiums are 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 situation for a customer who wants to get a newer vehicle is to be denied insurability because of his/her 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 myriad of special finance lenders that 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 upward of 24 percent interest on credit cards from established companies like Sears and 18 to 19 percent on Visa, Mastercard and American Express.

Dealers who cater to credit-challenged customers are providing a highly needed service and solution for their customers. If they don't, someone else will and will do so with a clear conscience. Today, many special finance lenders have renewal or loyalty programs that allow customers who makes their payments on time (e.g. 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 MONTH!
CALL CREDIT RECOVERY at (888)555-5555"**

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

Special finance is one of the fastest growing profit centers 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 why every dealership must develop a special finance department or operation arm.

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