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# Poor Approval Rates or Poor Procedures? Part 1

Some of the constant problems that dealerships experience when actively marketing to credit challenged individuals are poor appointment, approval or delivery rates. With the lender attrition that has taken place over the last 12 months in Canada, many dealers are blaming the existing lenders for their poorer approval rates. I thought it prudent to address this issue and provide some solutions.

At first glance, it is quite easy to believe that since there are fewer special finance lenders available in Canada to channel sub-prime applications to, they can afford to be more selective on whom they approve. I have heard mixed comments on this proclamation. There are dealers who are now starting to send applications they normally would have sent to other lenders to the remaining ones. The fact remains that these applications may not have been approved in the first place by the remaining lenders had they been sent to both in the past and dealers are just sending weaker applications that were approved by special finance lenders who perhaps had more flexible parameters in place that lent to easier approvals. This will naturally produce a poorer approval rate for such dealers. Well, we all know what happened to the other lenders; they are no longer here. The "credit crunch" likely had more to do with their departures than their portfolio management practices as their availability of funds dried up due to other obligations perhaps from the mortgage fiasco in the United States. There are some lenders who are still operating but are not proactively booking paper. These lenders have wisely taken a step back to re-evaluate their business models and will surely be reincarnated with new programs when they figure them all out.

There are other dealers who have maintained their approval rates. How can this be? The common denominator is that they all have solid procedures in place that they follow, regardless of the applicant. There are those dealers that are in fact enjoying a higher approval rate. These are the dealers who have invested in developing marketing plans proactively targeting individuals who are not necessarily in need of nor desire a newer vehicle right now. By adopting this strategy, they attract a better quality credit challenged individual. A better quality credit challenged individual is one who doubts that they will qualify for a vehicle loan because they have had some minor credit accidents along the way. These individuals are not aware of how derogatory a credit history must be in order not to be approved. They may have had a few late payments made on credit cards, rent, mortgage; utility bills or had an NSF cheque along the way. They see these accidents as major hurdles that may inhibit them from taking the initiative to contact a dealer. These are the individuals that you want to see first! These dealers push solutions and not just products. They position themselves as experts on credit repair and recovery. They provide a plethora of information to their prospects and provide services that include credit counseling, all completely complimentary and with no strings attached. They even set up secured credit card accounts for those that do not get approved and enter these customers into their automated or manual CRM systems for future follow up. These are the exceptional dealers that deserve the success that they enjoy. Trying to figure out how to accomplish this strategy can be costly and ineffective if a dealer implement a "do it yourself" method and that is why most wiser dealers invest in private marketing consultants or attend training workshops dedicated to generating prime and sub-prime opportunities.

Through my travels, I have found that the number one cause of a poor approval rate for a dealership is that they do not pull a credit bureau report on an applicant before an application is submitted. There are many other reasons for poor approval rates that include the demographics of a dealership's servicing area, local economies, advertising that attracts the 'bottom of the barrel' individuals, poor advertising placements at the middle or at the back of a publication promoting re-hash applications that were turned down elsewhere, selling a vehicle first and then seeking an approval just to name a few. There are some business managers who never pull a credit bureau report and some that will always do so. The ones that never pull a credit bureau perhaps have one or more of the following reasons:

- They believe that it is too time-consuming.
- They or their superiors may have the belief that it is cost prohibitive and cannot justify the expense.
- Many business managers may be intimidated to pull credit bureau reports because they do not know how to read them and don't know what benefits would derived if they learned how to.
- Some believe that it is not their duty to approve a loan or lease application and that is falls beyond their job descriptions.
- Many believe that pulling a customer's credit bureau will not change the outcome of a lender's call.

If a business manager is too busy to pull a report, they are likely to be less effective at securing a customer's acceptance of a higher interest rate and an approval. There may also be incorrect information on the bureau that the customer is unaware of that will prevent them from being approved or at the very least, make it difficult to do so. Business managers should be aware that they are allowed to show and share information with their customers about their credit bureau report but they are not allowed to give it to them. It is not a legal issue but rather one of propriety on behalf of the individual credit bureaus.

With over 25 percent and fast approaching 30 percent of retail consumers in Canada unable to secure an approval at a prime lending institution today, most dealerships are now accessing credit bureau reports on their customers via their Dealer Track portals and at minimal cost (approximately $5). Some business managers will only pull a report when there are clues or signals that a customer may have credit problems. Training sales staff to identify and then turn over potentially credit challenged customers will greatly improve results and save many customers the "let-down" effect when they discover that they cannot get what they originally wanted. This in itself leads to deals falling apart. It is critical to place prospects in a face-saving environment. Remember that they will have friends, family and work associates who might be potential referrals to a dealership if they are treated well. For the aforementioned reasons, it is highly recommended that sales consultants should deviate from a normal sales procedure when a credit challenged customer has been identified. The sales consultant should get a business manager involved to help structure a deal, get a pre-approval or direct a course of action. Get an approval first and then match up a vehicle.

In the next issue we will look at the benefits that are achieved by pulling a credit bureau report.

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