When most people hear the words “subprime financing” they immediately groan. I’ve been shocked over the years by the negative terms that I’ve heard used by F&I “professionals” when describing the subprime customer. When it comes to the subprime market, I believe many in our industry are in need of an attitude adjustment. Because let’s face it, nearly 35% - 40% of customers fall into this category and this number is steadily increasing. Signs of a slow economic recovery and a decrease in lenders’ losses have allowed some of the strict guidelines of the past to loosen up a bit and have created more opportunities for loans for people with less than ideal credit. There is no time like the present to focus on this extremely important part of your business. Even if you are aware of the many benefits of serving the subprime customer, you may not be approaching these loans in the most efficient and effective way possible, leaving time and money on the table. With the right people, processes and partners, subprime financing will increase your dealership’s F&I income, build customer loyalty, save you from hidden liabilities and save valuable time in the sales process. Use the tips below to build or evaluate your subprime department and soon you’ll be reaping the rewards.

#1: Rely on the experts.
F&I is a full-time job. You’ve got enough on your plate from working with prospects, customers, manufacturers and employees to managing your products, operations, marketing and growth. Don’t fall into the costly trap of thinking you can simply allow your office manager or sales staff to handle F&I. All too often, these people have had no formal training, don’t know how to properly read credit reports, how to put difficult deals together or how to speak to these customers. And if they’re focused on making the next sale or other responsibilities, they may not have the time to devote to the labor intensive subprime deal. Whether you hire in-house or choose to outsource to a company like Priority One, make sure your F&I manager has experience in subprime financing. In an ideal situation, you will have an individual dedicated solely to subprime financing. A dedicated F&I manager, with knowledge of subprime lending, will have time to stay on top of lenders’ changing guidelines, most effectively develop and manage those relationships, ensure you remain compliant with federal regulations and maximize your profit opportunity.

#2: Be an advocate.
It is critical that your F&I manager treat every customer the same way, regardless of credit score. There is a misnomer that customers with a poor credit score are not affluent. This is simply not the case. There are many reasons a customer may have a low credit score including divorce, illness or a short interruption in employment. Chances are your credit challenged customers have not received first-class treatment by others in the industry so now is your chance to shower them with kindness. Your dealership’s F&I manager has the opportunity to become your customer’s “smart friend.” They should present themselves as an advocate who will be working on their behalf to find the right financing package to fit
their specific needs. Skills such as knowing when a co-buyer will and will not strengthen a deal, when and how to effectively rehash with an underwriter and how to work with the sales team to place the customer in a unit and a finance package within their range must be mastered by your F&I manager in order to maximize the opportunity subprime customers present. A dealership that treats subprime customers with respect, shows they are on their side and can provide an opportunity for them to purchase the unit will create strong customer loyalty whether they win the sale today or earn future business from them, their friends and family members.

### #3: Build successful relationships.
Developing and maintaining a successful relationship with your subprime lenders is imperative to a profitable subprime department. These lenders are dedicated to and specialize in creating manageable loans for the credit challenged. An F&I manager who specializes in subprime customers will know how to best manage those relationships. It is important to know what customer fits with the lenders in your portfolio and what information is required to expedite an approval. Don’t waste their time making them ask you for information. Build a case for an approval upon submission to eliminate costly delays. Understand the customer’s history, provide a complete and accurate application and furnish supporting documentation as needed. It’s much smarter to be diligent at the start of the deal than to attempt to overturn an underwriter’s decision. The F&I manager that recognizes the importance of building and maintaining lender relationships will most effectively be able to meet the needs of the subprime customer.

### #4: Learn the tricks of the trade.
As with any job, there are required skills that can’t be overlooked. In subprime financing, creative communication skills are essential. 90% of the time, in a subprime deal, you are moving the customer away from what they want either by telling them they need a less expensive unit (they qualify for a lesser loan amount) or the terms are not what they expected (more money down, shorter term, higher payment). A subprime expert has to be skilled at presenting the customer with a situation different than expected in a positive light. “Great news, you’re approved with $5,000 down. You’ve already put $3,000 down so all you need is another $2,000 and we can get you on the road.” Never use phrases like “high rates” or “short terms.” There are no such things as high rates and low rates or short terms or long terms in subprime lending. You’ve delivered a great approval and these are the “rates you’re eligible for.”

A subprime F&I manager has to be an exceptional listener as well. By listening to your customer, you will gain good information to use when selling back-end products. Product sales are critical not only to the margins of a subprime deal but also in order to protect the credit challenged customer. Chances are the subprime customer does not have a lot of room for unexpected expenses. Product, such as extended service contracts, GAP and accident and health help ensure their purchase won’t become a liability to them down the road.
#5: Encourage ongoing training.
You’re not an F&I professional, that’s why you’ve hired one. Whether in-house or outsourced, ongoing training is key. Sales training, product training, lender training and regulatory training - each of these pieces of the training puzzle must be constantly refreshed. To keep things interesting, implement a variety of training strategies. Invite lenders to hold a meeting at your dealership so they can explain new information directly to your staff. Let peers share ideas that work for them. Use role-playing to help identify areas that might need improvement. Encourage product vendors to spend time with your F&I manager a few times a year. Conduct annual regulatory training as is required by federal regulation. If you outsource, make sure it’s with a company that has training programs in place to ensure that their staff’s knowledge and skills are constantly honed.

Subprime deals are not easy. With narrower margins, a more lengthy process and requiring a very specific skill set, it is understandable that it is an area in which many dealers struggle to succeed. But a savvy dealer recognizes the rewards that a subprime department can reap. The opportunity for loyal customers, increased sales and additional F&I income makes the commitment to employing the right person in-house or seeking the assistance of professional outsourced services well worth the investment.

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About Priority One Financial Services
Priority One has been serving the marine and RV industry since 1987. Acquired in 2007 by Forest River, Inc. a Berkshire Hathaway company, Priority One serves as the F&I managed services provider for hundreds of dealers nationwide. For more information, visit www.P1FS.com.