

Strategies for Detecting and Preventing Fraud at the Dealership

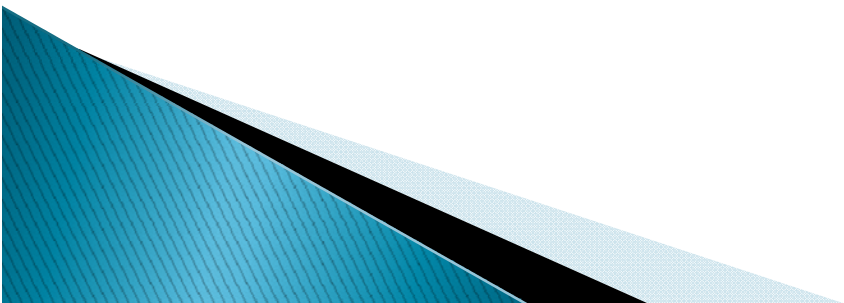
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Why a Compliance Strategy?

There are several compelling reasons for automotive dealers to implement a Sales and F&I compliance strategy:

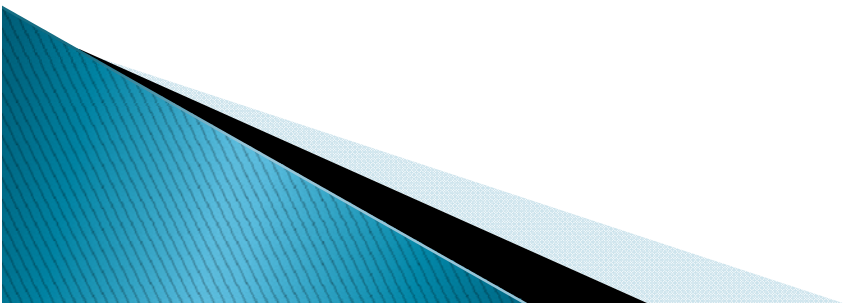
- Dealers find an improvement in profitability after implementing compliance programs and processes; i.e., profitability and compliance need not be exclusive of each other.
- Dealers can potentially reduce their dealer's garage keeper's liability insurance with a risk management program in place.
- Dealers help to mitigate litigation and governmental inquiries when they implement a structured approach to risk management.
- The Federal Criminal Sentencing Guidelines acknowledge the importance of having a structured risk management plan in place.
- Lenders may be more willing to listen to circumstances on rehashes if the dealer does not have a history of providing fraudulent deals.
- Dealers can sleep better at night.



What Compliance Regulations?

In order to become compliant and maintain compliance, dealers must be familiar with the following:

- The “Acts”:
 - Truth In Lending/Leasing (TILA)
 - Equal Credit Opportunity (ECOA)
 - Fair and Accurate Credit Transactions (FACT)
- Federal Trade Commission (FTC) Used Car Rule
- Identity Theft Deterrence
 - Safeguards Rule
 - Privacy Rule
 - U.S.A. Patriot Act
 - Red Flags Rule
- Office of Foreign Assets Control (OFAC)
- Unfair and Deceptive Acts and Practices (UDAP)
- Racketeers Influenced and Corrupt Organizations Act (RICO)



Compliance Issues & Solutions

Bank Fraud

Straw Purchase, Falsified Income, Power Booking, Down Payment

- Federally insured institutions must file Suspicious Activity Reports (SAR) against dealers who engage in:
 - Straw purchases
 - Falsified down payments
 - Falsified credit application information
 - Power booking
- Dealers cannot be informed that a SAR has been filed
- Financial institutions are subject to fines, penalties and potential forfeiture of charter if they fail to report suspicious activity

Solutions

- ❑ Establish policy that bank fraud will not be tolerated
- ❑ Provide training on proper credit application processing
- ❑ Trust, but verify. Conduct frequent, periodic inspections of:
 - ❑ Handwritten credit application information versus electronic submission
 - ❑ Book-out sheets submitted to lenders versus Inventory in book-out sheets
 - ❑ Third party signatures or receipts in files
- ❑ Immediately terminate offenders, even if it is your flesh and blood
- ❑ Call financing institutions when offense occurs



Compliance Issues & Solutions

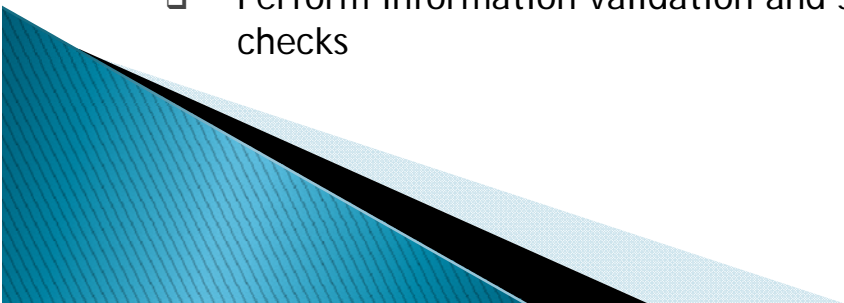
Identity Theft

Safeguards Rule, Privacy Rule, Red Flag Rule

- Gramm-Leach-Bliley Act - Safeguards Rule currently require:
 - A compliance officer be named
 - A risk assessment be conducted
 - An information security program be developed
 - Employee training by provided
 - Periodic audits are performed and audited
- FTC's Red Flag Rule would require the above PLUS:
 - Further verification on potential red flags
 - An annual written report to Board of Directors or owners

Solutions

- ❑ Re-implement Safeguards and Red Flags programs
- ❑ Video record F&I transactions
- ❑ Obtain thumbprints
- ❑ Conduct Network Vulnerability Assessment
- ❑ Do not accept phone credit apps
- ❑ Use consumer identity verification software
- ❑ Conduct identification due diligence
- ❑ Provide Social Security Number training
- ❑ Watch for credit bureau alerts and address discrepancies
- ❑ Perform information validation and signature consistency checks



A Successful Compliance Program

A Compliance Program should include the following:

- ✓ 100% AFIP certification in F&I and management
- ✓ Regular on-site compliance audits
- ✓ Consistent, documented training program
- ✓ Digitally recorded F&I transactions
- ✓ Computer-generated, web-based menu in every transaction
- ✓ 100% OFAC compliance
- ✓ Defensible and profit driven payment quoting process
- ✓ Safeguards and Red Flags policies in place; regular audits
- ✓ Employee manual provided to every employee; signed acknowledgment
- ✓ Sales and F&I Policies and Procedure manual
- ✓ Annual forms and policy review by competent dealer counsel (NADC)
- ✓ Full disclosure in F&I
- ✓ Spanish language Buyer's Guides on every used car
- ✓ Customer complaint resolution process
- ✓ Dealership compliance committee that actually meets and discusses issues
- ✓ Zero tolerance policy
- ✓ Advertising copy review policy
- ✓ Compliance component to pay plan

