

TAKE ACTION!

CFPB SERVICE PROVIDER UPDATE

An FNI Incorporated newsletter serving
the auto and consumer finance industry.

February 2013

The CFPB "eye" is on add-on finance products and third party service providers.

Products that clearly fall within the scope of the CFPB's guidance bulletins include but are not limited to **vehicle service contracts, GAP and total loss protection, identity theft protection and car clubs**. And while traditional insurance products like credit life may technically be exempt from direct federal oversight, **there is little question that a consumer complaint about a traditional insurance product would provide the Bureau and other regulatory agencies with the opportunity to investigate and intervene**. Remember that if your insurance product service provider offers non-insurance type products like GAP (considered a "waiver" and not insurance in many states) or car club programs, they are not necessarily exempt from oversight.

These are the most common consumer protection issues surrounding CFPB compliance for products and providers and should be the starting point for your internal due diligence process and compliance efforts:

- **Penetration Rate.** Financial institutions that sell add on products need to be able to justify their sales penetration rates, otherwise it may appear that the product is being "packed" and the consumer does not really have a choice about purchase. **If your product penetration rates far exceed industry averages, you are at risk of scrutiny.** There are marketing approaches, underwriting guidelines and processes that can help justify your performance.
- **Price/Value.** At the end of the day, the consumer protection issue boils down to whether or not the Bureau perceives that the consumer is getting a fair deal. That means that product value, pricing and profit margin are all in the spotlight. **In the due diligence and compliance documentation you maintain for your providers, be sure you have a written statement of the purpose, goal and value of the program, and can justify your product profit markup.** Profit is still allowed! But be certain that you are not an outlier on the high side of the industry average retail cost of your add on products.
- **Marketing Process.** Second only to value, how an add on product is presented and sold to a consumer is the most serious question impacting consumer protection. **Good news:** You can control this process best – **Bad news,** the CFPB knows that and has very high expectations for financial institutions that sell products. **You must have a compliant process for selling products to consumers.** Starting with written marketing materials and including the actual product verbal presentation your employees make to a consumer at the time of the sale, your marketing should be designed to **ensure the consumer knows precisely what the product does and does not do and can make a reasonably informed decision about purchasing it.** Be aware that many product providers who provide F&I sales training designed exclusively for auto dealerships do not necessarily provide the kind of sales and marketing training that your compliance obligation requires.
- **Program Administration and Management.** The consumer's interaction with you and your service provider in conjunction with a sold product and its benefits or services is another issue the CFPB has identified as the primary responsibility of the selling financial institution. **You are responsible for ongoing monitoring of your service provider's performance** with regard to the services and benefits of the product and intervening if necessary to ensure the consumer is actually getting what they thought they were purchasing. In addition, **you are expected to have internal program administration processes** to assist the customer with common product administrative issues like cancellations and refunds.

Get expert assistance – Contact FNI Today.

**Contact FNI President David Bafumo at 888-973-9776 or
E-mail David@myFNI.com for a confidential consultation.**



FNI President David Bafumo has sixteen years of combined experience in financial insurance product development and marketing, financial institution product implementation and sales management, and commercial litigation. David received his J.D. from the Washington & Lee University School of Law and is a licensed and active member of the Virginia State Bar.

Due Diligence & Process Design

FNI conducts third party Service Provider and product due diligence on behalf of CFPB regulated financial institutions. You can rely on FNI industry expertise for development and implementation of effective compliance monitoring and risk mitigation processes for Service Provider relationships and product offerings subject to CFPB oversight.

Income Development

Discover FNI income producing products and benefit programs that provide real consumer value and enhanced business profitability. Exclusive access to products and programs designed specifically for today's challenging regulatory environment together with compliance focused process development and program implementation provides new income opportunities that protect your business and reputation, build customer loyalty and increase your bottom line.

Performance & Training

While many financial institutions have experimented with preferred or captive consumer benefit solutions, few report success in meeting their program profitability goals. Working with your existing product array, FNI offers compliance- minded customized sales process design with proven implementation strategies to maximize the value of benefit programs in your business.

Auto Dealer Partner Development

Looking to expand or improve auto finance portfolio performance? Indirect lending technologies that link lenders and dealers can create portfolio management concerns and a market blind spot leaving a large and profitable segment underserved by lenders. With expert partner selection and training, FNI delivers new markets, new partnerships and smart portfolio and business growth for financial institutions.

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With 16 years of combined experience in F&I administration executive management, product development and marketing, auto finance sales management, and law, you can count on FNI's total vision of industry products and issues for complete profitability and compliance solutions for your business.

