



"The Dealer's Road to Success!"

Wayne Reaves

Dealer Software & Websites

Designed by a Dealer for Independent Car Dealers

Informational handout & reference

In this Handout:

- **Resources and links**
- **Minimum system requirements**
 - **Upgrade guidelines**
 - **Common definitions**
 - **Reports tutorial**
- **Calculations information**
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REAVES SOFTWARE
DECEMBER 2016

The advice given herein is presented to be informational, and is not intended to be qualified legal or financial advice. Any business owner or manager should always seek full advice or needed clarification of any of these concepts from the appropriate licensed professionals.

It is the Dealer's legal responsibility to be familiar with relevant laws and requirements.

Links and Other Resources

www.waynereaves.com

Download the DotNet Full Demo today:

www.waynereaves.com/dealer-management-software-demo

Email Support questions:

Support@waynereaves.com

Training Videos:

www.waynereaves.com/videos/

Kevin Scott's Blog:

www.flautodealerinfo.com

NIADA: www.niada.com

GIADA: www.giada.org

GA Dealer Tax Info: dor.georgia.gov

FIADA www.fiada.com

FL Dealer Tax Info: Dor.myflorida.com

CIADA www.theciada.com

SC TAX: dor.sc.gov

NC TAX: ncdot.gov

AL AIDA: www.alabamaaida.org

AL TAX: ador.alabama.gov

MSIADA: www.msiada.org

MS TAX: www.dor.ms.gov

SYSTEM REQUIREMENTS FOR WRCS PROGRAMS (All) 2017 revision

If you have any questions, please call Technical Support @ 888.477.9707 Calls from technicians, computer stores, and other IT professionals are welcome.

ONLY THE FOLLOWING OPERATING SYSTEMS ARE SUPPORTED:

WINDOWS SEVEN, EIGHT & TEN –PROFESSIONAL OR ULTIMATE (32/64)

“Starter” & “Basic” Editions are not supported. “Home” Versions not recommended.

- Windows XP, VISTA, Apple OS, Linux, and other operating systems are not supported.
- While it is possible to install Windows on a Mac in Parallels, this is not supported.

PRINTER: Business-class Laser Printer with PCL5/6. Inkjet printers are not supported.

Automatic Duplex printing is **required**. Wireless printers are not supported.

If the Hardware maker does not specifically support your device on your version of Windows, we also cannot provide support for the device.

CPU SPEED: 3 GHz Dual/Quad core

HARD DRIVE: 500 Gigabytes (GB) Minimum, 250 GB free space

Free space should never be less than 25% of total

SYSTEM MEMORY (RAM): 4-8 GB

NETWORKING & COMMUNICATIONS:

WIRED ETHERNET LAN WITH HUB/SWITCH (100/1000 Mbps)

Internet Speed for DotNet is a Minimum of 3 Mbps Down and 1 Mbps up for each computer.

WIRELESS Networks are not supported for any of our programs. They may also represent a serious information security risk and potentially violate the FTC Privacy Act.

We do recommend that initial setup and configuration of your computer network be done by a certified technician familiar with Windows Networking and Internet Security. This technician should also configure anti-virus or firewall programs. Please have the tech call us while on site if there are any questions about our program.

When buying computers for the business, always avoid the low-end bargain computers. They are designed for light home use, and typically very underpowered for business use.

NOTE: No computer more than three years old should be used in a business environment, unless you have a dedicated technical staff to support the systems.

IF YOU EXPERIENCE PROGRAM OR PRINTER PROBLEMS DUE TO INCOMPATIBILITY WITH THE UNSUPPORTED CONFIGURATIONS OR OPERATING SYSTEMS, AND ANY PART OF OUR SOFTWARE, WE MAY NOT BE ABLE TO ASSIST YOU BEYOND RECOMMENDING THAT YOU UPGRADE TO A NEWER COMPUTER AND/OR PRINTER.

WAYNE REAVES SOFTWARE DOES NOT PROVIDE ANY SETUP ASSISTANCE OR SUPPORT FOR DOMAIN CONFIGURATIONS OR “APPLIANCE SERVERS.”

UPGRADE GUIDELINES AND INFORMATION:

You will no longer have a “main” computer. All computers will access the program by connecting to a secure cloud server. You can access the program anywhere you have your computer on a high-speed internet connection. (See notes about Guest networks.)

You should install and use the Demo of the Dot Net on all computers at least one to two weeks before upgrading, to practice with it and get familiar with the workings of it. This also gives you an idea of how well the Dot Net program will perform on your computers.

The upgrade process is scheduled after a review of your internet speeds and hardware, and getting an updated contract signed. This new contract must be signed by the Owner of the dealership. We can no longer accept the General Manager’s authorization, unless we have written notice from the Owner that the GM is allowed to act on his behalf.

Optimally, we prefer to receive your data early in the morning, and it will be ready by lunch. We do not schedule upgrades on Fridays or the day before a holiday where we are closed or will have limited staff available. We also will avoid scheduling between January and March, due to the high-volume tax season.

We will upload your current Desktop Program data to us and run the upgrade process. You will be given the **option** to purge any data older than 7 years. What we look at is the last activity date on the account, not the deal date. The upgrade process can take as little as one hour or as long as an entire day, depending on the amount of Desktop data you have. We will create a new administrative login that you will use to adjust or set the other logins. After that, you will be live on the Dot Net program. Your secure key to access your data will be emailed to the owner of record. Our techs are not permitted to give anyone the secure key. The Owner should forward or provide the Key email to the person responsible for assisting our tech with setting up the rest of the computers.

Pictures will not be carried over into the new program. If a car is currently listed on your web site, the images will reattach to the car in the inventory, and are stored on an image server. If you have a large accumulation of pictures you wish to maintain for previously sold vehicles, you will need to back up C:\WRCS\VCARS\IMAGES on the main files server computer to a secure location, whether a removable hard drive, or image hosting service on the web.

At this time, Lease and Rent to Own accounts are not being converted. We are currently working on a Lease Data Upgrade, and this will be ready soon. We do not intend to upgrade RTO accounts.

Existing Lien holder setups with numbered greater than 50000 and the CL Lienholder list are converted, however, the dealer will still need to edit the Lien holder to specify which contract to use. Review of active lien holders will be necessary; as the new program also allows for a second mailing address, special setups for default hedge fees, and has default warranty/GAP contracts.

During the upgrade process, you may continue to use the Desktop version. Anything done between data collection and going live will need to be re-entered into Dot Net. You should plan to use both the Dot Net and the Desktop versions for a week or two after the upgrade. This way, if there are errors or issues, you can seamlessly continue using the Desktop version while we work out any problems.

Remember that once we get the data, anything put into Desktop does not continue to upgrade.

After the two week adjustment period, run the necessary reports and verify that all entered data from the moment of the data collection makes it into the Dot Net program.

Bandwidth and Program Usage: Optimal program usage is at or above 6Mbps up and down. Only extreme local usage other than this program will affect your experience. This is optimal for three to four computers. If you have more than that, you will need to figure at least 2 Mbps for each computer. Connections between 4 and 6 Mbps will experience only occasional delays. Some time periods will be worse than others, due to internet traffic in your area. You may want to run the Speed Test at different times of the day to see when the connection is best.

Bandwidth ratings below 2 Mbps down, and 1 Mbps upload per computer, will experience a lot of delays in using the program. Even minor web usage will cause noticeable program performance degradation. For this reason, use of the program below this rating is not supported. Contact your ISP to get your connection upgraded. Have the speed test results handy, as they may tell you that you already have a higher connection. You will need to show them that you are not getting the full speed. Use of streaming sites or other bandwidth intensive programs will affect performance.

Ping rates below 50 ms are optimal, and 50-100 means minor delays in the program connecting to the data server. Ping rates above 100 will have significant connection delays, and will probably also have lower than optimal bandwidth ratings, as well.

Go to www.speedtest.net and click "Begin Test." You will need to test bandwidth to Atlanta, GA. If this is not the closest server to you, there will be a difference in bandwidth and ping ratings. This is to be expected. The Atlanta test is the bandwidth rating we will ask you for if you have any questions. Your internet speed will greatly affect your program experience. Make sure no one on the network is downloading or uploading anything, or using a program that is actively communicating with an internet site while running the test. This includes streaming audio or video from sites like Pandora, and VOIP Phone connections such as Magic Jack.

When done, you will see results similar to this:

The screenshot shows a Speedtest.net result page with the following data and annotations:

- PING:** 10 ms (Annotated: Ping rating)
- DOWNLOAD SPEED:** 7.47 Mbps (Annotated: Your Upload and Download speeds)
- UPLOAD SPEED:** 12.81 Mbps (Annotated: Your Upload and Download speeds)
- IP Address and ISP:** 98.175.202.90, Cox Communications (Annotated: Your IP address and ISP information)
- Server Location:** Atlanta, GA, Hosted by Comcast (Annotated: If the location shown here does not say "Atlanta, GA" then click "New Server" and change to Atlanta.)
- Buttons:** TEST AGAIN, NEW SERVER, SHARE THIS RESULT, START NOW, GET A FREE SPEEDTEST.NET ACCOUNT, CREATE, CONTRIBUTE TO NET INDEX, COMPARE YOUR RESULT.

These are the upload and download speeds your connection is capable of using. This rating is also referred to as your available bandwidth. The "Mbps" stands for Megabits per second. This may be shown as "Kbps", which means Kilobits per second. There are 1024 Kilobits in a Megabit. You will only see Kbps if your bandwidth is below 1 Mbps. The "ping" number is an indication of how long it took to communicate with the server before any other actions happened. High ping results can indicate a lag within your ISP, high internet activity in your area, or simply that there is a significant distance between your network and the server. Satellite internet connections will typically have a very high ping rating, and are not supported. Most 3G and 4G mobile connections are also not suitable.

Wireless networking is not supported for the Dot Net program, due to the instability and security issues of those networks. If you have both wired and wireless networks on the same computer, and still experience significant delays or performance issues, it is usually due to the wireless having a preferred status on the computer. Disable the wireless connection, and restart the computer to force the computer to use only the wired connection. Also note that some wireless “Guest” connections will usually block data ports.

Notes about Multiple Location Dealers:

If you have multiple locations, upgrade your oldest or main location first, then the others. When you upgrade multiple locations, understand that all the data is potentially accessible by all users at either location. There are permissions options that you can employ to restrict location access. Once we upgrade them, especially if they are merged, we cannot un-merge them.

Combined Upgrades: all locations must either use the DotNet or Desktop. If one location does not use the upgraded data, and it is soon invalid from non-use, it cannot be removed later; it will have to be dealt with by the dealership.

Other Issues:

If you are using custom or customized forms, please let us know before upgrading.

If you decide to return to the Desktop version, there is no downgrade. You would need to have either kept up with the Desktop data, or will have to re-enter everything that is not there.

Once upgraded, please run all of your regular reports, and notify us immediately about discrepancies. We ask that you send an email to Support@waynereaves.com explaining the specific issues with the discrepancies. Please attach the reports in question in a PDF format. If the issue is with accounts, please include the account numbers that have problems.

Hardware and Operating Systems:

Windows 8.1 or 10 Professional is preferred. Windows 7 works for now. We will not install the Dot Net program on Windows XP or Vista, or on non-Windows computers (Mac or Linux) even if those computers are running a Virtual Windows environment.

QuickBooks: If you are upgrading to use the QuickBooks features, understand that we will ask you to wait 3-4 weeks after upgrading before using the QB exports. Your version of QuickBooks should be 2010 or later, and cannot be the On-Line version. You will need to pick a point where you no longer make certain entries in QB. The upgrade process will not create QB entries for transactions done in the Desktop version. NOTE: The QB feature is full transaction accounting, and every single transaction will be exported to QuickBooks. If you do Summary entries, we have a report that shows these summaries. Before importing the first time, print the General Ledger report, and discuss it with your CPA or comptroller to decide if the import feature is what you want.

REPORTING AND AUDITING

IMPORTANT REPORTS

The reports discussed here represent what most financial advisors or CPAs request. Please communicate with your advisor to ascertain the reports they need. Your advisor is welcome to call Tech Support on your behalf if they have any questions. See the last section called Definitions and Terms for explanations.

Run reports only after all deals are closed, all adjustments made, and all payments are posted that affect the period the report covers.

Accounts Receivable Reports

CUSTOMER SUMMARY

Normally, you will run this report for your Active Accounts only, then individually for the Bad Debt Types. The normal setup in the WR Programs is that for the Car Lot, types 1-24 are considered Active Receivables, meaning these are accounts that you expect to see revenue from within the next 30 days. Following that:

- Type 25 are accounts financed by an Outside Lien Holder that you have not yet received the payment from the lender. (Once paid, these accounts are Paid Out)
- Type 46 - Accounts declared to be a Charge Off.
- Type 47 - Accounts in Active Bankruptcy.
- Type 48 - Repossessed Accounts.
- Type 49 – All others (Paid Off or Closed)

If you have NPLs (Non-performing loans), segregate these into a different AR Type, (Types 26-45) and report them separately.

This report shows the current status information about the loan, including the current balance, principal and interest balances, days past due, cash flow (see definition), and the remaining amount/ days In Street. The Profit number shown here is simply the difference between the investment and the amount collected. If it is positive, you have collected that amount more than you invested in the account.

WRITE OFF REPOSSESSION REPORT

This report will detail for you the amount remaining on an account that could be considered a write off for accounting purposes. The write off shown takes the Gross balance, subtracts unearned interest, unallocated sales tax, and the ACV of the vehicle to show the amount remaining owed to the dealership. For RFC Accounts, it also subtracts uncollected Discount.

The Sales Tax amount is simply the estimated tax left. This calculation is not state-specific, and may be different in your state, due to state tax rules about how much can be rebated on repossession.

CAR LOT SOLD NOTE REPORT

If you sell your receivables to the RFC or outside agencies, this report should be used to show the accounts sold, who purchased them, how much the dealership collected for the account, the breakdown of principal and interest, and the discount.

AGING REPORT - BALANCES

This report shows the accounts as the balance based on the number of days past due. The percent of late accounts balances to current account balances is a financial standard representation of the general health of the business. You and your CPA should arrive at target ratio for your business model.

REPO RATIO REPORT

This report shows ratios and percentages of the accounts instantiated during a given period of time compared to the number of repossessions done. The report shows both the number and dollar value of the accounts.

Sales Reports

STANDARD SALES REPORT

The DotNet program automatically groups this report by Sale Type, in the Desktop Version, run the Sales By Type report. This report shows the accounting of each deal. The Summary section shows the Totals and Averages of each value. Abbreviations explained:

- TaxTitle = The total of Sales/Tax Tax and Tag + Title Fees.
- Total Dn = Total of Cash + Trade that reduced the amount to Finance.
- Net Trade = Allowance for Trade – Amount owed on trade.
- Total PK = Pickup payments scheduled.
- O. Profit = Other Profit (Sales Fees, Warranties, etc)
- C. Profit = The difference between the Sale Price of the unit, and the cost as (Cost + Floor Plan + Repairs + Commission)
- T. Profit = Total Profit. All profits, including Finance Charges on BHPH deals.
- Street & Days = The amount in the street at the time of the deal.
- Oth Exp = Other Expense, usually the cost of Warranty /Gap.

OPEN DEPOSITS & PENDING SALES REPORTS

These reports show the dealer the “unfinished business” of the sales. Check these reports often to find out what is hanging out there that needs to be dealt with. At some point, you may want to remove a customer as a Pending Sale, if you do not see the potential of the sale being completed soon. Open deposits could represent a cash liability to the business.

Inventory Reports

MASTER INVENTORY REPORT

Shows full information about the unit, including initial cost, total of repairs, Write Downs, if taken (Wrt Dn), Floor Plan cost, and Buyer Fee.

- Days = Number of Days owned. Also referred to as Inventory Age.
- Down refers to the amount desired Down.
- CP = Car Profit, if sold for the Selling Price, given the known costs. If you want details on the Repair costs, run the Repair Cost report.

CARS PURCHASED REPORT

Shows the cars brought into INV, and can specifically run on how the car was acquired. Leave lot numbers from 1-99 to ignore the status of Sold or Unsold.

INVENTORY AS OF A DATE

This report attempts to recreate the Inventory for a given date. This is only an estimate, and should be used for reference purposes only.

Tax Reports

SALES TAX REPORT (DOTNET)

CASH METHOD OR ACCRUAL METHOD SALES TAX REPORT (DESKTOP)

Along with the associated Tax Credit reports, these reports state the estimated Sales Tax liability for the period given. At year end, the total should be the sum of all Monthly reports.

The Tax Credit reports need to be checked by your financial advisor for appropriateness in your tax jurisdiction.

RECIEPTS, ADJUSTMENTS AND SPECIAL TRANSACTION REPORTS

CASH SHEET / RECIEPTS REPORT

This report can be ran two ways: the most common way is to run it for a simple date range. The alternative, and better, way, is to run the report for All Uncleared Transactions. This eliminates the date of the transaction, and instead simply gives all transactions since the last report.

This is an important audit tool, since a user cannot manipulate the transaction date to get away with theft. If the user backdates the computer two days, and you only run the cash sheet for a single prior date, you would never know until much too late that money is missing. Also important is to allow the system to put the Actual Date/Time on the report. This shows when the transactions are being processed.

ADJUSTMENTS / SPECIAL TRANSACTIONS REPORTS

The Adjustments report shows the transactions such as:

- Voids
- Credits
- Refunded Deposits

It is important to review this report occasionally to get an idea of where the Receivables are going when they are not on the Cash Sheet. If you are using a formula such as

- $\text{Previous Balance} + \text{Sales} - \text{Payments} = \text{New Balance}$ and it doesn't balance, you will probably find the difference on this report.

Special Transactions will show these transactions as well as Payoffs, Bad Checks, and other Charge Backs.

FINANCE COMPANY REPORTS

These reports are ONLY needed if you are selling your accounts to an RFC. A full discussion of the RFC is available from your trainer, but those guidelines are not qualified financial or tax advice. The purpose of the guidelines is to serve as an opening to a discussion with a licensed, experienced CPA.

CAR LOT SOLD NOTE REPORT

This report shows the accounts sold to the RFC, and the Principal, Interest, and Discounts. The Discount is the Car Lot's Loss.

CUSTOMER SUMMARY

Shows the current breakdown of the RFC Principal, Interest, and Discount Balances.

STATUS Report

Shows the transactions for each RFC customer, and how the individual payments affected the Principal, Interest, and Discount.

RFC Adjustments are handled on the normal Adjustments report.

WHOLESALE REPORTS

WHOLESALE REPORT

This report shows the Date, Buyer, Selling price, associated fees & costs, Profit, and total collected for each wholesale deal.

- $\text{Profit} = \text{Selling Price} - \text{Fee} - \text{Unit Cost} - \text{Repairs} - \text{Commissions}$.

WHOLESALE AR REPORT

This report shows the balances due from Buyers when the user indicates that all the sale price was not collected at the time of the deal.

LEASE REPORT

This reports shows the basic financial numbers from the Lease, and Calculates the Potential Profit, Collected, and Street Values for the lease. Potential Profit as shown on this report includes the Lease charges, and the sale of the unit at the residual value at the end of the lease.

LEASE CUSTOMER SUMMARY

Account report that shows the status of the accounts, with the Potential Profit, Street Amount, and Realized Profit. Realized Profit on the Lease is the count up toward the total Potential Profit. .

LEASE CAP COST BALANCES

Account report that shows the remaining Cap Cost for each account.

FINAL YEAR END REPORTING

Once all transactions are finalized, you will usually need to close the books and report for the prior year. A few tips are:

- Make sure you send a copy of all reports to PDF format, save them to your computer, and back them up onto a removable storage device.
- These reports will usually be done after everything is finished on the LAST day of the year, or before anything is done on the FIRST day of the year.
- If you have Simple Interest Accounts, this should be done ON the last day.
- Spend time in the week or two leading up to this date making sure all voids and adjustments are handled before the last day.
- All sales should either be finalized, deleted, or have their date set to the following year.
- Any corrections or adjustments done after the reports are printed should have a separate explanation attached to the original report.

Setting the date ahead on non-final deals before the last day ensures that these deals will not cross back into the prior tax year. A Pending sale will not affect the taxability of the dealership, but if the Sale Date is still in the prior year, once completed, this sale then affects all prior year reporting.

Standard Sales Report by Sales Type

Types Scanned: 1 - 99

WAYNES GEORGIA AUTO SALES

Dates Scanned: 01/01/2014 - 10/31/2014

Grouping By : DealType

run date: 10/31/2014 5:24PM

Accounts Processed for BHPH PRECOMPUTED

03/19/2014	Acct# 031914	MARCHCLASS, WILLIAM	2007 Suzuki Forenza	KL5JD56Z37K545819	Stck: 9910	Salesman DEMO											
<u>Cost+FP</u>	<u>Repairs</u>	<u>Sale Pr</u>	<u>Tax Ttl</u>	<u>Cash Dn</u>	<u>Net Trade</u>	<u>Total Dn</u>	<u>Total PK</u>	<u>Fin Chg</u>	<u>O. Profit</u>	<u>C. Profit</u>	<u>T. Profit</u>	<u>Street</u>	<u>Days S</u>	<u>APR</u>	<u>Type</u>	<u>Comm</u>	<u>DocFee</u>
1,750.00	0.00	3,499.00	241.94	500.00	0.00	500.00	0.00	821.97	99.00	1,649.00	2,569.97	1,591.94	7.00	28.00	1	100.00	99.00
ACV in Trade:						0.00	Oth Exp:	0.00	41 B	@ 3339.94	LienHolder Discount:		0.00	Amt/Fin	3,339.94		
Lien Holder : WAYNES GEORGIA AUTO SALES										Pur/Repo From:							

Explanation of Values Shown:

- Cost+FP : The original Cost Basis of the Unit, plus Floor Plan Costs
- Repairs: The entered total repair costs assigned to the unit.
- Sale Pr : The top line Selling Price
- Tax Ttl: Total Sales/Tax Taxes plus the Title and Tag fees
- Cash Dn : Amount given as Down Payment by customer
- Net trade : The difference between Trade Allowance and Trade Owed.
- Total Dn : The sum total of Trade + Cash that reduces the Amount to Finance
- Total PK: Sum of any Pickup Payments
- Fin Chg: Total Finance Charges (Interest) on the loan
- O. Profit : Other Profit (Sales/Doc fees & Warranty/Gap)
- C. Profit : Car Profit, the difference between the Sale Pr (Top line selling price) minus (Cost + Floor plan + repairs + Commission)
- T. Profit : Total Profit. All profits from sale.
- Street : The difference between the Total Investment in the car and the amounts collected Down.
- Days S: The number of Days (estimated) to recover Total Investment (Assumes all pmts made on Time)
- APR : Interest Rate
- Type: AR Type
- Comm: Commission Calculated
- Doc Fee: Documentation or Sales Fee
- ACV In Trade: Actual Cash Value assigned to the Trade Unit
- Oth Exp: Other Expenses (Warranty/ Gap Costs)
- 41B @ X : Payment Schedule (Does not include Pickups or Odd Last payments)
- Lienholder Discount: Amount Withheld by an Outside Lienholder
- AmtFin: The Amount Financed (Principal) on the loan.

Report on Lots: 1 to 98

WAYNES GEORGIA AUTO SALES

RunDate: 12/05/2014

Master Inventory Report

RunTime: 12:36PM

P. Date	StockNo	VIN	Status	Lot	Trans	Style	Days	Miles	Cost	Repairs	Wrt Dn	FP Cost	Buyer Fee	T Cost	Down	CP	
10/02/2014	10704	23243453453452453	INSTOCK	1		4H:H	64	154412	2700.00	.00	0.00	0.00	.00	2700.00	1500.00	800.00	
	1990 acura tsx	Location: 1	Pur From	UNASSIGNED	BLACK	Sell Price		3500.00	Min Price	.00	/	.00	Paid For	No	Title In:	No	Weight: 0
10/05/2013	9450	19UUA56681A002681	REPO	2	AUTO	4dr Sd	426	12234	2200.00	.00	0.00	0.00	.00	2200.00	.00	2,800.00	
	2001 Acura TL	Location: 11	Pur From	REPO 135	BLACK	Sell Price		5000.00	Min Price	.00	/	.00	Paid For	Yes	Title In:	No	Weight: 0

Explanation of Values Shown:

- P.Date :** Purchase Date (Or date added as Trade or Repo)
- Status :** The unit's status **INSTOCK, TRADE, REPO, SOLD**
- Days :** Number of Days in Inventory (counted to Current Date)
- Cost:** Original Purchase cost or ACV (Trade/Repo)
- Repairs:** Total of Repair Entries
- WrtDn :** Amount of Write Down taken on the Unit
- FP Cost :** Floor Plan Cost to Date
- Buyer Fee:** Amount of Buyer/Purchase Fee entered.
- T Cost :** Total Cost / Investment in the Unit.
- Down:** Suggested Down Pmt, as entered by User.
- CP :** Car Profit, if the Unit is sold for the Suggested Price.
- Paid For:** Whether the Unit has been marked as Paid For
- Title In:** Whether the unit's Title is marked as IN.

This report is normally a "Snapshot" of the Inventory as it stands. You should run this report on the first day of each month and store it for historical purposes. Although an ESTIMATE can be given at a later date for Inventory As Of A Date, the accuracy cannot be guaranteed.

It may be better to run Lots 1, 2, and 3 individually as separate reports.

Types Scanned: 1 - 1

WAYNES GEORGIA AUTO SALES

run date: 12/05/2014

run time: 12:48 PM

Customer Summary Report

Acct#	Days Late		Opened Deal	Payment	Monthly		Principal	Interest	Chg Bk	In Street	Days		Realized Profit	
	Last Paid	Next Due			Cash Flow	Balance					Street	Collected		
1863	338	ADAMS, ALICEA	10/8/14	BP	261.84	261.84	5,142.56	3,808.92	1,333.64	.00	0.00	3,283.68	352.37	
	11/18/2014	11/8/15	APR: 28.00	Type: 1	H:	W:		Side Note Balance	100.00	SaleTax Bal	0.00			
1668	-255	ADAMS, SAMC	2/25/14	BP	1,246.84	1,246.84	44,886.24	35,336.75	9,549.49	.00	26,144.50	628	0.00	-26,144.50
	10/28/2014	3/25/14	APR: 28.00	Type: 1	H:	W:		Side Note Balance	750.00	SaleTax Bal	0.00			

Explanation of Values Shown:

Days Late : Number of Days Late (Negative) or Ahead (Positive)

Deal: BP = Precomputed (Rule 78) or BS Simple Interest

Payment: The Fixed periodic payment

M Cash Flow: The amount of money the dealer should collect in an given month.

This amount does not include Pick Up Pmts.

Balance : For BP Deals, Gross Balance, For BS Deals, Principal Balance

Interest : For BP Deals, Gross Interest, for BS Deals, Earned Interest

ChgBk : Charge Backs / Debit Balance on this account

In Street : Remaining Investment in the Deal. (If 0, then you are Out of the Street)

DaysStreet: Remaining Estimate of Days Remaining before being Out of Street

Collected: Amount Collected on this Account (Includes Late Fees)

Realized Profit: Amount collected over and above Original Investment in the deal.

Sale Tax Balance: Amount of unallocated Sales Tax. (Estimate only, not to be used for Tax Credit)

This report is normally a "Snapshot" of the accounts as they stand. You should run this report on the first day of each month and store it for historical purposes.

run date: 12/10/2014
 run time: 10:00 AM

Cash Receipts Report

A

 All Uncleared Transactions for Car Lot
 For types between 1 and 50

WAYNES GEORGIA AUTO SALES

Trans #	Acct #	Customer	B	Amount	Prin	Inter	Balance	Type	Deal
Payments taken at this location for Company Number= 99905001									
Transactions for Date Paid = 25 November, 2014 C D E F									
3635	1874	CLASS, OCTOBER	11/25/14 11:0	PAYMENT DEMO	** CC **	372.27	134.34	237.93	13,029.45 1 SALE
	1874	CLASS, OCTOBER	11/25/14 11:0	LATEFEE DEMO	** CC **	18.61	0.00	0.00	13,029.45 1 SALE
3646	1939	DEBANKS, OWEN	11/28/14 12:1	DOWN PAY DEMO	CASH	1,100.00	0.00	0.00	5,774.70 25 SALE
Totals for Date Paid = 25 November, 2014						1,490.88	134.34	237.93	
Transactions for Date Paid = 01 December, 2014									
3668	1798	DOE, JOHNNYWAY	12/1/14 20:34	PAYMENT DEMO	CASH	192.63	76.36	116.27	6,356.79 1 SALE
3678	B445	DAY, AMBER JUNE	12/1/14 21:10	MOVE FIN DEMO		7,000.00	0.00	0.00	8,105.76 1 SALE
Totals for Date Paid = 01 December, 2014						7,192.63	76.36	116.27	

Explanation: (See letters above)

- A:** The parameter for the report. This can be ran for a specific Date Range, or for Uncleared Transactions, which are transactions that have not yet appeared on a cash sheet.
- B:** If you have multiple locations, the location payments are separated on the report.
- C:** Dates: Date Paid= is the Transaction Post Date. The date shown next to the name is the Actual date posted. If there is a difference between these dates, it means that someone put in a different date on the payment screen when entering the account. By default, the date on that screen is your computer's date.
- D:** This indicates what the transaction was for.
- E:** User/Agent who handled the transaction
- F:** Type of payment, such as Credit Card, Cash, Check, etc.

Trans #	Acct #	Customer	Amount	Prin	Inter	Balance	Type	Deal
Totals for Company Number= 99905001			8,683.51	210.70	354.20			
					Regular Payments *	564.90		
					Payoffs	0.00		
					Down Payments incl Cash Sales	1,100.00		
					Pickup Payments	0.00		
					Late Charges	18.61		
					Side Notes	0.00		
					Wholesale Payments	0.00		
					Charge Back Payments	0.00		
					Deposits Taken	0.00		
					Totals This Company	1,683.51		
					Cash Money	1,292.63		
					Checks/Other Instruments	390.88		
					1. CC/DC Processed	-390.88		
					2. EChecks	0.00		
					3. On Line Payments	0.00		
					Total For Deposit (Totals Minus (1 , 2 , 3)	<u>1,292.63</u>		
Totals for Report =			8,683.51	210.70	354.20			

run date: 12/12/2014

Cash Adjustments Report

run time: 11:37 AM

WAYNES GEORGIA AUTO SALES

For Dates from 10/01/2014 to 12/13/2014 and Types from 1 to 99

<u>Date</u>	<u>Cust Acct #</u>	<u>Customer</u>	<u>Entered By</u>	<u>Trans#</u>	<u>Ref</u>	<u>Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Adjustment Amt</u>
11/30/14 5:19 PM	1863	ADAMS, ALICE A	DEMO	3651		CREDITBAL	0.00	0.00	-1,000.00
prompt payment Credited Customer Account total amount of 1000. Credited the End of the Loan. This was done by DEMO									
12/01/14 8:40 PM	1798	DOE, JOHNNY WAYNE		3670		VOID	-79.77	-112.86	-192.63
Voided Payment on Payment Transaction # 3669 on 12/1/2014 8:40:23 PM Entered Reason : Posted to wrong account(by DEMO)									
<u>Report Totals :</u>							-79.77	-112.86	-1,192.63

It is extremely important to train employees to enter good notes for all adjustments.

run date: 12/12/2014

Wholesale Report

run time: 11:41 AM

WAYNES GEORGIA AUTO SALES

Dates: 12/12/2014 - 12/12/2014

Types: 1 - 99

Date	Customer	Selling Price	-	Auction Fee	-	Cost	-	Repairs	-	Buyers Comm	-	Salesman Comm	=	Profit	Collected
12/12/2014	DOWNTOWN AUTO AUCTION	850.00		50.00		0.00		300.00		0.00		0.00		500.00	800.00
	Stock 10831							1G4CW54K034140787							
	Number of Sales: 1	Totals:		850.00		50.00		0.00		300.00		0.00		500.00	800.00

* the collected amounts and total will be changed by any debits or charges against the account

**Wholesale Report Notes: Selling Price - Auction Fee should equal Collected.
If there is an amount remaining, it will show as an Open receivable account.**

run date: 12/12/2014

run time: 11:47 AM

Car Lot Loss on Sale of Accounts For Accountant

NO LIMIT MOTORS

10/01/14 To 12/12/2014

Acct #	Sale Date	Balance	Sold For	Principal Loss	Interest Loss	Sold To	Collected	Accrued Int
Finance Company Type # 99								
F201	12/1/2014	5,903.50	6,140.89	0.00	0.00	In House FC		237.39
656565	12/1/2014	7,095.68	4,257.41	2,536.59	301.68	In House FC		0.00
Totals for Type :		12,999.18	10,398.30	2,536.59	301.68			237.39

On Simple Interest Accounts, **BALANCE = Principal**. Precomputed accounts, this represents Total Gross Balance

If Sold For was greater than Principal, there is no Principal Loss.

DISCOUNT to the Finance Company will usually be the same as the Car Lot's Principal Loss

run date: 12/12/2014

run time: 11:53 AM

Finance Company Customer Summary Report

NO LIMIT MOTORS

Scanned Customer Types 51 - 99

Acct #	Customer	Next Due	Pay Amt	Monthly Cash Flow	Balance	Prin Bal	Int Bal	Discount Bal	ChargeBk Bal	Cost to FC	Collected	Profit
1886	ADCOCK, SIERRA	11/24/14 BP	352.56	352.56	12,642.16	6,321.09	2,046.04	4,275.03	0.00	6,321.08	0.00	-6,321.08
1042	CONTRACT, VOID	9/14/14 BS	200.00	200	5,635.82	3,073.29	193.66	2,048.87	320.00	3,814.19	2,045.00	-1,769.19

PrinBal = RFC Cost of Account remaining. (Not the Customer's Loan Principal Balance)

Cost to FC = Original Purchase Price of Account

Profit = Difference Between Cost and Collected. (If Negative, this represents amount remaining to break even)

How is a Loan Payment Calculated?

Example: Three year loan for \$10,000 at 28% interest.

MONTHLY:

First, divide the APR by 12 to get $(.28/12) = .023333$; or the MONTHLY rate.

Now multiply $3 \times 12 = 36$ to arrive at the number of payments.

$$\text{Payment} = ((10000 * (1 + 0.023333)^{36}) * 0.023333) / ((1 + 0.023333)^{36} - 1) = 413.64$$

Monthly Payment = \$ 413.64 Total of Payments: $413.64 \times 36 = \$ 14,891.04$

Since Principal = \$ 10,000 Then Finance Charges = $14891.04 - 10,000 = 4891.04$

SEMI-MONTHLY:

First, divide the APR by 24 to get $(.28/24) = .011667$; or the SEMI-MONTHLY rate.

Now multiply $3 \times 24 = 72$ to arrive at the number of payments.

$$\text{Payment} = ((10000 * (1 + 0.011667)^{72}) * 0.011667) / ((1 + 0.011667)^{72} - 1) = 206.06$$

Semi-Monthly Payment = \$ 206.06 Total of Payments: $206.06 \times 72 = \$ 14,836.32$

Since Principal = \$ 10,000 Then Finance Charges = $14836.32 - 10,000 = 4836.32$

BI-WEEKLY:

First, divide the APR by 26 to get $(.28/26) = .010769$; or the BI-WEEKLY rate.

Now multiply $3 \times 26 = 78$ to arrive at the number of payments.

$$\text{Payment} = ((10000 * (1 + 0.010769)^{78}) * 0.010769) / ((1 + 0.010769)^{78} - 1) = 190.15$$

Bi-Weekly Payment = \$ 190.15 Total of Payments: $190.15 \times 78 = \$ 14,831.70$

Since Principal = \$ 10,000 Then Finance Charges = $14831.70 - 10,000 = 4831.70$

WEEKLY:

First, divide the APR by 52 to get $(.28/52) = .005385$; or the WEEKLY rate.

Now multiply $3 \times 52 = 156$ to arrive at the number of payments.

$$\text{Payment} = ((10000 * (1 + 0.005385)^{156}) * 0.005385) / ((1 + 0.005385)^{156} - 1) = 94.91$$

Weekly Payment = \$ 94.91 Total of Payments: $94.91 \times 156 = \$ 14,805.96$

Since Principal = \$ 10,000 Then Finance Charges = $14805.96 - 10,000 = 4805.96$

All calculations assume standard number of days to first payment.

These calculations are used for both Simple Interest and Pre-Computed Interest Calculations, because those terms refer to the method of collecting the Finance Charges.

See next page for the explanation of Simple Interest vs Precomputed Interest collections.

SIMPLE VS PRECOMPUTED INTEREST CONTRACTS

Simple Interest

Using the above Example: Three year loan for \$10,000 at 28% interest, payments = \$ 413.64

On the day the payment is taken, the interest is calculated on the daily rate as follows:

APR / 360 = Daily Rate .28 / 360 = .000778 (365 is also acceptable, but not the financial standard)

Multiply the Principal Balance by this rate: $10,000 \times .000778 = \$ 7.78$ Daily Finance Charges

Now, multiply the Daily Interest by the number of days since the loan origination, or last payment date: Assuming the 1st payment was made on time, $7.78 \times 30 = 233.40$

The 1st Payment is: 233.40 Interest and $(413.64 - 233.40 =) 180.24$ Principal

Second Payment will use the new Principal Balance of $10,000 - 180.24 = 9819.76$

$9819.76 \times .000778 = 7.64$ Daily Finance Charges $\times 30$ Days = 229.20 Interest.

The 2nd Payment breaks down like this: 229.20 Interest, $(413.64 - 229.20 =) 184.44$ Principal

The 184.44 is subtracted from the 9,819.76 to arrive at the new Principal Balance of: \$ 9,635.32

If the Customer is late with a payment, the amount applied to Interest goes up, and the amount to Principal drops by the same amount: Taking the First Payment 5 days late gives us this breakdown: $10,000 \times .000778 \times 35$ Days = 272.30 Interest, 141.34 Principal Payment

2nd Payment now also breaks down differently, since the Principal Balance used is higher:

$(10,000 - 141.34 =) 9858.66 \times .000778 = 7.67 \times 30 = 230.01$ Interest and $(413.64 - 230.01 =) 183.54$ Principal

$(9858.66 - 183.54 = 9675.12)$ Principal Balance for the Third Payment

Also note that if the customer pays EARLY, the Interest is reduced using the same calculations, and the customer will have therefore paid more toward Principal, and ultimately less over the life of the loan.

These Loan Payments always apply to Interest First, then to Principal. To pay additional Principal, all accrued interest must first be paid. Partial Payments will leave Principal Unpaid.

Carry-Over: This is when the Interest Accrued exceeds the amount paid. For example, if the above loan is 30 days late, the Interest Accrued will be $(7.78 * 60 = 466.80)$ If the customer only pays his regular payment amount of 413.64 then the remaining Interest $(466.80 - 413.64 = 53.16)$ is "Carried Over" to the next payment. This amount will be paid first out of the next payment before applying to the new interest earned.

Precomputed Interest (Also known as Rule of 78's)

The interest is Precomputed at the time of the loan, and does not change based on the date payment is made. The Principal and Interest shown on an Amortization Schedule for a particular payment will be the same regardless if the payment is Late or Early. The only additional charges will be for Late Fees.

This is called "Rule of 78's" because in a 12-month loan, or one standard year, the Digits in the numbers one through twelve added together equals 78. Each interest period is a fraction of the sum of the digits. In the 12-month loan, the first payment is 12/78th (15.4%) of the total interest. The second payment is 11/78th (14.1%) of the total. This continues until the last payment, which is 1/78th (1.28 %) of the interest. The amount of interest earned at any point is calculated by taking the periods left in the loan expressed as a fraction over the loans' sum of digits. A 36-month loan's sum of digits $(1 + 2 + 3 + 4 \dots + 36) = 666$. The first payment's interest would be 36/666 (5.41 %), etc, on through the end of the loan, when the last payment is 1/666, or .15 %.

This can also be easily calculated as: $(N \times (N/2) + (N/2))$ Where N=Number of Payments

So, 36 Payments = $36 \times (36/2) + (36/2) = 666$

For the Monthly Example on the previous page, the first payment will be:

4891.04 (Finance Charges) $\times (36 / 666) = 264.38$ Interest, and $413.64 - 264.38 = 149.26$ Principal.

Partial loan payments will pay a % of both equally. So, if 75% of the payment is made, then the payment applies:

$413.64 * 75\% = 310.23 = (264.38 * .75 = 198.29$ Interest and $149.26 * .75 = 111.94$ Principal)

The next payment made will apply the remaining 66.10 Interest and 37.31 Principal before applying any funds to the second payment.

Most BHPH dealers will use Precomputed Interest, because it is less complicated. Also, the average BHPH customer is typically a few days late. In some cases, using Simple Interest could lead to significant amounts of additional Principal being left owed at the end of the loan. Most BHPH customers will not understand why they owe additional money when they have made all their payments, or have at least paid an amount equal to the originally-stated Total of Payments.

Precomputed Interest eliminates additional interest accruals, but, the trade-off is that EARLY payments do not save any interest. The payment is still applied according to the Amortization Schedule. The only way to save any interest is to pay off the account early.

If you loan two people money, one on Simple Interest, and one Precomputed, using the same Principal, APR, and term, and they both pay on their due date, they will both pay the exact same amount of money over the life of the loan.

Add-On Interest:

This interest method is the least complex to calculate. This is the method used by many older dealers, because it is calculable fairly easily by hand.

This interest method is calculated like this:

Amount to Finance: \$10,000

Add-On Rate: 17%

Annual Interest: (10,000 x 17%) = 1700

IF the loan is for one year, the Total of Payments= \$11,700 (Actual APR = about 30%)

Each subsequent year will charge the same annual interest.

Therefore, if the loan is for five years, the interest total is: 1700 x 5 = \$8500

The total of Payments would be: \$18,500

(Our program, due to rounding, may come up with a slightly different amount, usually within two dollars of these numbers.)

The Actual APR for this deal would be 27.5%. In other words, if you did a normal Precomputed Interest deal with \$10,000 for five years at 27.5%, you would arrive at the same numbers.

If the loan length is not an even number of years, for example, a 30-month loan, divide the number of months by 12 to arrive at the number of years. $30 / 12 = 2.5$

The interest on 10,000 for 2 ½ years at 17% Add-On Rate is \$4,250 (Actual APR = 29.5%)

Important Note: Even when doing Add-On Rates, the dealer is required by federal law to disclose the loan with an "Actual APR". Although widely used, most dealers failed to reverse calculate the APR to arrive at the "Actual APR".

Notice that the longer the loan goes, the closer to the Add-On Rate the Actual APR gets. Somewhere around the 42-year mark, it nearly equalizes.

Note about Florida: Due to findings by the State of "overcharged" interest on deals that appeared to be calculated correctly, we trim the calculated APR down slightly to prevent the dealer from getting fined. This will result in a difference of \$5-\$10 for these calculations. The slight difference in values could prevent fines of several hundreds, or thousands, of dollars.

Right-size your customer in the car and avoid preventable defaults & delinquency.

Verifying and working within the customer's personal requirements, salary, and budget timeline makes for better deals, greater satisfaction, increased overall revenue, and higher numbers of referrals. Managing your Receivables goes beyond simply taking the money in after the sale. It has to start from the first time the customer asks if you finance, and be a part of all negotiations.

“Personal requirements” simply means verifying that the car being delivered fits the consumer’s needs. A family with two kids in car seats will not be happy with a coupe within a short time. Take the time to ask personal questions and qualify the unit to the buyer.

A dissatisfied buyer will find a lot of things wrong with a unit that a happy buyer will overlook. Keep in mind, too, that the consumer will find a way to also make you the bad guy for not putting him in the car he wanted first.

If the buyer does not mention financing, then it is your job to do so. Unless they are counting cash out, finance is invariably going to be part of the deal. Be upfront and honest about your offerings, and ask for the information from the buyer. How much down? What are his or her pay periods? Find out before showing or discussing specific units.

There is no sense in getting a buyer interested in a unit that at closing, you find out won’t work out for them. Their disappointment in having to “settle” for a lesser unit can lead to a lost sale or overall dissatisfaction with your business.

Financially, someone with just \$400 in disposable income will not be able to pay a \$450 per month payment for long. Likewise, if the payment is leaving the buyer close to his edge, a car that is a fuel hog or needs frequent repairs is not going to work out.

It is in your best interest in every case to try to find a way to keep the buyer in the car. If the car or the payment did not work from day one, then that task is nearly impossible. Repossession should be an absolute last resort to working with a customer. It is expensive, and can get complicated really fast. No matter how you arrived at that, the dealer is always going to look bad. Too many dealers substitute this for a collections phone call, and you will soon find, these dealers have the worst reputations in town. Ironically, they are also the very first to bitterly complain that customers won’t call or communicate with them. Contempt and distrust of the customer breeds contempt and distrust of the dealer.

Appoint or hire someone with great people skills and a good grasp of personal finance concepts to act not only as your initial financing consultant, but also as a customer solutions representative. Authorize this person to talk to the customers when the payments are late, and charge them with finding a solution to getting the account back to current. You may need to empower this person to make minor modifications or allowances. This position will pay for itself in increased revenue, and happier customers. Happy customers who are riding bring a lot more referrals than the guy sitting at home angry because you picked up his car.

Be proactive and understanding. Watch the local news for notices of major plant closings or work outages, and make a plan to work with those people affected. After all, you’d much rather see your name on Social Media as the Awesome Friend who helped out a person in need rather than the Rotten Jerk who kicked people while they were down.

Lastly, be realistic. If a person had his last five cars repossessed, then, the odds are yours will be the sixth. Sorry, but some people just cannot do a payment schedule, whether it is their own personal choices or just bad fortune. Sometimes, it really is better to say No than to enter into a contract that is certain to fail.

Avoidable default is one of the biggest, and most toxic, cancers a dealership can have. It’s also the single most preventable.

How is a Lease Payment Calculated?

Example: Three year lease valued at \$10,000 with a 25% Residual, .0041667 Money Factor, and 7% Sales Tax.

The Total Capitalized Cost is the sum of all initial figures for the deal, including fees, if these fees are spread or amortized over the life of the lease. Otherwise, the fees are included in the Initial Up Front Payment. Cap Reductions are monies or values exchanged prior to onset of the lease to reduce the Total Cap Cost.

MONTHLY: (.0041667 Money Factor is equivalent to a 10% APR)

Periodic Cap reduction: Total Cap Cost – Residual divided by number of payments:

$$\text{\$ } 10,000 - 25\% \text{ residual} = \text{\$ } 7500 / 36 = \text{\$ } 208.33$$

“Rent Charge” is Total Cap Cost, plus the residual, multiplied by the Money Factor:

$$\text{\$ } 10,000 + \text{\$ } 2500 = \text{\$ } 12,500 \times .0041667 = \text{\$ } 52.09$$

$$\text{\$ } 208.33 + \text{\$ } 52.09 = \text{\$ } 260.42 \times 7\% \text{ sales tax} = \text{\$ } 18.23 \quad \text{\$ } 260.42 + \text{\$ } 18.23 = \text{\$ } 278.65 \text{ Payment}$$

SEMI-MONTHLY: (72 Pmts)

Money Factor is the Monthly Factor x Months / Number of Pmts: $.0041667 \times 36 / 72 = .00208333$

Periodic Cap reduction: Total Cap Cost – Residual divided by number of payments:

$$\text{\$ } 10,000 - 25\% \text{ residual} = \text{\$ } 7500 / 72 = \text{\$ } 104.17$$

“Rent Charge” is Total Cap Cost, plus the residual, multiplied by the Money Factor:

$$\text{\$ } 10,000 + \text{\$ } 2500 = \text{\$ } 12,500 \times .00208333 = \text{\$ } 26.04$$

$$\text{\$ } 104.17 + \text{\$ } 26.04 = \text{\$ } 130.21 \times 7\% \text{ sales tax} = \text{\$ } 9.11 \quad \text{\$ } 130.21 + \text{\$ } 9.11 = \text{\$ } 139.32$$

BI-WEEKLY: (78 Pmts)

Money Factor is the Monthly Factor x Months / Number of Pmts: $.0041667 \times 36 / 78 = .00192308$

Periodic Cap reduction: Total Cap Cost – Residual divided by number of payments:

$$\text{\$ } 10,000 - 25\% \text{ residual} = \text{\$ } 7500 / 78 = \text{\$ } 96.15$$

“Rent Charge” is Total Cap Cost, plus the residual, multiplied by the Money Factor:

$$\text{\$ } 10,000 + \text{\$ } 2500 = \text{\$ } 12,500 \times .00192308 = \text{\$ } 24.04 \quad \text{\$ } 96.15 + \text{\$ } 24.04 = \text{\$ } 120.19 \times 7\% \text{ sales tax} = \text{\$ } 8.41$$

$$\text{Total Payment is Base Payment + Tax} \quad \text{\$ } 120.19 + \text{\$ } 8.42 = \text{\$ } 128.61$$

WEEKLY: (156 Payments)

Money Factor is the Monthly Factor x Months / Number of Pmts: $.0041667 \times 36 / 156 = .00096154$

Periodic Cap reduction: Total Cap Cost – Residual divided by number of payments:

$$\text{\$ } 10,000 - 25\% \text{ residual} = \text{\$ } 7500 / 156 = \text{\$ } 48.08$$

“Rent Charge” is Total Cap Cost, plus the residual, multiplied by the Money Factor:

$$\text{\$ } 10,000 + \text{\$ } 2500 = \text{\$ } 12,500 \times .00096154 = \text{\$ } 12.02$$

$$\text{\$ } 48.08 + \text{\$ } 12.02 = \text{\$ } 60.10 \times 7\% \text{ sales tax} = \text{\$ } 4.21 \quad \text{\$ } 60.10 + \text{\$ } 4.21 = \text{\$ } 64.30$$

Assuming a Cost of \$7500, if the customer does not purchase the car at the end of the lease, the Profit on the lease is as follows:

Total of Payments:	10,031.40	(Shown on screen as "Increase in AR")
Minus Car Cost -	7500.00	(If the first payment is collected in advance,
Minus Sales tax -	656.28	(the Increase in AR figure will be \$9752.75)
Equals Profit:	1875.12	

Profit if the customer DOES buy the car:

Original Lease Profit:	1875.12
Plus Residual Value:	2500.00
Plus Purchase Option fees	250.00 (If you charge this fee)
Equal Total Profit:	4625.12 (\$ 4375.12 Without Purchase Fee)

All the payment plans have the same income, within a few dollars due to rounding. This is because the money factor is simply based on a number of payments, and not a time differential. This is also why adjusting the time to first regular payment does not change the payment.

In most states, the sales taxes on the lease are Cash Method, meaning they are only paid on the amounts collected. However, some states do accrue the total sales taxes at inception. One exception is Tennessee, which accrues the Local Tax portions of the sales taxes up front, and allows the state tax to be charged on the lease payments.

A Lease, by definition, usually collects the first payment in advance, meaning the first payment is due the same day the lease is made. Our program offers a deferred first payment option, however, this simply amounts to being a free month of lease for the customer.

The Initial Cash, or Down Payment, on a Lease will include the first payment, Security Deposit, and any fees that are not spread over the lease.

In comparison to a typical BHPH deal on approximately the same terms, without the purchase option fee, the Lease with Car Purchase Profit (\$ 4375.12) is approximately the same.

Financing 10,000 for 36 months at 10% APR :

Payment is 345.26 Per month

Car profit is \$ 2500

Interest Profit is: \$ 1729.36

Total Profit : \$ 4229.36

As always, consult with an experienced attorney and a qualified CPA before doing leases. Check with your state about required licensing, and your insurance agent for coverage.

COMMON TERMS USED:

Principal:

The original amount financed on a loan. This amount does not include taxes or anything related to the car sale. It is simply the difference between the total sale price and the amount paid down.

Interest and Interest Rate:

The charge for borrowing money. This is expressed both as a dollar amount (Finance Charge) and APR (Rate used to calculate the Finance Charge.)

NPL: Non Performing Loan

Financial Standards define an NPL as being 90 days or more beyond the due date. You could also define them as being any loan which is not paying as contracted, or a customer paying all payments in arrears.

Cash Method:

Accounting method used to recognize income as collected or received by the company.

Accrual Method:

Accounting method that recognizes income on the transaction, regardless of amount collected.

Bad Debt: (Charge off / Write off)

Principal owed to the company that is considered uncollectable. Unpaid, but Earned, Interest is not usually filed as Bad Debt Losses since it has not yet been recognized as Income.

Pre-computed Interest:

Also known as the Rule of 78's method. See the Interest discussion page.

Simple Interest:

Method to calculate interest earned on the daily or periodic basis. See the Interest discussion page.

Cash Flow:

When referring to payments, the estimated amount the company expects to receive from a customer each month. When referring to overall receivables, it represents the amount the dealer is ahead of or behind his original investment. A Negative cash flow indicates there is still unrecovered investment overall in the business. Positive cash flow means that the original investment has been recovered, and additional money collected as profit.

Street Amounts/ Days:

An approximation of the amount remaining invested in the account. This value is calculated by taking all reported costs, and then subtracting all amounts collected. Days is arrived at by taking the total In Street, and dividing by payments and periods, to estimate how long it will take the company to break even on the deal, if the customer makes all payments on time.

Money Factor (Lease):

Equivalent to the Finance Charges on a loan, this is the profit based on the lease values. To arrive a similar APR, multiply the Money Factor by 24. The money from this rate is typically referred to as the "Rent Charge."

Lease Cap Cost:

Cap Cost is short for Capitalized Cost, and is the remaining depreciation to be paid by the consumer after Down Payment or Trade Reduction. Capitalized Cost is similar to, but does not quite equal, Principal on a loan.

DMS:

Dealership Management System. The computer program that manages the dealership.

CRM:

Customer Relationship Management. Usually, a computer program that manages the customer or prospect base of the dealership.

Twenty Groups:

Groups of usually twenty similar businesses who gather regularly to discuss business trends, topics, and tactics. These groups can be very helpful to newer or struggling business owners.

Unfair or Deceptive Trade Practice:

Any activity or behavior that seeks to mask, hide, or misrepresent any aspect of a business transaction.

Profit:

Typically, the amount collected over and above investment. (See Profit Discussion)

Remember to always double check and inspect all documents prior to closing.

A few minutes spent catching VIN, mileage, spelling, and deal number mistakes before closing could save hours or days trying to make corrections and getting contracts re-signed. Making sure the deal is right the first time, every time, also has a positive effect on your reputation.

No one is perfect, and mistakes are sometimes made. It is important to verify the numbers are printed as agreed, including Sale Price, Payment terms/dates, and taxes and tag/title fees.

Misspelled names, mistyped VINs, mileage, or driver license information and missing disclosures or forms can cause headaches at registration. Check with your state or local DMV or tag office to get a list of required forms for each deal type. Some states issue a Title Manual that will be very helpful.

Other forms that may not seem important now will be at some point down the road. For example, in Florida, if you are collecting the Tag/Title fees COD, you MUST have the COD agreement signed by the customer at the time of the deal. Otherwise, you cannot send the Registration Stop Request in later.

Missing insurance, arbitration, or repossession agreements can cause legal issues.

This is your time to separate yourself from the consumer for just a few minutes to check these things and verify without distraction. Remember that this set of papers is a legal contract that binds both the consumer AND the dealership. Sometimes, it is a good idea to have someone else check the deal pack. Some of these issues can have the effect of having the deal rejected by a third-party lender.

Always remember that mistakes are infinitely easier to fix before closing than after delivery.

ADVERTISING

Be careful when advertising the prices of cars. Most dealers already know that it is a violation of federal law to represent a different Cash Price and a Finance Price.

What many more do not know is that in most every state, if you charge a Sales Fee, this fee must be **included** in the advertised sales price, or it cannot be charged. Disclosing it separately in the ad is not allowed. It also does not matter if you rename it to try to avoid the requirement.

You also have to be careful about finance representations. Federal law declares that if ANY one of the terms of a Finance Deal is advertised or disclosed to the consumer, that ALL terms of the Finance be disclosed. This is called using “trigger” words or terms. All terms generally means Down Payment, Amount Financed, APR, Payment Terms, and Payment Amount.

What constitutes “advertising?” Quite simply, if the consumer can see/hear/experience it, and it is designed to entice the consumer to interact with the business, it is advertising. This includes even such things as simply putting a price on the window of the car, using a sign-flipper, and any or all other traditional advertising media. Electronic ads include internet websites, postings to sales sites such as Craigslist or Ebay, and emails or faxes. The wording from the federal law is a : “commercial message in **any medium** that directly or indirectly promotes” a consumer transaction.

Find your state Consumer acts or laws, and read them carefully. Remember, the Dealer is primarily responsible for the content of the ads, even if those were prepared by someone else. Also look for your state Unfair & Deceptive Trade Practices Act, if it has one. These are called Fair Business Practices Acts in some places.

The NADA published a comprehensive guidebook for dealers. On the internet, search for: **NADA Dealer Guide to Federal Advertising Requirements.**

WHAT IS YOUR POLICY?

Policy for what? -- Everything. How do we handle any given situation?

Most things are common sense, but some things need to be addressed. It could be how you handle certain transactions in your accounting, to how you pay commissions, to how you resolve complaints.

Point is, everyone needs to be on the same page. Customers define inconsistency in policy as one of the worst problems dealing with a small business.

Let's start with the Dealer Fee, if you charge one. What is it for? If you are the owner, how do you want this fee explained to your customers if they ask? Whatever you come up with, inform all employees who might be in a position to answer that question. Make sure they stick to it.

How does your company handle complaints? What is the process, and does everyone know what it is? Even simple things like Vacation Time or Holidays needs to be thought out, written down, and shared with the affected people.

Having known and explained policies helps employee morale, improves the customer experience, and stabilizes your business. Granted, these policies should be reviewed occasionally, and updated if necessary. If you make changes, print out copies of the changes, and get these to the employees.

You should have a company policy manual that outlines all this, and give each employee a copy. Get them to read it, and sign an acknowledgement stating that they have it, and were given an opportunity to read it and ask questions.

Now that you have that, **Follow it.** Many companies have "policies" which seem to change depending on a manager's mood. Employees hate working at those places. You can't keep moving the goalposts and still expect everyone to be able to reach them.

Here's another free idea: Sit your employees down, and ask for input. "Ivory Tower" policies can be just as bad as undefined ones. This gives your employees some ownership and responsibility for their jobs and how they conduct themselves.

Again, be willing to massage these policies as times change, so don't go carving them into stone. Listen to your employees, and trust them to help you run your business. Listen to your customers, and let them help you grow that business.

Profit Discussion:

As noted in the Definition, profit simply means the amount collected over the original investment. Going beyond that simplistic characterization, we realize that sometimes, a dealer must show a “profit,” even though he has still unrecovered costs. This is usually due to the difference between Cash Method and Accrual Method Accounting.

With Accrual Method, the Profit or Loss is calculated on the transaction amounts, irrespective of collections. If a car cost \$4000, and is sold for \$6500, the Accrual Method states that a \$2500 Profit has been recognized.

Assuming a down payment of \$1000, if you were on the cash method, there would be two options: recognize a similar portion (31.5%) of the \$1000 as Profit, or defer recognition of any profit until the original \$4000 has been recovered in subsequent payments.

The IRS usually requires dealers with Inventory to work on the Accrual Method for the recognition of the profit on the Sale.

The interest due on these payments is Cash Method. However, it is all profit, since there is no immediately attributable cost to the dealer/lender.

Most business try to simply square with the calculation that Collected minus Cost = Profit. That is fine, if all your sales are cash sales, all money collected at time of sale.

The Wayne Reaves program represents the basic calculation of Collect-ed-Cost, but instead of calling it “profit”, we refer to it as In-Street, (Cost not recovered) or Out of Street, meaning that the investment has been recovered, plus more.

How you characterize profit vs loss may also depend on how or when you recognize the income or revenue, and how you allocate associated costs.

Contact your CPA if you do not have a defined plan to capture and allocate costs and liabilities.

INTERNAL SELF-AUDITING

Any well-run business must occasionally audit itself to make sure that the numbers on the reports are valid.

First and foremost, accountability is important to an audit. The business must identify, and hold accountable, certain employees for specific functions or responsibilities. By reviewing and asking questions of the entries on reports, the business can find out which transactions were valid, and which ones could potentially represent mismanagement or theft.

Supporting paperwork is valuable, since the numbers as entered into the DMS must be accurate. Sometimes, part of an audit is simply to verify the numbers entered match the supporting paperwork.

Other audit methods may be simply checking that the results of a calculation are independently verifiable. For example, previous balance plus new activity minus collected minus adjustments should equal current balance. That is very simply stated, and there may be other allocations that affect your final numbers.

Audits are not always limited to financial operations. Sometimes, you may want to audit the sale paperwork to verify that all the required forms are printed correctly, and signed and dated in the proper places.

Tips for auditing are:

- Employees should know in advance, and get a fair definition of, their responsibilities in the business.
- The employees should never be given advance notice of the audit.
- Person who did the original paperwork should not be the person who audits it.
- Never let someone with a financial interest in the outcome bully or shame you out of an audit.
- Randomly, ask someone else (such as a CPA) to view and vet the result of an audit, especially when there are legitimate financial irregularities or questions.
- When the legitimate questions are of a legal nature, you may need to seek the advice of an attorney.
- Never accuse an employee of outright theft without independent verification.
- Never hesitate to ask for a solid, reasonable answer to a question.

When it comes to your own actions, you sometimes may need to stop for a moment and ask yourself if you would accept the justification for the action if it came from someone else.

When it comes to “Dealer Signature” on the sale paperwork, the owner should designate in writing only certain individuals to accept a deal. You should never let just any employee commit your dealership to a legal contract.

THEFT PREVENTION

One of the easiest ways to steal from a dealer is readily available cash. The simplest way to prevent theft in the dealership is to accept and insist on debit cards or electronic checks.

Another method is to only permit computer-printed receipts. You should have a sign in the office near the payment counter that asks a customer to alert you by phone to any payment that does not get a printed receipt. Hand-written receipts are too easy to forge or falsify. Hand writing can also be misinterpreted. Most state laws require a receipt for cash payments.

If the user **MUST** print the computer receipt, then their only course to try to steal the money is to void the payment. This will create an audit trail in the transactions list.

Set up a system where someone other than the salesman interacts with the consumer, and verifies the figures. Have deposits or down payments handled by a manager who will compare this number with the amounts on the Bill of Sale. If you have a dedicated cashier who is not a sales person or in a relationship with one, insist that all monies collected go only through this person.

Never keep any money in the dealership that is not under lock and key and some sort of surveillance. Camera systems are relatively inexpensive, especially compared to theft.

Drop safes are a good idea, and you should ensure that large amounts of currency in the till or cash drawer are regularly deposited in the safe. Set a "drawer limit" of cash that triggers a drop, no matter how long it has been.

Prohibit money from being placed away in folders, envelopes, desk drawers, or pockets. A customer's money should always be in his possession or plain sight until he is given a receipt for the funds.

If you are going to hold a cashier accountable for the drawer or till, make sure no one else has access to it. It is a good idea sometimes to randomly observe the counting in at the beginning of the day, and counting out at the end of the day, of the till.

Vary the time you make deposits to the bank or safes. Thieves look for patterns.

Use the Deal Audit Checklist on the next page, or one substantially similar to it, to verify and check over the documentation.

DEAL AUDIT CHECKLIST

Deal Date: _____ Location: _____ Sales Rep: _____

Customer Name: _____ Acct/Deal # _____

Stock # / Description: _____

Deal Type: BHPH CASH OUTSIDE FINANCE: _____

Down/Full Payment: \$ _____ Receipt # _____ CASH Other: _____
Specify the type of instrument

Customer Documentation:

- License
- Insurance
- Credit Application
- Credit Report
- Copies of required files.

Regulatory Compliance Checks

- Homeland Security Check
- Red Flag Rules Checklist
- Privacy Notice
- Risk-Based Pricing (If req'd)

Inventory:

- Title
- Invoice
- Repairs Reports
- Floor Plan Satisfied
- State Inspection

Sold Unit Title Status:

- Received from Seller
- Signed and Copies in File
- Sent to State after Sale
- New Title Received / Sent to Buyer
- Trade-In Title Received

Trade In

- Trade Payoff Verification
- Trade In Documentation

We-Finance Deal

- Repossession Agreement
- GPS/Interrupt Disclosure
- Copy of key in File
- Pickup Payment Promissory
- Insurance Verified By Agent

Sale Documents:

- Bill of Sale/ Buyers Order
- Finance Contract Check all values.
- Odometer Disclosure
- Federal Buyers Guide
- Title Application / Process
- Arbitration Agreement
- Insurance Agreement
- As-Is / We -Owe
- Cell Phone Consent Form

Deal Financial:

- Down or Full Payment
- Sent to Outside Lender
- Funding by Lender
- Mgmt Acceptance of Terms
- Profit / Loss / Recap

Additional Information:

Acceptance of documents means that all the forms are inspected, has had all relevant customer data, deal values and numbers verified, and that all signatures are in place.

Acceptance of Down Payment means that there is a verified financial record of receipt, and that the receipts as printed exactly match the printed documentation of the deal.

Sales Rep Signature: _____

Reviewing Manager: _____

Audit Date: _____

TERMS COMMONLY USED IN THE INDUSTRY

TERM	Definition
Account Aging	Statement of the number of days the account is past due.
Accounts Payable	The monetary value the company owes to vendors.
Accounts Receivable	The monetary value the company has a right to receive due to installment loans.
Acquisition Fee	The lessor's charge or fee for processing the lease.
ACV	Actual Cash Value. An amount the dealer believes the vehicle is worth to the dealership. Also known as liquidation value. This value, when set by an experienced dealer, is the value the dealer could expect to sell the car for to another dealer at wholesale.
Ad Valorem	Taxation of real property and vehicles based on an established valuation system. (Latin: According to Value)
Allowance for Doubtful Accounts	Accounting term that takes into consideration the known or potential default rate, reducing Receivables by a percentage that is the usual defaults, to give the dealer/lender a Receivable value that is reasonably collectible.
Amount Financed	The balance of the full sales price after initial down payment. This is the Principal for the Loan.
Antique Car	Vehicles that are usually 100 or more model years in age, however, the Antique Automobile Club of America recognizes motorized vehicles 25 years or older.
Appraisal	A qualified verbal or written statement of the value of a vehicle.
As-Is	Sale term wherein a vehicle is sold without any warranty, express or implied. Some states do not allow used vehicle to be sold As-Is, unless the dealer specifically disclaims that the vehicle is drivable.
Bad Debt	Amount of Accounts Receivable that cannot be collected.
Balance Sheet	Accounting report listing the current assets, liabilities, and equity of the business.
Base Cost	Usually, the initial purchase or investment price of a unit, before reconditioning or adjustments.
Bill Of Sale	The legal agreement setting the terms of the transfer of ownership of the unit. Bill of Sale and Buyer's Order are used interchangeably by most dealers, however, pure definition differentiates these as two distinct documents, with Buyers Order being simply the agreement to enter a purchase, and Bill of Sale being the Legal Document that completes the purchase.
Book Value	The industry-acceptable wholesale valuation of the vehicle, taking into account the condition and mileage. "Books" include the NADA Guide, Black Book, and Kelly Blue Book. Values are stated based on condition of the unit. Values include: Extra Clean, Clean, Average, Fair, and Rough.
Buyer	A person at the dealership designated to purchase or appraise cars
Buyers Order	Used interchangeably with Bill Of Sale.
Cap Cost	Leasing. Short for Capitalization Cost. A statement of the total price of the unit, typically equivalent to the Sales Price.
Cap Cost Reduction	Initial funds or values paid by the lessee to reduce the Cap Cost up-front to lower the payments.
Car Profit	Quite simply, the difference between the sales price of the unit, and the total cost of the unit.
Classic Car	Typically any vehicle more than 20-25 years old. The Classic Car Club of America insists that in addition to age for Classic status, the vehicle must also be considered "Fine" or "Distinctive."
Co-buyer	A second person who shares equal ownership of the unit purchased.

TERM	Definition
COGS	Cost of Goods Sold. The value representing the directly-attributable investment in the unit
Collateral	Most often, the item purchased. It is pledged by the consumer to be returned to the lender should the loan default.
Contract	The Legal agreement between the Buyer(s) and the Seller or Lender that sets the terms of repayment of the amount financed from the Bill of Sale.
Contract In Transit	Money due from a lender for payment of the amount financed on an installment loan.
Co-signer	A second person who stands as a loan guarantor should the Buyer/Co-Buyer default on the
Cost Basis	Methodology for stating the value of inventory. The choices are Market Value (the value found for the unit in an industry-accepted valuation guide) or Actual Cost, which is the actual monies allocated to acquiring and preparing the unit for sale.
CTO	Cost To Own – A term used by the industry that gauges not just the initial purchase price of the unit, but the expected repairs over time. Cars with high CTO values are either very expensive initially, or have higher than normal repair demands.
Curb Weight	The weight of the vehicle without cargo or passengers.
Curtailement	Payments made by a dealer to the Floor Plan Company.
Dealer Fee	The fixed charge by the seller for processing the sale. Can also be known as Prep Fee, Sales Fee, Doc Fee, or Closing Fee.
Deep-Subprime Credit Default	Lending classification that refers to consumers with credit scores below 520-500. Any failure by the consumer to honor the retail installment agreement (contract.) This can include failure to make timely payments, failure to maintain insurance, or even failure to maintain the collateral in working order.
Deposit	An amount of money placed in trust with the seller, in return for holding a car for sale, or to induce the seller to locate and purchase a desired unit for the buyer.
Depreciation	The difference between the original Cap Cost and the Residual value, divided by the number of lease payments.
DMV	Department of Motor Vehicles. A catch-all acronym for any state agency charged with issuing and maintaining vehicle titles, registrations, and license plates.
Doc Fee	Short for Documentation Fee. The charge by the seller for processing the sale. This term is no longer recommended to be used. See Dealer Fee.
Fresh Car	A unit that is usually less than 7-10 days on the lot. Typically represents highest profit poten-
GAWR	Gross Axle Weight Rating. The stated maximum load for a single axle.
Grey Market	A vehicle that was not originally built to North American specifications or intended for sale in NA that gets imported to NA. Many of these vehicles can be inspected and titled in NA, but their VIN may not follow NA placement rules. Most software that decodes them will consider the VIN to be invalid.
GVWR	Gross Vehicle Weight Rating. The manufacturer's stated maximum operating weight. The GVWR includes the vehicle, passengers, cargo, and maximum fill of fluids.
Heavy Duty	Classes Seven and Eight, and includes everything else, from the 75 series trucks through semi or haul trucks, and almost all buses.
Historic Car	Used by state DMV to designate a classic car.

TERM	Definition
Implied Warranty	Specifically, the concept that an item that is sold must be fit to the particular purpose it is being sold for. In other words, a used car, unless otherwise disclaimed, should be fit for the particular purpose of providing motorized transportation. Implied warranties can be created when a dealer claims a vehicle (such as a truck) can tow or haul a certain load, or will last certain amount of miles or time. Compare to As-Is.
Interest	The monetary charge assessed by the lender for the use of the funds. The rate of interest is referred to as the APR (Annual Percentage Rate) and the dollar amount is referred to as Finance Charges.
Inventory Aging	Statement in days of the length of time the business has owned the unit.
Invoice	The vendors written demand for payment for an item purchased.
Lease	A usually time-limited contract for usage of a unit, for a specified periodic amount.
Light Duty	Classification of light trucks, SUV's and Vans. Class One is small to medium pickups, Class Two includes full-size half-ton and three-quarter ton (15 and 25 series) trucks, and Class Three is typically the one-ton (35 series) trucks.
Loss Exposure	A term used to describe the amount of money to be lost if the unit turns out to be without value. Most of the time, this is simply wholesale value minus scrap value.
Medium Duty	Classes Four through Six, and includes the 45, 55, and 65 Series.
Modern Classic	Cars less than 20 years of age that are still considered to be collectible.
Money Factor	Leasing. A factor of the Capitalization Cost that is the lessors' charge for the usage of the unit beyond the capital cost reduction
PMSI Contract	Purchase Money Security interest. The definition of the installment contract where the sales balance is loaned by a third-party.
Prime Credit	Normally, those consumers with credit scores between 620 and 750.
Principal	The amount borrowed by the consumer. Almost always, the Amount Financed.
Purchase Order	A document offering to purchase a specific quantity of specific item from a vendor at a
Rebuilt Title	A designation that a vehicle had a Salvage Title, but has been repaired and inspected to the satisfaction of a state inspector. The car may be registered for use on the public roads. Note: Some states do not indicate Rebuilt on the title when a car is re-certified, they simply remove the Salvage designation. See Title Washing
Reconditioning	The actions taken by the dealer to prepare the unit for sale. Most often, mechanical repairs or cosmetic work done to improve the salability of the unit.
References	Persons identified by the Buyer as being familiar with him/her who will attest to the person's character. The reality is that most BHPH or Sub-Prime lenders want these references not as character witnesses, but as persons who can assist the lender with locating the Buyer or the collateral.
Residual Value	In leasing, a statement of the expected value of the leased unit at the end of the lease.
Retail	The sale of an item by a licensed dealer to an individual or business entity for final use.
Retail Buyer	The person or entity making the purchase.
Retail Installment Contract	The legal agreement to repay to the seller the purchase balance in a set number and amount of
Revenue	Money collected (regardless of tender form) in the course of business.
Sale	Transfer of ownership, for value received, of an inventoried item, subject to either full payment or the terms of a finance contract.

TERM	Definition
Salvage Title	The acceptance or designation by a state that the vehicle has suffered damage to the extent that repair costs usually exceed 70% of the current value. Some states have a threshold as low as 50%. In some states, this designation is issued to any vehicle for which a Total Loss claim has been paid by an insurer, including stolen vehicles without any appreciable damage. The vehicle may not be registered for use on public roads. See also Rebuilt.
Scrap Value	The value of the unit to a junkyard.
Sled	Slang term for a vehicle with no redeeming value. Usually sold directly to junk or salvage.
STIPS (Stipulations)	Loan Conditions sent to the dealer that must be fulfilled before the loan is finalized.
Sub-Prime Credit	A lending classification that refers to all or a combination of risk factors.
Super-Prime Credit	Classification of consumers whose credit scores are above 740-760.
TAVT	Title Ad Valorem Tax. Used in Georgia in place of a Sales tax on motor vehicles. The tax is applied on the value of the vehicle rather than its' sales price.
Three Way Match	The process of verifying that the vendor's invoice, buyer's purchase order, and the receiving
Title Washing	The process of transferring a vehicle and its' title from one state to another, with the plan that the subsequent titling will either lose the salvage designation, or at least obscure the origin. Also done at times to hide a long auction history.
Total Cost	The fully-stated total investment in the unit, including base cost, reconditioning, fuel, and allocated marketing.
Trade Allowance	Amount the dealer reduces the sale price by to induce the consumer to trade the unit. This value is usually well above the ACV, but this over-allowance is typically offset by a higher
Underwriting	The process of investigating and qualifying a loan, given the available information about the consumer, the amount financed, and the proposed collateral, and analyzing the risks.
Use Tax	Used by some states in place of a sales tax on motor vehicles.
VIN	Vehicle Identification Number. The serial number of a specific motor vehicle. Since 1981, In North America, the VIN must follow the placement and indicator rules of the NHTSA that identifies the build origin, manufacturer, model, year, engine, plant code, and build sequence number. Different regions of the world have differing specifications for the placement of specific identifiers within the VIN. For more info: https://en.wikipedia.org/wiki/Vehicle_identification_number
Wholesale	Sale between licensed dealers, with the intent of resale of the purchasing dealer.

NEW FTC BUYERS GUIDE

The new FTC Buyers Guide is now available.

Notice that the updated form has the words “DEALER WARRANTY” instead of just “Warranty” to make it clearer. ONLY Check this box if you, the Dealer, are putting a warranty on the vehicle. There is now also a place to indicate that there is an manufacturer or other third party warranty available.

BUYERS GUIDE

IMPORTANT: Spoken promises are difficult to enforce. Ask the dealer to put all promises in writing. Keep this form.

VEHICLE MAKE	MODEL	YEAR	VEHICLE IDENTIFICATION NUMBER (VIN)
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WARRANTIES FOR THIS VEHICLE:

AS IS - NO DEALER WARRANTY
THE DEALER DOES NOT PROVIDE A WARRANTY FOR ANY REPAIRS AFTER SALE.

DEALER WARRANTY

FULL WARRANTY.

LIMITED WARRANTY. The dealer will pay ____% of the labor and ____% of the parts for the covered systems that fail during the warranty period. Ask the dealer for a copy of the warranty, and for any documents that explain warranty coverage, exclusions, and the dealer’s repair obligations. *Implied warranties* under your state’s laws may give you additional rights.

SYSTEMS COVERED: _____ **DURATION:** _____

NON-DEALER WARRANTIES FOR THIS VEHICLE:

MANUFACTURER’S WARRANTY STILL APPLIES. The manufacturer’s original warranty has not expired on some components of the vehicle.

MANUFACTURER’S USED VEHICLE WARRANTY APPLIES.

OTHER USED VEHICLE WARRANTY APPLIES.

Ask the dealer for a copy of the warranty document and an explanation of warranty coverage, exclusions, and repair obligations.

SERVICE CONTRACT. A service contract on this vehicle is available for an extra charge. Ask for details about coverage, deductible, price, and exclusions. If you buy a service contract within 90 days of your purchase of this vehicle, *implied warranties* under your state’s laws may give you additional rights.

ASK THE DEALER IF YOUR MECHANIC CAN INSPECT THE VEHICLE ON OR OFF THE LOT.

OBTAIN A VEHICLE HISTORY REPORT AND CHECK FOR OPEN SAFETY RECALLS. For information on how to obtain a vehicle history report, visit ftc.gov/usedcars. To check for open safety recalls, visit safecar.gov. You will need the vehicle identification number (VIN) shown above to make the best use of the resources on these sites.

SEE OTHER SIDE for important additional information, including a list of major defects that may occur in used motor vehicles.

Si el concesionario gestiona la venta en español, pídale una copia de la Guía del Comprador en español.

In states that require it, there is a version that replaces the As-Is section with the Implied Warranty version:

IMPLIED WARRANTIES ONLY

The dealer doesn't make any promises to fix things that need repair when you buy the vehicle or afterward. But *implied warranties* under your state's laws may give you some rights to have the dealer take care of serious problems that were not apparent when you bought the vehicle.

Remember that this form must be visible to any consumer. This typically means that the form is placed in the window.

The form must have complete and specific information on it. Do not use abbreviations for the Year, Make, or Model, and the full 17-digit VIN must be on the form.

This form must be in every vehicle available for sale. Some dealers put up a sign stating that “Any vehicle without a Buyer’s Guide is NOT for sale” in an effort to minimize fines, however, inspectors typically ignore those signs and look for any vehicle being displayed for sale.

“Displayed for Sale” means any vehicle within the publicly-accessible sales display area that is owned by the dealership. If a vehicle is truly not for sale, then move it off the display area, and clearly mark that specific vehicle “NOT FOR SALE” on the window.

Even if the unit is not in the display area, set a policy with the sales staff that they may not even show a vehicle marked not for sale. If a sales rep walks a potential retail customer over to a vehicle, regardless of where it is parked, and discusses sales terms, then the vehicle is for sale, and must contain a conspicuous Buyers Guide. Note that the current fine for non-compliance now stands at US\$40,000 per violation.

Dealers should visit the FTC website to be familiar with all the rules:

<https://www.ftc.gov/tips-advice/business-center/guidance/dealers-guide-used-car-rule>

REGULATORY COMPLIANCE

NOTE ABOUT FEDERAL RULES SUCH AS PRIVACY ACT, RED FLAG RULES, AND RISK-BASED PRICING:

Federal regulations require the institution to have a plan in writing for how the rule is enacted and enforced inside the business. These rules also require:

- Someone should be named as the administrator of the rule,
- All employees be trained on the rules,
- Written logs kept of the training activity, and
- Business plans for defined or suspected violations of the rule.

RISK-BASED PRICING DISCLOSURES

For more information: <http://www.federalreserve.gov> or <http://www.ftc.gov>

There are exceptions to almost every given rule. The dealer must investigate and satisfy the local/state requirements or laws.

WHAT IS RISK-BASED PRICING?

Risk-Based pricing is defined as when a creditor extends or provides credit to consumers uses credit terms that are “materially less favorable” than the most favorable terms available to a substantial portion of other consumers through the creditor, based in whole or part on the information in a consumer report.

Notice that the definition includes the words “or provides credit.” This means that even dealers who do not engage in BHPH deal are subject to this rule for deals processed through third-party lenders. The question is whether, based on the consumer report, the dealer makes a decision as to which lender to offer the application for credit. This also applies if the dealer marks up the APR from the lender. Quoted directly from the Federal Register Commentary:

The automobile dealer’s use of a consumer report to determine which third-party financing source is likely to purchase the retail installment sale contract and at what “buy rate,” and to set the annual percentage rate based in part on the “buy rate,” is conduct that fits squarely within the description of risk-based pricing in the final rules. Thus, automobile dealers that are original creditors in a three- party financing transaction must provide risk-based pricing notices to consumers, in accordance with the rule.

If your dealership charges a single rate based on Sales Finance laws, and does not modify this rate based on the information or scores in the consumer report, you may be exempt from providing the notice to the consumer. “Based on Sales Finance Laws” means that if the legal APR is lower simply because of the year of the vehicle, amount to finance, length of the loan, or other factors, even if that rate is “materially more favorable,” the Sales Finance Law determined the rate, not the consumer report.

Example: If you sell a 6-year old car, and charge the consumer 28% APR, and the next consumer purchases a 1-year old car, legally capped at 17% APR, these terms are not more or less favorable as compared to each other because the usury laws determined the rate, not the credit report. However, if, based on the consumer report, you decide to offer the second customer a newer car, that decision could be construed to be risk-based pricing.

Also, in the question of other finance requirements such as increased down payment or different payment frequencies or length of loans triggering the notice, the Federal Commentary says:

The Agencies recognize that the pricing of credit products is complex and that the annual percentage rate is only one of the costs of consumer credit. However, the Agencies have adopted a definition of “material terms” that generally focuses on a single term in order to ensure that there is a feasible way for creditors to identify those consumers who must receive risk-based pricing notices. Based on the comments received, extensive outreach to interested parties, and their own analysis, the Agencies conclude that it would not be feasible for creditors to compare credit terms on the basis of multiple variables.

Although the related requirements do not seem at this time to be a factor for the notice, the dealer should monitor his approvals and be prepared to include such requirements should the law be revised

The average BHPH dealer who charges a fixed rate to all customers financed will normally be exempt from the notification requirements.

We recommend that you print the notice if there is any doubt that you may or may not be exempt. Remember that it is only the consumer who gets the “less favorable terms” who must get the notice, and not the customer who receives the “more favorable terms.”

Dealers should evaluate their policies at least once every year.

The law requires Dealers to use consistent methodology to evaluate all consumers to whom it offers a specific credit product or service. In other words, if you use consumer credit scores to evaluate only some of your BHPH customers, and personal information on others, then your methodology to assign credit is inconsistent. You are certainly permitted to use additional information when you feel it is required to supplement the credit history.

Due to the verification requirements of the Red Flags Rule, we recommend that you print a consumer report on all finance customers.

The notice does not apply if the less favorable terms are based on consumer information not contained in a consumer credit report, such as length on job, income, prior experience with a consumer not otherwise indicated in the credit report.

RED FLAG RULES

For more information: <http://ftc.gov/redflagrule>

Red Flags are warnings or other indicators of potential identity theft. You should get to know your customer, and watch for tell-tale signs of fraudulent use of another's identity. This is now the law, and, it can also be a valuable collection tool. If you do not know whom you expect to receive payments from, how will you collect them?

Make sure you verify all information given, using things such as home or cell phone bills, utility bills, rental/ lease agreements, current pay stubs, photo identification issued by a regulatory agency. Get a Consumer Credit Report, even if it is not used for credit decision.

According to the FTC, the following list are possible Red Flag items.

Consumer Credit Reports:

A fraud or active duty alert is included with a consumer report.

A reporting agency provides a notice of credit freeze in response to a request for a consumer report.

A reporting agency provides a notice of address discrepancy, as defined in § 222.82(b) of this part.

A consumer report indicates a pattern of activity that is inconsistent with the history and usual pattern of activity of an applicant or customer, such as:

- a. A recent and significant increase in the volume of inquiries;
- b. An unusual number of recently established credit relationships;
- c. A material change in the use of credit, especially with respect to recently established credit relationships; or
- d. An account that was closed for cause or identified for abuse of account privileges by a financial institution or creditor.

Suspicious Documents

Documents provided for identification appear to have been altered or forged.

The photograph or physical description on the identification is not consistent with the appearance of the applicant or customer presenting the identification.

Other information on the identification is not consistent with information provided by the person opening a new account or customer presenting the identification.

Other information on the identification is not consistent with readily accessible information that is on file with the financial institution or creditor, such as a signature card or a recent check.

An application appears to have been altered or forged, or gives the appearance of having been destroyed and reassembled.

Suspicious Personal Identifying Information

Personal identifying information provided is inconsistent when compared against external information sources used by the financial institution or creditor. For example:

The address does not match any address in the consumer report; or

The Social Security Number (SSN) has not been issued, or is listed on the Social Security Administration's Death Master File.

Personal identity information provided by the customer is not consistent with other personal identifying information provided by the customer. For example, there is a lack of correlation between the SSN range and date of birth.

Personal identifying information provided is associated with known fraudulent activity as indicated by internal or third-party sources used by the financial institution or creditor. For example:

The address on an application is the same as the address provided on a fraudulent application; or

The phone number on an application is the same as the number provided on a fraudulent application.

Personal identifying information provided is of a type commonly associated with fraudulent activity as indicated by internal or third-party sources used by the financial institution or creditor. For example:

The address on an application is fictitious, a mail drop, or a prison; or

The phone number is invalid, or is associated with a pager or answering service.

The SSN is the same as that submitted by other persons opening an account or other customers.

The address or telephone number provided is the same as or similar to the account number or

Tele phone number submitted by an unusually large number of other persons opening accounts or other customers.

The person opening the covered account or the customer fails to provide all required personal identifying information on an application or in response to notification that the application is incomplete.

Personal identifying information provided is not consistent with personal identifying information that is on file with the financial institution or creditor.

For financial institutions and creditors that use challenge questions, the person opening the covered account or the customer cannot provide authenticating information beyond that which generally would be available from a wallet or consumer report.

Unusual Use of, or Suspicious Activity Related to, the Covered Account

Shortly following the notice of a change of address for a covered account, the institution or creditor receives a request for a new, additional, or replacement card or a cell phone, or for the addition of authorized users on the account.

A new revolving credit account is used in a manner commonly associated with known patterns of fraud patterns. For example:

The majority of available credit is used for cash advances or merchandise that is easily convertible to cash (e.g., electronics equipment or jewelry); or

The customer fails to make the first payment or makes an initial payment but no subsequent payments.

A covered account is used in a manner that is not consistent with established patterns of activity on the account. There is, for example:

- Nonpayment when there is no history of late or missed payments;
- A material increase in the use of available credit;
- A material change in purchasing or spending patterns;
- A material change in electronic fund transfer patterns in connection with a deposit account; or
- A material change in telephone call patterns in connection with a cellular phone account.
- A covered account that has been inactive for a reasonably lengthy period of time is used (taking into consideration the type of account, the expected pattern of usage and other relevant factors).
- Mail sent to the customer is returned repeatedly as undeliverable although transactions continue to be conducted in connection with the customer's covered account.
- The financial institution or creditor is notified that the customer is not receiving paper account statements.
- The financial institution or creditor is notified of unauthorized charges or transactions in connection with a customer's covered account.

Notice from Customers, Victims of Identity Theft, Law Enforcement Authorities, or Other Persons Regarding Possible Identity Theft in Connection with Covered Accounts Held by the Financial Institution or Creditor

The financial institution or creditor is notified by a customer, a victim of identity theft, a law enforcement authority, or any other person that it has opened a fraudulent account for a person engaged in identity theft.

The BEST way to identify Red Flags is through the use of a Consumer Credit Report.

SELLING ACCOUNTS TO THE IN-HOUSE RELATED FINANCE COMPANY (RFC)

PRECOMPUTED ACCOUNTS:

**BALANCE IS TOTAL OF PRINCIPAL AND INTEREST. ACCOUNT IS
SOLD WITHOUT PRINCIPAL/INTEREST SPLIT.**

THERE WILL NOW BE TWO WAYS TO CALCULATE A CUSTOMER'S PAYMENT:

1. RFC'S RETURN ON INVESTMENT.
2. CUSTOMER'S PAYMENT ON OBLIGATION.

RFC'S RETURN ON INVESTMENT (ROI) :

- **PRINCIPAL**
 - This represents the amount the RFC paid for the account.
- **INTEREST**
 - Actual interest remaining to be paid on account
- **DISCOUNT**
 - Difference between Actual Principal on the account, and Amount Paid.

EXAMPLE:

Principal =	\$ 10,000.00	Total Balance =	\$ 14,606.40
Interest =	\$ 4,606.40	Sold @ 60% =	\$ 8,763.84

RFC Principal = \$ 8,763.84 (Amount invested in the account)
 RFC Interest = \$ 4,606.40
 RFC Discount = \$ 1,236.16 (\$10000 – 8763.84) **Finance Customer Summary Shows:**

page #	1	LAST	NEXT	PAY	BALANCE	INTEREST	COST TO					
ACCT#	DAYS	CUSTOMER	PAID	DUE	AMT	PRINCIPAL	DISCOUNT	FIN CO	COLLECTED	PROFIT		
No Activity for RFCSALE PRECOMP, EXAMPLE											0.00	0.00
2838	31	RFCSALE	//	06/03/06	304.30	14606.40	8763.84	4606.40	1236.16	8763.84	0.00	-8763.84

Cash Sheet: (Shows the reduction to the Customer's *Obligation*)

Acct	Customer	Trans#	Reg Paymts Collected	Principal	Interest	Charges	nce
Saturday	June	3	2006				
2838	RFCSALE PR	6002 P	304.30	208.33	95.97	0.00	14302.10

First, notice that the Interest is the same.

The Cash Sheet Principal & Interest should be the same numbers, for each payment, since the breakdown is Straight-Line:

Principal: \$10,000 / 48 = \$ 208.33

Interest: \$ 4606.40 / 48 = \$ 95.97

- *Although the breakdown collection here is straight-lined, a Payoff will still use Rule of 78's calculations to arrive at an Interest Rebate.*

The Finance Company Status Report is also straight-lined, thus-

ly: RFC Principal: \$ 8763.84 / 48 = \$ 182.58

RFC Interest: \$ 4606.40 / 48 = \$ 95.97

RFC Discount: \$ 1236.16 / 48 = \$ 25.75

The Discount shows up as a deduction on the Repo/Write Off Report, since the RFC cannot take a write off on Unearned Profits.

- *Write Off is typically limited to Unrecovered Investment, or the Principal Investment in the loan purchased. Interest is usually not a write-off, since it was never declared as Income.*

If the customer paid off the Finance Company on the Same day that the account was sold, the RFC's profit would be the Discount Amount, plus any accrued Earned Interest on the account.

The Car Lot's Profit on this deal would be the difference between the Net Cost Basis, which includes Sales Taxes, State Fees, and Repairs, and the "Collected" amount, which is the dollar amount he sold the account for, in this example, \$ 8,763.84.

Important Tax Information About This Sale

- The Car Lot will show INCOME for this sale on the Cash Sheet.
- If you pay Sales Taxes on the Cash Method (as payments are collected), all remaining Taxes are due at this time, not just on the amount collected.
 - The Tax Report will show all remaining taxes, and the Taxable Principal will be a calculation of the amount of tax divided by the tax rate.
 - This example had \$ 654.21 Unpaid Tax Left at the time of sale to the RFC.
 - \$ 654.21 divided by 7% = \$ 9,345.86 Taxable Principal.

SIMPLE INTEREST ACCOUNTS:

- BALANCE IS PRINCIPAL + EARNED INTEREST
- INTEREST WILL BE PAID TO CAR LOT AT TIME OF SALE ON A SEPARATE TRANSACTION .

- **PRINCIPAL**
 - This represents the amount the RFC paid for the account.
- **INTEREST**
 - Only calculated as earned.
- **DISCOUNT**
 - Difference between Actual Principal on the account, and Amount Paid.

EXAMPLE:

Principal = \$ 10,000.00
 Interest = \$ 0 (Account sold same day of deal)
 Sold @ 70% = \$ 7,000.00

RFC Principal = \$ 7,000.00 (Amount invested in the account)
 RFC Interest = \$ 0.00
 RFC Discount = \$ 3,000.00 (\$10000 – \$7000)

Finance Customer Summary Shows:

page #	1			Late Chg	Payments	Principal	Interest	Discount
Finance Company Type #	79							
2839	RFCSALE SIMPLE, EXAM	06/03/06		0.00	304.30	94.11	169.86	40.33
Totals for 2839	RFCSALE SIMPLE, EXAM	*S*		0.00	304.30	94.11	169.86	40.33

page #	1											
ACCT #	DAYS	CUSTOMER	LAST PAID	NEXT DUE	PAY AMT	BALANCE PRINCIPAL	INTEREST DISCOUNT	COST TO FIN CO	COLLECTED	PROFIT		
No Activity for RFCSALE SIMPLE, EXAMPLE										0.00	0.00	
2839	31	RFCSALE	//	06/03/06	304.30	10000.00	7000.00	0.00	3000.00	7000.00	0.00	-7000.00S

FinComp Status Report: (Shows the reduction of the RFC's Investment.)

- On Simple accounts, Discount Per Pmt is based on the original discount percentage. (30%)
- The Principal value shown is what's left: Payment – (Interest + Discount)

Cash Sheet: (Shows the reduction to the Customer's Obligation)

Acct	Customer	Trans#	Reg Paymts Collected	Principal	Interest	Charges	Deposits PU/Down	Side Notes	Debits	Balance	Agent	page : Ref	1
Saturday	June	3	2006										
2839	RFCSALE SI	6003 P	304.30	134.44	169.86	0.00	0.00	0.00	0.00	9865.56	WAYNE	CASH 79	R

Interest is earned on the daily calculation. (APR/365) x Principal Balance x (Days Since Last Pmt)

- For these accounts, the Principal paid on the cash sheet will be the difference between Amount Paid and Interest Paid.

Related Finance Companies (RFC)

This is an opinion, and does not constitute tax, legal, or financial advice.

Consult the appropriate professionals.

There are many reasons for setting up two different companies to handle your vehicle sales and your vehicle finance operations. Licensing varies from state to state. It is imperative that you investigate your states' requirements for an RFC. When a person sets up both a vehicle dealership and an RFC, he should practice a little caution. There are a number of conditions which should be met to assure that it is an allowable act in the eyes of the IRS (Internal Revenue Service). It offers many benefits to those who take the time to do it properly, and can certainly be a tax saver under the right circumstances. Many dealers have already done this many years ago, so it is nothing new. However, some RFCs have been created by used car dealers just so they can reduce or defer the reporting of income and thus save income taxes. If that is your only reason, you are probably in for a bumpy ride with IRS.

According to a recent IRS publication on the practice of auditing car dealers, there are three main categories that should be examined when looking at an RFC:

Economic Reasons, Validity, and Economic Substance.

ECONOMIC REASONS

Provide a credit source for customers. Many customers have little or bad credit and need an alternate finance source. An affiliated loan company can answer this need while focusing the collection function away from the dealership itself, which relieves the sales personnel from a task that is often time consuming. Another valuable reason for forming a finance company is credibility. If a posting to a credit report about a borrower lists a credit record from a buy here/pay here dealer, it lacks a certain flavor of respect in the eyes of those who read it. But, if it lists a finance company, even an RFC, it looks better in the eyes of other lending institutions who may lend money to your customer in the future. Your customer should be made aware of the value of this service to him and let him know that you will report his good payment patterns to the credit service (or bad payment patterns).

Improve the collection of accounts receivable. Payment schedules may often be on a weekly or bi-weekly basis coinciding with the borrower's pay-day and many ordinary finance sources will not permit such payment schedules. An RFC can significantly enhance the collection of accounts receivable by permitting convenient pay dates as a convenience to the customer. And, by requiring the borrower/buyer to remit payments to a third party, even though the third party is related to the dealer, it improves collections. It has been the industry's experience that when payment is made directly to the dealer, a bad experience with the car often leads to a default on the note for the car. This, in turn, creates a collection problem, and possibly a publicity problem for the dealership. On the other hand, if an RFC is involved, experience shows that the customer is less likely to default on the payment.

Prevent adverse publicity on repossessions. Repossession and collection problems are a daily fact of life for buy here/pay here dealers. Creation of an RFC permits a new entity to undertake these actions, and thereby insulates the dealer from bad publicity. The customer, and most of his friends, would probably shy away from a dealership who took "poor old John's" car just when he lost his job and needed it most. Maybe you don't want John's business again anyway, but you probably don't want to lose all his friends too.

Remove the financial risk of default. The industry deals with a customer base that generally has poor or non-existent credit. The default rate on buy here/pay here notes is substantially higher than on general bank loans. A separate RFC removes the financial risk from the dealership entity and transfers it to the finance company where it can more adequately be handled and allowed for through reserves and other accounting practices.

Diversification of ownership. Since the financing of used cars is not inherently a part of a dealership, an RFC permits the dealer to begin another company and allow ownership in that specific company to both family and non-family members without diluting ownership in the dealership. This allows the dealer to separate the two businesses and reward certain employees or other individuals with an ownership interest in a segment of the business.

Finance other dealer's customers. An RFC can be expanded, if desired, to finance unrelated receivables from other dealers as well as those of your own dealership. There is nothing stopping an RFC from functioning like any other normal finance company.

VALIDITY

It is extremely important as to how an RFC is structured and operated. Since the purpose of the RFC is to isolate liability or segregate transactions in a separate entity, the RFC should meet reasonable criteria that identifies it as a separate, valid business. Thinking of the RFC as simply a collection mechanism for the dealership is a grave mistake and should not be taken lightly.

The RFC should be a separate, legal entity. A separate business entity should exist for each of the two companies. They may or may not have the same ownership and officers.

The RFC should meet all licensing requirements. In Florida, for example, both the car lot and the RFC need separate finance licenses under Florida Statute 520. The dealership needs a "Retail installment Seller's License" and the finance company needs a "Sales Finance License". Check your state's laws for licensing rules.

The RFC should be adequately capitalized. Each deal (loan) should be treated separately and should be sold (assigned) from the dealership to the finance company. IRS will pay special attention to this activity and if the sale of the loan contract is nothing more than a Journal Entry in the General Ledger at the end of the month, there may be problems. Write a check to satisfy the purchase and show a trail of activity.

The RFC should have its own employees. The RFC should have its own employee(s) and compensate them directly. However, the fact that the RFC and the dealership may elect to use a common paymaster does not indicate, in any way, that the RFC does not have its own employees. Just be sure that at the end of the month money changes hands to compensate the "paymaster" company for any pay checks issued to RFC employees.

The RFC should obtain and maintain all appropriate local business and similar licenses. Be sure to get a separate occupational license for the RFC along with the appropriate finance license. Likewise, state and federal tax forms should be filed separately for the two entities

The RFC should have a separate Address and telephone number. Both companies may occupy the same office space, but common sense says that there should be separate identification of the two businesses. Separate phones are a good start. A separate mailing address or PO box should be maintained. It is common for the RFC to have an office at the dealership but some separation of work space should be attempted. Even though the two entities are separate, certain office equipment such as faxes and copy machines may be shared. But, even here, it is wise to allocate some sharing of expenses in your ledger.

The RFC should maintain a separate set of books and records. Generally an accountant will help you with this. Normally, the dealership is setup on an "accrual" method of accounting and the finance company on a "cash" method. This can lead to one of the more obvious benefits to an RFC, so don't treat it lightly. Get some knowledgeable help from an accountant.

The RFC should maintain separate files. If you would send any other third-party finance company a copy of the car sale file, then give your RFC the same thing, and let it maintain this as a separate file.

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The RFC should comply with all title, lien, and recordation rules. The RFC should be named as the lienholder of titles, and the sales agreements should indicate that the vehicle was sold in the name of the dealership. The Retail installment contract should be entered into in the name of the dealer and then assigned by the dealer to the finance company. Any liens applied to the contract should be in the name of the RFC. An agreement should exist between the dealership and the RFC listing all terms and rights of each party.

The RFC should notify customers of the purchase of their notes. Be sure to automatically send a notice to your customers informing them that the loan has been reassigned to the finance company. It just makes good sense to advise the customer that his account is now owned by a finance company instead of your dealership. Once more, we want to establish that the two companies are separate.

The RFC and the dealership should have a written purchase contract for the receivables. The agreement must comply with the appropriate state laws and provide evidence of how the Fair Market Value of the receivables was determined.

ECONOMIC SUBSTANCE

Sales of receivables must have economic substance. To qualify for tax purposes, valid business reasons alone are not sufficient. Fair Market Value (FMV) must exist to show that the values dealt with are representative of what occurs in the industry in a competitive market. If you just arbitrarily set a price, you are probably not going to be able to show FMV and may find that your RFC is denied. The FMV of a receivable or group of receivables will depend on a number of factors, the facts and circumstances of each receivable determining the importance of each factor. A little research (phone calls and inquiries) will tell you what kind of rates are being quoted by other companies who specialize in "buying paper" from car dealers. You do a similar activity, and you should be able to pretty well defend yourself if challenged.

Depending on the facts and circumstances of each dealership, the RFC should be a valid business and should be respected as a separate entity. The issue will be resolved based on the particular facts and circumstances of each taxpayer. A dealer can use an RFC to discount its receivables and have it accepted for tax purposes. Accordingly, the importance of fully developing your RFC carefully cannot be overstated.

**We'd like to hear from you.
Please contact us and let us know how we are doing.**

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