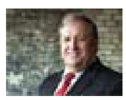
Volume 112, No. 9 May 11, 2015

May 19: Gillrie, BBQ for Troops boot camp



Paul Gillrie, founder of the Gillrie Institute and a CATA Recommended Consultant, will appear at the CATA to discuss how dealers can dramatically reduce their technology expenses and get the right systems for the best possible price and terms.

Also, a roundtable discussion on hosting a successful July 18 barbecue fundraiser for the USO.

Upcoming DealersEdge webinars

The Chicago Automobile Trade Association has established a partnership with DealersEdge to provide high-quality training and informational webinars that offer the content to CATA member dealers at a significantly discounted rate.

The rate for CATA members for the weekly presentations is $149, half what is charged to users who do not subscribe to DealersEdge. Webinars premiere on a near-weekly basis.

Even for dealers who hold an annual membership with DealersEdge, the new relationship with the CATA represents a savings because DealersEdge offers its Webinars to its own members for $198. Regular annual membership fees are $397, and normal webinar fees are $298 for non-DealersEdge members.

Once purchased, DealersEdge webinars and accompanying PDF files can be downloaded and viewed later—and repeatedly. No matter how many people watch at your location, each connection costs a CATA member just $149. A telephone connection is not needed; and the fee includes both PowerPoint slides and audio.

To register for any of the DealersEdge webinars, go to

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BBB: Warranties that dealers pay for must also be charged for

By Patricia Kelly
Better Business Bureau

The Better Business Bureau's Chicago office has become aware of numerous dealers offering their own warranties included in the prices of new and used vehicles they sell.

There are strict limitations on these programs to ensure that such offers do not become "free prizes, gifts or other incentives" which are prohibited by Section 475.590 of the Illinois Administrative Rules on Motor Vehicle Advertising.

Of course, as a first step, dealer warranties cannot be advertised as "free" as set out in Section 475.590 (c). These programs are generally not offered as "free" but as included in the purchase prices of vehicles.

Dealer warranties must also be offered by dealers as programs entirely born by dealers to remain consistent with Section 475.590. No insurance or service contracts can be bought by dealers to

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Carmakers studying why drivers ignore automobile recall notices

A top lobby group for automakers will poll drivers to learn why many vehicle owners ignore auto recall notices alerting them to safety issues.

The Washington, D.C.-based Alliance of Automobile Manufacturers said in late April that it is contracting with Republican pollster Bill McInturff to research the factors that motivate drivers to take their cars in for repairs after recalls. The average completion rate of recalls currently is 75 percent.

The survey comes as the industry faces a probe by federal regulators on their

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Webinars

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www.cata.info. On the tan bar across the top of the screen, click on Education/Careers and follow the drop-down menu to CATA-DealersEdge webinars.

Premiering Thursday, May 21 at 12 p.m. CDT

"Sales Managers: 5 Surefire Quick Fixes for Immediate Profit Improvement" Learn the Top 5 improvements that most sales managers can employ today to grow the bottom line — right now! The Low-Hanging Fruit is just begging to be picked!

This session is specifically for sales managers!

Just about every industry expert and consultant has a list of go-to items to employ to immediately bring additional profit to the bottom line. In this series of workshops, our experts will outline for you the 5 Top Fixes that are almost always easy to employ, providing immediate positive results.

Join Steve Nickelsen as he reveals his Top 5 Fixes for Sales Managers from all variable departments. You will learn:

• how to increase the number daily appointments from salespeople

• how to increase prospect sales efficiency from sales calls and Internet leads

• how to increase the percentage of first time showroom prospects that buy

• how to maximize the number of unsold prospects that return to buy

• how to find more used cars that will sell on your used car lot

Premiering Thursday, May 28 at 12 p.m. CDT

"BDC Managers: 5 Top Sure-Fire Bottom Line Builders" Learn the Top 5 improvements that most BDC managers can employ today to grow the bottom line—right now! The Low-Hanging Fruit is just begging to be picked!

Just about every BDC expert, trainer and consultant has a list of go-to items to employ to immediately bring additional profit to the department's bottom line.

In this series of workshops, our experts will outline for you the 5 Top Fixes that are almost always easy to employ, providing immediate positive results.

Join Joni Stuker as she reveals his Top 5 Fixes for Business Development Managers. You will learn:

• how failure of "immediacy" kills the conversation

• the 4 Steps of Verbal Prospecting most miss

• how lack of contact detail derails many a sales opportunity

• who are the "Influencing Parties" and why they are important

• how most are losing sales by not changing the conversation when a lead grows cold

Recall

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efforts. The National Highway Safety Administration is preparing to host a forum on boosting the completion rate of repairs for faulty car parts after a series of widespread recalls roiled the U.S. auto industry last year.

The auto manufacturing group's president, Mitch Bainwol, said that figuring out how to boost the response rate of drivers is the key to increasing the number of completed auto repairs.

"We want every consumer who gets a recall notice to take his or her vehicle to be repaired," Bainwol said. "It's important for us to fully understand what the critical first step is to motivate more people to bring in their vehicles for service.

"We know that vehicle age seems to be an important factor, but little research has been conducted on consumer attitudes to recalls," he added. "We can only speculate on why consumers who receive multiple notices do not repair their vehicles for free, so learning more about consumer perspectives is imperative to increasing the program's effectiveness."

Warranties

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cover consumer use of the warranties. Such programs cannot include third party administrators paid by dealers to operate the programs. If they do, the warranty programs will violate the rule.

The BBB would like to remind dealers that, while dealer warranties are allowable and good for consumer sales, dealers cannot pay any third party companies in connection with their warranty programs if the programs are included in the prices of vehicles.

The BBB sends letters to dealers asking about the terms of their warranty programs to make sure that all dealers are offering their programs consistent with Section 475.590. Dealers can expect to receive such letters asking what company supports the warranties.

The BBB wants to ensure that all dealers comply with these limitations so that dealers are competing fairly with respect to such programs.

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Review past editions dating to 1998 or search by subject at www.cata.info/publication/bulletins.

David E. Sloan President, Publisher
Erik K. Higgins Editor, Director of Dealer Affairs

WaPo gives Warren 4 Pinocchios on repeated dealer reserve claim

Editor's note: Glenn Kessler, a reporter for the Washington Post, has a recurring column, "Fact Checker," which uses a Pinocchio rating system to measure the accuracy of statements made by politicians and others. The following column appeared in the newspaper's May 5 edition.

By Glenn Kessler

"One study estimates that these auto dealer markups cost consumers $26 billion a year. Auto dealers got a specific exemption from CFPB [Consumer Financial Protection Bureau] oversight, and it is no coincidence that auto loans are now the most troubled consumer financial product. Congress should give the CFPB the authority it needs to supervise car loans — and keep that $26 billion a year in the pockets of consumers where it belongs."

Sen. Elizabeth Warren (D-Mass.) speech at the Levy Institute, April 15, 2015

Sen. Warren has long objected to Congress's decision to exempt automobile dealers from the Consumer Financial Protection Bureau, which she helped set up as an adviser to the Obama administration. In a recent speech, she indicated that she will push Congress to eliminate this exemption and allow the CFPB to supervise loans made by car dealers.

We take no position on whether this is necessary — or whether auto dealers should be barred from arranging loans — but we did become curious about a statistic that Warren has frequently cited — that "auto dealer markups cost consumers $26 billion a year." She referenced a 2011 report released by the Center for Responsible Lending (CRL), which describes itself as a nonpartisan, nonprofit organization that fights "predatory lending practices."

How accurate is this $26 billion figure and is Warren describing it correctly?

The Facts

Buying a car often involves two negotiations — the price of the car and then interest rate for the financing. (There can also be a negotiation over the value of a trade-in.) Consumers can come into a dealer with a pre-approved annual percentage rate (APR) from a lending institution, such a credit union, or they can get financing from the car dealer. The dealer typically will send an application to various lenders to get quotes. In that case, the dealer acts as a broker.

Whether someone would get a better rate from the auto dealer is open to question, since dealers expect to get paid for their work in arranging the loan. That compensation is known as the "dealer reserve." But you can haggle over the rate from the auto dealer. "Try to negotiate the lowest APR with the dealer, just as you would negotiate the best price for the vehicle," the Federal Trade Commission advises.

The dealer has the option of adjusting the APR (to below a bank's APR) by reducing its compensation in order to facilitate the sale. Dealers also may tout low or even zero percent financing offers for certain model cars. At the same time, that dealer discretion may result in higher rates for people with poor credit (or who do not negotiate well). Consumer advocates and academic studies also say there is evidence of racial disparities in rates that are offered. We are not defending auto sales tactics, but wanted to examine how this $26 billion figure was reached.

The CRL report is based on 2009 data, in the depths of the financial crisis, and has not been updated. Although the report says that the "total rate markup volume" was $25.8 billion, it does not fully explain how that figure was calculated. A chart in the report says the key information about the dealer reserve was derived from annual survey published by the National Automotive Finance Association, which is a membership organization of lenders who specialize in "subprime" loans to people with poor credit.

That's right. This is data on the subprime market, a fact which CRL does not disclose in its report. CRL took the data and applied it to the entire auto loan market, even though subprime loans were only one-fifth of the auto-loan market in 2009. Moreover, just 25 of the 175 companies that were in the subprime auto loan market at the time participated in the survey. Four respondents were deemed "large" lenders with more than 80,000 loans outstanding, while 10 respondents had fewer than 10,000 accounts. (In fact, only one company that answered the survey is one of the top 20 lenders.)

"The [NAF] report has never purported to represent the entire auto financing industry," said Jack Tracey, the group's executive director. "The 2010 survey reported data from only 25 companies, all in the non-prime financing space, and it would be incorrect to extrapolate such a small sample size to the entire auto financing market."

Christopher Kukla, CRL senior vice president, acknowledged that the data used in the report is incomplete. "One thing I will say is that the amount of publicly available data is minimal," he said. "We would be the first to admit that it is not a perfect data set."

But there's a bigger problem. The numbers in the CRL report do not match up with the numbers in the NAF survey. The CRL report says the average markup per used car loan was $780, but the NAF survey says it was $280. For new cars, CRL says $494 but the NAF survey lists $477. CRL says the average reserve was $714 but NAF survey says $330.

We won't bore you with the math. But calculations based on the data for auto-financed sales in the CRL report and the stated NAF survey estimates for dealer reserves yields a figure of $11.6 billion, or less than half the figure in the report. That may seem like a big number, but remember, it's based on data that is a sub-

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Chrysler gives dealership workers free college tuition

Yet another major company wants to send its workers to school.

Fiat Chrysler Automobiles said May 4 that it plans to offer free college tuition to the 118,000 workers at its Chrysler, Jeep, Dodge, Ram and Fiat dealerships across the United States.

The move comes a month after Starbucks expanded its online college degree program with Arizona State University, allowing its baristas to study for four years for free. Chrysler also joins McDonald's, which earlier this year offered to help pay college tuition for workers at its 14,300 U.S. stores.

Chrysler's program is the result of a partnership with Strayer University, a private, for-profit college that offers online classes. The company said it hopes the free tuition will transform it into a more attractive place to work.

"Our goal is to position our dealer network as the 'employers of choice,'" Al Gardner, the Chrysler brand's chief executive, said in a statement. "Our collaboration with Strayer demonstrates our focus on building our dealers' hard-working employees' skill sets to help them perform at an optimal level while also investing in their long-term success."

While dealership employees can take Strayer classes online, they also can attend lessons at the college's Virginia campus or one of its 76 satellite campuses, mostly around the Southern United States. Strayer CEO Karl McDonnell said he expects an even mix of students online and at physical locations.

"I suspect we'll get a healthy blend of both," he said. "We're somewhat agnostic as to the modality that students choose."

Employees need to have worked at a Chrysler dealer for 30 days to become eligible for the free tuition, he said.

The program, dubbed Degrees@Work, will be rolled out in phases, starting in the southeast. Employees at dealerships in Florida, Georgia, South Carolina, North Carolina, Alabama and Tennessee can now enroll.

McDonnell said that each participating dealership will pay a flat fee, no matter how many employees at each choose to attend Strayer classes. It's unclear how much the fee will be.

For-profit colleges have come under heightened scrutiny in the wake of a scandal surrounding one of the largest career school chains in the U.S., Corinthian Colleges Inc., which, also on May 4, filed for bankruptcy after allegedly misleading investors about its finances and students about job placement after school.

However, a 2012 Senate report on the for-profit education industry called Strayer "one of the best of any company examined."

Strayer operates a robust corporate alliances program, which partners the college with companies looking to give education benefits to employees. McDonnell said about a quarter of the school's students come from Fortune 500 companies.

"These companies would not be sending us more and more -- hundreds, in some cases thousands of employees -- if they didn't feel that the education was strong," he said, adding that Strayer supports tighter regulation of the for-profit college industry.

Chrysler isn't the only automaker giving its employees a boost. Volkswagen is expanding a three-year vocational program at its Chattanooga, Tenn.-based plant that trains employees to work high-skilled jobs on the assembly line. The German company based the course on apprenticeship programs in its home country.

Pinocchio

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set of a subset of the overall auto loan market, so it's practically meaningless.

Even more curious, the CRL report asserts, without explanation, that the markup volume increased 24 percent from 2007 to 2009. (Kukla says the 2007 figure was based on a different data set, from the Consumer Bankers Association.) But the NAF survey shows that from 2007 to 2009 the average dealer reserves declined 24.9 percent for new vehicles and 23.3 percent for used vehicles.

Yet even if the $26 billion number were credible — which it is not — Warren incorrectly characterizes it. She claimed that the study showed "auto dealer markups cost consumers $26 billion a year." But Kukla acknowledged that this figure includes compensation for dealers who arranged the loans for car buyers.

"We are careful to say that, yes, this included compensation that is likely to be fairly gotten," he said. "It is fair for dealers to get compensation for the work they do."

A Warren spokeswoman declined to provide an on-the-record response.

The Pinocchio Test

There are enough warning flags in the CRL report — such as its lack of transparency on how the $26 billion number was calculated — that would have given a close reader pause. The group that produced the report said that figure includes reasonable compensation owed to car dealers. She earns Four Pinocchios.