

**12 STEPS.....  
HOW TO GET A  
DEALER LICENSE  
AND OPERATE  
A PROFITABLE  
USED CAR  
BUSINESS**

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**2021 Edition**

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HOW TO GET A  
DEALER LICENSE  
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USED CAR BUSINESS  
2021 Edition**

22nd ANNUAL EDITION  
Don Massey Consulting Inc

Don Massey Consulting Inc  
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From a Declaration of Principles jointly adopted by a Committee of the American Bar Association and a Committee of Publishers.

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## **12 STEPS TO GET YOUR LICENSE**

THERE ARE MANY HELPFUL LINKS IN THIS MANUAL. YOU SHOULD BE READING IT ON YOUR COMPUTER OR INTERNET CONNECTED READER SO YOU CAN REFER TO THE HELPFUL LINKS WHILE READING.

Here are the twelve steps to obtain your dealer license. This is a quick introduction. The rest of the manual will describe in detail each step. Don't get overwhelmed. You'll have a good understanding when finished.

### **Application**

You need to request or download an application packet from your state.

### **Fees**

There will be an annual/bi-annual fee for the license. The state may have a filing fee for the dealer application. Other fees may be added, as per state laws, such as annual fees for dealer plates. These fees are explained on the website and in the application packet.

### **Background Check**

A fee for the background check is usually required. A question asked is, will a felony or misdemeanor stop my chance of getting a license? Each state has different rules on the licensing of individuals with convictions. This type of information is not on the state's website. You will need to call the contact telephone above to about your individual situation. A conviction will not necessarily stop you from getting a car dealer license. Don't give up now. Call and ask! The background check may require a fingerprint submission. Your state's dealer licensing website will explain the procedure and fees.

## **Liability Insurance**

Garage liability insurance. This is insurance coverage for the vehicles in the dealership inventory or for owner's vehicles having repair work being done at the dealership

## **Surety Bond**

A bond is to protect the public from the dealer. If the state/consumer files a claim against the dealership, and the dealer is found to be at fault, then the surety (bonding) company will pay the claim. The dealership will have to repay the bonding company for the claim.

## **Business Location**

The business location must meet the requirements of the state/city or county for the license to be issued. These requirements will be included in the application packet. This will be the most difficult part of getting your license. The location may be owned or leased.

You will also need to contact your city or county to see if there are zoning requirements for your vehicle sale business.

You may be required to submit photos of your location with your application. Some states will require an investigator to visit and inspect before giving final approval for the location.

Your residence WILL NOT satisfy the requirements unless it is zoned commercial.

You cannot sell vehicles from your home or a Wal-Mart parking lot.

## **Class/Exam**

Most states require the attendance of a class and the passing of a test. The reason for the classes and/or exam is to ensure that applicants are aware of the laws and regulations of a vehicle dealership. The class/exam must be satisfied before an application is accepted.

## **City Business Licenses/Zoning**

Cities may require individual business licenses and/or tax certificates. Contact your city and/or county for details of any requirements for business and tax certificates. Contact your city zoning commission for your business location approval

## **County Business Licenses/Zoning**

Counties may require individual business licenses and/or tax certificates. Contact your county for details of any requirements for business and tax certificates. If you do not live in the city limits of a town, then contact your county zoning commission for your business location approval.

## **Statement of Financial Condition**

A few states require a complete personal financial statement giving a listing of assets and liabilities.

## **Incorporation Documents**

If your business is incorporated, you will be required to submit copies of the Articles of Incorporation.

## **Qualified Alien Status**

If a none citizen, you will be required to provide current immigration documents showing qualified status and Alien number.

## **Disclaimer**

The above list is general in details required for an auto dealer license. It is an overview of rules and laws for the 50 states. Because the details of the rules and laws regarding dealer licensing may change at any time, in any state, it would be impossible to keep an updated list of the rules/regulations of every state on every day.

As a potential licensee, you must become familiar with the DETAILS of the rules and laws in your state. A responsible dealer will know them because they

impact daily business decisions. Obtaining an auto dealer license is more than filling out an application.

## HOW TO GET YOUR DEALER LICENSE

First, I want to thank you for ordering this manual. You will find it a helpful introduction to starting a used car business. Also, if you have received my other manuals on wholesaling or exporting, you may find duplicate information in each. This is because there are common issues across the three businesses. I wrote the individual manuals as stand-alone, so a buyer would not have to read all three if they were interested in just one business plan.

My name is Don Massey, and I'm a licensed wholesale dealer in Colorado. I have been involved in buying and selling cars for years. Many people ask me: "Are you "the" Don Massey?" I answer; "Yes, I'm THE Don Massy but not that Don Massey." Don Massey is a dealership that has many locations around the country, primarily Cadillac. Sorry to say that's not me!

### WHAT YOU'RE ASKING

I find there are generally three different types of interest in buying and selling cars.

**First:** you want to know how to open a used car lot.

**Second:** or your interest is in buying and selling a few cars a year as a part-time business.

**Third:** you want to know how you can go to a wholesale dealer only auction, buy a car and resell it for a profit. You want to know how to get an auction license to get into the dealer only auctions.

Let me clarify something right now. There is NO auction license. Dealer only auctions set the rules for access to their auctions; not your state. A bidder at an auction must have a dealer license to get into the auction. I will cover the details of this access later.

Dealer only auctions do not own the vehicles. The auctions are for wholesale sales between dealers, banks, and rental or leasing companies. The auctions cannot collect sales tax on the transactions. Dealer only auctions cannot sell cars to the

public. They do not have retail dealer licenses. Side note: There some dealer only auctions offering limited public auctions at some of their locations.

## **CAN I SELL CARS FROM HOME?**

Let me get brutally honest. In most states, it is very difficult, if not impossible, to buy and sell cars from your home. There are dealers selling from their homes because the home is in a commercially zoned area that meets the business requirements of their state dealer licensing rules. This is not the norm.

The licensing of dealers is to protect the interests of the consumer. Your state does not want people selling cars from homes and apartments. Joe Six-Pack would open a business (licensed), sell a few bad cars from his apartment, and disappear. The buyer would say, "I bought from this guy because he was licensed. Why isn't the state protecting me?"

Because of this potential nightmare for the consumer, the states have laws and guidelines that anyone, wishing to sell cars for profit, must follow.

Even with licensing, there are buyers who are defrauded every day by dealers!

The following is a listing of three months of fines and actions taken by the Colorado Motor Vehicle Board.

**Steven T. Stroud, dba Broadway Auto Sales-Denver - #36345** – defrauding any buyer/seller (6counts); fraudulent transaction; non-delivery of the title (6 counts). **\$180,000, FULL RESTITUTION, LICENSE REVOKED.**

**Thomas E. Fink, dba auto Finance Center LLC-Greeley - #4443** – defrauding any buyer/seller (9 counts); failure to honor check/draft to a dealer/wholesaler (2 counts); fraudulent transaction (9 counts). **\$105,000 FINE, 30 DAY SUSPENSION, FULL RESTITUTION (\$100,800, 11 DAYS SUSPENSION HELD IN ABEYANCE FOR 12 MONTHS PROBATION)**

**Francisco Angel-Zaragoza, dba Pacho's Auto Sales & Body Work – Henderson - #36308** – willfully violating any state or federal law respecting commerce or motor vehicles – To Wit: use of building/land in violation of

zoning Regulation M; material misstatement in an application of license. **\$10,000 FINE, LICENSE REVOKED (\$9,000 FINE AND REVOCATION OF LICENSE HELD IN ABEYANCE FOR CHANGE OF CLASS OF LICENSE FROM USED TO WHOLESALER, ATTEND LICENSING SEMINAR AND 1 YEAR PROBATION).**

**Marie D. DeHerrera, dba Amigo's Autos – Longmont - #37114** – failure to honor check/draft to a dealer or wholesaler (3 counts); fraudulent sale (3 counts); failure to perform written agreement (3 counts); failure to deliver title within 30 days. **\$100,000 FINE, FULL RESTITUTION, LICENSE REVOKED.**

**John Moxon, dba C.A.R.S. – Greenwood Village - #36578** – defrauding any buyer/seller (3 counts); failure to honor written agreement; fraudulent sale (3 counts); failure to deliver title (2 counts). **\$90,000 FINE, FULL RESTITUTION, LICENSE REVOKED.**

**Sammy Yu –Salesperson - #31900** – fraudulent business practice (4 counts), unfitness; unlicensed dealer - **\$6,000 FINE (\$5,400 HELD IN ABEYANCE FOR 2 YEARS PROBATION)**

As you can see, there can be problems in the auto industry, and the states have the legal right to take corrective action.

If you're not licensed to buy and sell cars and do it anyway, there may be fines and criminal penalties.

I want you to know this so that you won't be tempted to circumvent the laws of your state. In other words, don't buy and sell cars outside the laws of your state. If caught, the minimum criminal offense could be a misdemeanor in some states, a felony offense in others.

Educate yourself on the rules and statutes in your state. Do NOT believe what you read on Internet blogs, forums, and chat groups. Your state licensing department can help through its website or by telephone.

The laws are written to protect the dealers, too. Dealers can have hundreds of thousands of dollars invested in their dealerships. They do not want competition from Joe Six-Pack down the street selling from his apartment. So, they have used

their influence, by lobbying, to construct the regulations to include stopping individuals from selling without a license or obtaining a license to sell from their home. Selling without a license is called curbstoning. Visit this website for more information. [www.stopcurbstoning.com](http://www.stopcurbstoning.com) This site gives great info on buying/selling and licensing!

## **BUT I ONLY WANT TO SELL ON THE INTERNET!**

This is a common misunderstanding. I'll be asked, "Why do I need a license? I just want to sell on eBay or Craigslist. First, eBay and Craigslist are not locations. They are forms of advertising. How the product or service is advertised, whether it is cars, real estate, haircuts, or legal services, does not change the need for the provider to be licensed.

Let me clarify something here. Vehicle Dealers DO NOT SELL on the Internet. They ADVERTISE on the Internet. States require that vehicles must be sold from the dealer's premise. Again, the physical paperwork must be completed at the dealer's premise, not from an apartment or a Wal-Mart parking lot.

Of course, if a buyer from another state finds a vehicle advertised on the Internet, can they buy it? Of course. A practical question is why would they buy a vehicle without seeing and driving it? Again, the paperwork must be completed at a dealer premise and sent overnight to the buyer, for signatures.

And it doesn't matter if the buyer is in another state. You must be licensed in the state where the vehicle is located, and the transaction is taking place.

## **CAN I BUY AND SELL CARS PART-TIME?**

Now that I have your attention, does this mean you still can't buy and sell cars part-time?

First, some states allow a person to sell a limited number of cars a year without requiring a license. Find out what the limit is for your state. It varies from 0 to 12. But DO NOT assume that you can sell for a profit within that limit! Check your state licensing laws.

As an example, here is what the State of Georgia states on their website about their 5-car limit. But careful in "reading" your state's laws correctly.

**I thought I could sell up to five vehicles in a year before I had to be licensed.**

The “five cars per year” statement has been misinterpreted by many people. The origin of the “five cars” phrase is the Used Motor Vehicle Dealers’ and Used Motor Vehicle Parts Dealers’ Registration Act. O.C.G.A. 43-47-2 (17)(A) states that “...the sale of five or more used motor vehicles in any one calendar year shall be prima-facie evidence that a person is engaged in the business of selling used motor vehicles.” This means that evidence indicating that a person has sold five or more used motor vehicles in any one calendar year can be used to show that the person is engaged in the unlicensed practice of used motor vehicle sales. This statement should be read in its context and should not be misinterpreted to mean that a person may sell up to five vehicles in a year before becoming licensed.

Call your DMV dealer licensing group for an exact answer. I can't overemphasize this. Do not accept what a friend says, what you read on a forum or a website. Check with your state.

You may still be able to buy and sell cars as a part-time business with a license within the guidelines of your state. Let me show you how.

**You must think “out of the box”!**

Licensing requirements are usually the same in most states with some minor variations. Let's talk our way through a few of the common ones.

You are required to have a business location. When you read that immediately, you see a used car lot. Right?

**Think outside of the box!**

Can you satisfy your state requirements by leasing or placing a portable building on a small piece of ground leased for \$200.00 or month or how about on a farm or an old run-down business?

You or a relative may live in a rural area where the “place of business” can be located. Again, follow the guidelines of your state requirements, not what you think a car lot is supposed to look like. In this option, you will need to investigate the zoning laws for the property.

Here's an actual example of someone “thinking out of the box.” About three miles from my home, there is a licensed dealer. His business is in a business

condominium. Picture a rental storage area type business but larger. Each storage area is the size of a large garage with a height of 18-20 feet and inside dimensions of 20 X 40. Each unit has outside parking spaces. These are built to serve small contractors. Each has a small office in each and public restrooms serving all the rental units. This meets the State of Colorado requirements for a business location. His rent is \$500 a month.



You can find many low-cost commercial rentals on Craigslist that may satisfy your state's requirements for a business location

Can a used car business co-locate with another business such as an auto repair shop? Yes. Check the regulations in your state on co-location and the requirements.

I have an acquaintance that has his dealership in an older building that is co-located with a small garage and a barbershop. Yes, a barbershop. Each has its own

outside doors, signage, and parking spaces. It's in a commercial area of town. He deals with older high mileage pick-up trucks.



Can a dealer co-locate with another dealer? It may be possible. Check with your state.

You may find a small independent dealer licensed as an LLC corporation who may add you to his corporation for a monthly fee. This does not allow you to sell cars from your home.

Every state's rules are very clear; the sale must be made from the business location of the dealership. When you see dealers having "Special Sales" at malls or other locations away from their business location, they have applied for a temporary permit to do it.

Can I have the business at my home? In most cases no, but your city zoning and dealer licensing regulations may permit it.

Here is a dealer located at his home because it is zoned commercial.



As you read the other business requirements such as signage, the number of display spaces, hours of operation, think creatively.

Your business could be on a back street in your town with a chain link fence around it and a vinyl sign on the fence; if that all meets your state requirements. If you choose to sell primarily by the Internet, the location is not as important as it would be if you expect to get the most sales from drive-by traffic.

As a wholesale dealer, your state may allow you to put cars on consignment with a retail dealer. The retail dealer assumes all the responsibility for the federal and state rules and regulations. If you're not familiar with a wholesale dealer license and the wholesale business, it is explained in the manual "Used Car Wholesaler" you received with this one.

## COMMON QUESTIONS/ISSUES

I'm often asked what does it cost for a license? The licensing fee can be anywhere from \$50 to \$800 a year. Check your state requirements.

Do you have to have good credit? In most states, the answer is yes. In Colorado, the Licensing Board does a credit report (minimum score of 701), and the applicant must prove a net worth of at least \$100,000. Most states do not have minimum net worth requirements.

What is a bond? States require a surety bond. A surety bond covers losses to a consumer in case of fraud or poor business practices. It's an insurance policy for monetary losses. In Colorado, it's a \$100,000 bond, which I pay \$375.00 a year.

Shop around for your surety bond. I was paying \$500 a year to State Farm for mine but found an agency online for \$375. You can find ads in the dealer magazines and other resources in the section: "Invaluable Resources."

You'll be required to have liability insurance and insurance for the cars when on the road. This is specialized insurance. It's referred to as "garage insurance." Check with your home and auto insurance agent. If they don't write such policies, then ask for a referral to an independent agent that can give you a quote and write the policy. You can also find insurance brokers through your state's independent automobile dealers association. Insurance for my license costs \$1200 a year.

Most states do a background check. So, persons with a criminal history may not be approved for licensing. A felony conviction may be a reason, but the state looks at the type of felony committed. If you have this concern, call your state's dealer licensing board before starting the application process.

Another question I receive is how long it takes to receive a license? You should plan on a minimum of four weeks up to twelve weeks. Your licensing agency can give you a good faith estimate.

Most states require a course to be taken. Some states are now requiring an annual refresher course to be taken by all dealers. These courses ensure the dealers

are current on the most recent rules and regulations. For new licenses, there may be a test at the end of an 8-hour course, but it's usually an open book.

State licensing boards are allowed, in state's statutes, to set the basic operating guidelines and rules for the dealers. They may change them at any time to protect the consumer and business interests of the dealers. Here in Colorado, The Motor Vehicle Dealer Board publishes a monthly newsletter to keep us informed.

## **A WORD OF CAUTION – USING ANOTHER'S LICENSE!**

I receive calls all the time from people who ask me about deals they find on the Internet or locally, to use another's dealer's license to buy and sell cars.

As an example: I recently was called by a young man in Missouri inquiring about my manuals. He was buying and selling a few cars to make additional income needed to support his family. I asked him how he was doing it.

Here are his story and my concerns.

He had met a guy who has a dealer's license. He was attending the auctions with this "dealer." He would pick the cars he wanted. The "dealer" would bid on them and purchase the vehicles under his license. The caller then paid the "dealer" the price plus a fee of \$500 for each car. My caller would then take the cars home, sell the car to a consumer with Internet advertising, and make his profit.

I asked him how the title was being processed. He said that the title was still assigned to the dealer, and when he (my caller) found a buyer, the dealer would process the title work.

I told my caller he needed to check with the state to validate the legality of these transactions.

My concern was that since he's paying the dealer for the car plus \$500.00, so **he is the owner**. State laws require that title transfer to him must take place so the state can collect the sales tax. States don't like anyone to circumvent sales tax!

Not signing the title to a retail, non-dealer buyer, is called, in the business, an "open title" which is illegal in all states. When ownership, by the exchange of

money, is transferred from one person/business to another, the title must show this. One cannot “own” a vehicle without the title being signed over to the person buying it.

I explained to my caller that since I did not know all the exact details of the “legal” relationship with the “dealer” and the particular laws in the state of Missouri, I could be wrong. But the title work was a big “red flag” for me.

I strongly recommended he contact the state of Missouri for clarification.

## **RENT A DEALER LICENSE**

You’ll see web pages advertising, “Rent a Dealer License.” You pay a monthly fee and you are put on a dealer license in another state or in your state.

These offers of renting a license for a monthly fee will add you to their license. You will then be registered to attend dealer only auctions and purchase cars. As a dealer, you will be able to resell the car to the public.

Well, yes, BUT can you rent a dealer license?

Here are the roadblocks these companies don’t mention. They don’t lie; they just don’t tell all the facts.

You live and will be doing your business transactions (sales) in your home state, not the one you’re licensed. You cannot legally sell cars for profit in the state you reside without a license for your state.

Your dealer license is good to do business only in the state it is issued.

If the vehicle is located in your state, then your home state requires anyone **DOING BUSINESS** in the state to be licensed under the statutes of the state. Again, if the car is in your state and you are showing and selling the car in your state, then your state requires you to be licensed in your state. Period. No, if and or buts.

If you can rent a dealer license, why couldn’t you rent a contractor’s license or a beautician’s license?

Licensed businesses: car dealers, doctors, real estate agents, lawyers, contractors, etc., must be licensed IN the state where they are providing the service or product.

The Internet is not a place. Businesses advertise on the Internet; not sell. Protect yourself. Contact your state licensing agency before investing in these “rent a dealer license” offers.

Few dealers will take this risk to add individuals to their license. There are also risks for you, too.

It’s like a prearranged marriage; where two parties are joined together without knowing each other, but their future fortunes and losses depend on the actions of the other.

Here are some of the issues:

The money payment you make to the dealer every month could be used to invest in your own business, not his.

When you become a member of a business, you are subject to the rights and obligations of all the other members, most of whom you don’t know and never will.

The dealer could fail or close. Then you lose it all. Without a license, you cannot buy inventory nor sell any of the vehicles you have on hand.

If you have any assets in the business, such as pending sales, they could be tied up or lost in the case of a lawsuit against the dealer.

As there are more members added to the license, the less control you have, and your assets are at greater risk.

States require that sales of vehicles within its state’s boundary must be processed by a licensed dealer in the state where the transaction takes place.

And... all states require the vehicle to be shown and sold at the location of the business. So, if you happen to hook up with a dealer in your state, the car must remain at the dealership. It cannot be sold from your home.

## DEALER LICENSE FOR A MONTHLY FEE

There are Internet companies offering a license with an application fee and then monthly payments.

There are two programs usually offered by these companies. One is a wholesale dealer license. Check carefully on websites offering “dealer licenses.” The fact that it is a wholesale only dealer license may not be as obvious as it should be, i.e., the headlines on the website do not clearly state “Wholesale Dealer License.”

Having a wholesale license from another state will allow you to buy at every auction in the country but **does not allow you to sell “retail” in any state.**

It is important to understand that these companies are **NOT GETTING YOU A LICENSE.** They are only providing a location for your business in their state. You complete the application, pay the fees, and are liable for the laws of the state issuing the license and your state.

Here is a judgment of a \$25,000 fine for a person who lives in Downers Grove, Illinois. He had an Indiana wholesale dealer license located at one of the Indiana businesses that advertise on the Internet. He sold a car to a consumer on Craigslist in Chicago. There was a title issue, and the consumer reported him.

The state of Indiana did an investigation, and portions of the final report follow.

**Carefully read the Judgment and Final Order. Here they are**

### III. JUDGMENT AND FINAL ORDER

Upon consideration of the foregoing Findings of Fact and Conclusions of Law, the Commissioner now Orders, Adjudges, and Decrees the following:

A. Judgment should be and hereby is rendered in favor of the Division and against

Respondents Taylor and Grissom;

B. A civil penalty is assessed against Taylor and Grissom in the amount of

Twenty Five Thousand Dollars (\$25,000.00), which includes the costs and expenses of investigation;

As an interesting point, they were also violating the Illinois statutes of selling cars in Illinois without an Illinois retail license. Illinois, if it wished, could have also filed charges against them for selling retail without an Illinois license.

Before giving money to any of these companies, please check with the dealer licensing board in YOUR state to clarify EXACTLY what you can do, **in your state**, with the “license” these Internet companies are offering.

These companies have no responsibility for you violating the laws in Indiana or your state. They are renting you a business location. That’s it; nothing more.

They have no obligation to train you or inform you of the laws. You are the licensee.

The \$25,000 fine above cannot be dismissed with the excuse, “I didn’t know”.

These companies also offer “retail services.” You sell the car to a consumer, and they do the paperwork for a fee.

If you are “selling” the car, then the car must be located in the state where the license is located and shipped to your buyer in your state. These dealer licensing companies clearly state the requirements on their websites, but sometimes people get so excited about getting a license and see the retail option, they don’t read all the details. Here is an excerpt from one of these dealer license websites.

*“Retail is a service we maintain for our dealer clients only. They are wholesalers. We hold a retail license at our facility specifically and exclusively for this purpose. We do all the paperwork and supply a temporary plate. The fee per transaction is \$100. Unless we are provided with a “Bill of Lading” from a transporter stating the vehicle was picked up at our property and shipped to a location out of state, the buyer and vehicle to be sold, must come to our property, and we collect Sales tax.”*

So, this retail option is not a viable one unless you live in the license’s state because the car must be in that state when sold to the consumer. This company has a license to sell cars located in that state, not cars located in your state.

Another state’s wholesale license IS NOT a viable option even if you are going to buy and sell wholesale only. It would be less hassle and cheaper to get the wholesale license in your state if it is offered.

**Update:** The State of Indiana has recently cracked down on these schemes to get a license. Here is a quote from Indiana's Secretary of State's website.

***Wholesale dealer operations must be conducted from the licensed location. For purposes of this document, wholesale dealer operations do not include ministerial tasks, mail forwarding, telephone answering arrangements, and similar tasks not constituting substantive business functions.***

***Wholesale dealers, please note additional information regarding your Indiana business location and the new wholesale dealer plates. New licenses will be denied unless the use and occupancy of your identified Indiana location are made clear at the time of application.***

To clarify, Indiana is saying you must be in the office in Indiana, not have an office to do tasks like mail forwarding and having a desk while all the work of the business is done in your state.

**Latest Update:** Indiana cancelled the issuance of wholesale dealer license as did the state of Washington. Both because of the issues of people using the wholesale license to sell to the public.

## **A FINAL THOUGHT**

So finally, how to get your license? It's a process.

As I mentioned on my website, it's NOT about getting a license. It's about understanding what the business is about. And that's what this chapter and the rest of the manual address.

First, you need to call or visit your Department of Motor Vehicles, Dealer Licensing Division website. Ask them to send you a dealer's licensing package. This package will contain the application forms and information on the licensing requirements for your state.

**WARNING... BEFORE YOU SIGN ANY CONTRACT WITH AN ON-LINE DEALER LICENSE SERVICE..... UNDERSTAND WHAT SERVICE YOU ARE BUYING AND CONTACT YOUR STATE DEALER LICENSING GROUP TO VERIFY THE LEGALITY OF USING THE SERVICE IN YOUR STATE.**

## **THREE SUCCESSFUL USED CAR BUSINESS MODELS**

### **FIRST MODEL**

The first is the one, I previously mentioned, has his dealership in a contractor condominium. By doing this, he can sell on the web without all the overhead costs of a typical car lot. He found a location that fulfills the state's requirements, but it does NOT look like a lot.

This model is the best one if you want to sell a few cars a month. The success of this model is **completely dependent** on finding a location that meets the state requirements- nothing more, nothing less.

Another option with this model is to co-locate with another business, which was given as an example on page 15.

### **SECOND MODEL**

The second is based on a small dealership which has been successful for over 12 years. I will summarize at the end what can be learned from this example.

This small lot is in a city with a population of 65,000 and a metro population of 165,000.

He is located on the "car strip" in his town with other new and used car dealers. Because of how he has built his business, he is considered the go-to dealer for older low-cost import cars, SUVs, and trucks.

The owner started the business over 12 years ago and has been successful enough that he is self-funded. He now has enough cash reserves, so he does not need financing or a floor plan to purchase his inventory.

He has an inventory level of 20 to 25 vehicles. He only sells Toyota's, Honda's, Subaru, and Nissan's. 80% are cars, and 20% are SUVs and trucks. The age of vehicles is 8-12 years. The average age is 10 years. The mileages average 125,000. His SUVs will average 150,000 to 175,000 miles. His high-end priced vehicles are the SUVs and trucks.

There is nothing over \$9995 on his lot. Most are priced from \$3995 to \$6995.

In a good month, he will turn 10 cars a month with an average profit of \$1200 to \$1500.

His repeat customer sales are 30%.

The number of customers who have asked to return a car in the ten years is three. He reconditions the vehicle before selling.

He has one part-time salesman, commission only.

He does not provide financing except through a small credit union. His sales are 95% in cash.

So, what can we learn from this successful dealer?

You must determine the marketplace you are going to target in your area.

Your dealership can't be all things to all people.

He chooses Japanese cars because of their reputation for dependability. He knows that a Toyota with 125,000 miles that looks good will be appealing to low-cost buyers who cannot buy on credit but can buy for cash in his price range.

He also knows a Japanese car with 125,000 still has many more miles of use. That's the reason he has had only 3 returns in 10 years.

By doing this, he has built a solid reputation of the low-cost foreign car dealer in his area.

By specializing in particular brands and ages he knows, from experience, without using a blue book or the Manheim database what he can afford to pay for a

car. He knows the models and years to avoid. He knows common mechanical issues and recalls for each of his brands and years.

He has been frugal in his business. He used his profits in the good times to pay for his location. He has saved a cash reserve, so he is not dependent on a bank or a financing institution in order to buy cars. He saves the cost of financing his inventory. This cash reserve and a building investment is a large portion of his retirement planning.

**This dealer doesn't buy the cars he likes. He buys the cars that sell.**  
Remember this!

He has a friend who had a lot just a few miles south of him. This dealer was successful during the good times. He always bought cars he liked and those sold well during the good times. They were higher priced vehicles. When the economy went sour, he did not change his business model, so the economy closed his shop.

Back to our model; this small dealer has no on-site service but contracts out his reconditioning. I'll discuss reconditioning later.

Location, location, location is very important. He is on the strip with other dealers in town.

I like this business model because it offers a low-cost entry into used cars, even selling just a few each month. I know of other dealers who sell only older pickups. There are others who sell high-end vehicles 1-5 years old.

### **THIRD MODEL**

The third is in a city near me. He has been in business for over ten years.

His city has a 140,000 population. There is a 275,000 population in the metro area. It is a university city with a high average income – median family income \$59,000.

He sells cars from 0-4 years old. His sales are Mercedes, BMW, Lexus, Toyota SUVs, Honda, and Hyundai. The models he deals in are the high-end versions, low mileage, and top quality cars.

Prices range from \$21,000 to over \$40,000. He provides financing services for his buyers.

He has a small on-site service center. He does his own reconditioning. He is located near two other large franchise dealerships.

This dealership has an excellent reputation for selling high end, slightly used, quality vehicles. His customer is the professional, who wants a low mileage BMW, Lexus, Mercedes, or large SUV, quality car. His buyers don't want to buy new.

They are the "smart" buyers who can afford new but understand it's a waste of money to buy new.

What we learn here is again, the choice of a market niche. Not trying to be everything to everyone.

In these examples, we find dealerships serving the low end and the high end. Each one knows how to be profitable and reputable in his market.

## **RECONDITIONING CARS**

Getting a car ready for sale is an absolute requirement. In the three dealer examples, one had his own repair shop. I do not recommend this for an independent dealer until the sales volume can support the costs of an on-site service center.

The reason for my reluctance is when you open a service center; you're opening another business that is completely different than a used car business. It must be managed, staffed, and made cost-efficient. It must be busy 40+ hours a week. It must provide service and repair for the general population, not just to customers who have purchased vehicles from the dealership.

It is my opinion, contracting out your service prep is a better option.

If you shop around or ask you can find a mechanic/garage that provides reconditioning to dealers at a reduced labor hour rate and wholesale pricing of parts.

You must check out each car you purchase for needed repairs. An inspection checklist is an absolute necessity. Each car is prepped for sale by using this checklist. See checklist at end of book.

You want to ensure that the buyer will be happy with the car. I know my biggest emotional disappointment with my personal car has been a dead battery or a flat tire. So, I would consider putting a new battery and new tires on each vehicle. Of course, this must be considered in relation to your profit margin on a car.

You can also pay to have your car reconditioned at some auctions. This may not be cost-effective. It's cheaper to contract a small local garage to do your reconditioning. Or, if you have the mechanical skills, you can do it yourself.

I know of dealers who purposely buy cars in need of a paint job or have minor body damage. These cars sell for low prices at auction, and if all that is needed is paint, the car may be worth purchasing. As a dealer, you can negotiate lower prices at paint and body shops than a consumer since they will want your repeat business.

In the Appendices, you will find a comprehensive 100 and less detailed 110-point reconditioning and inspection checklist. You can also do a Google search for "100 or 75-point inspection checklists". You'll find several that you can use as a pattern to develop your own checklist.

## **BUT FIRST!**

Since 1996 vehicles have included on-board diagnostic tools. If the vehicle's "system" detects anything is out of spec, it sets a "trouble code". These can be monitored by an OBD diagnostic car code reader. When this code is set, the check engine light is turned on. This means you can hook up the OBD diagnostic car code reader to see what the problem is.

The reader must be plugged into the OBD system. This is usually done through a connector under the dash near the steering wheel column.

There are now ELM327 connectors which are Bluetooth based. They can send error codes to an app on your cell phone. These apps provide more detailed info than the older car code readers.

These tools can give you information about major vehicle problems that could be missed through the usual visual inspection procedures. Do a search on YouTube to view videos of these great tools. Search for ODB car code readers and ELM327. The ELM327 tools give you access to repair reports through the app and databases of over 6.6 million vehicle specific diagnostic reports.

After you decide the best one for your use, they are available on Amazon.

## **STARTING A USED CAR BUSINESS**

What are my chances for success? There are no guarantees, but studies have shown that careful planning and objective evaluation will increase your chances for a successful business.

The first question asked is how much money can a used car dealer earn?

### **Each year the industry sales/profit results change.**

Cox Automotive publishes Industry provides current reports. Those provide an overview of economic indicators, supply, demand credit, and other industry trends. Here is the link:

[Cox Automotive Industry Update Report](#)

“Buy-Here-Pay-Here” lots are much more profitable, but they deal with poor credit buyers, and repossession rates are as high as 40% with a projected average being 22%. Also, failure rates for these lots are extremely high. As many as 70% of start-ups fail!

I don't recommend you consider opening a Buy Here – Pay Here lot for your first car business. It's a risky endeavor and takes a large investment to start. Most banks will not provide loans to support a BHPH lot.

As a BHPH lot owner, you are the lender, and you have to be very familiar with the legal implications of both state and federal consumer credit regulations.

Again, I recommend you do not consider BHPH as your initial entry into the car industry. For more info visit this link

## National Alliance of Buy Here, Pay Here Dealers

### **Money, Money, Money**

How much money will it take to start your business? In a later section, I provide you with a worksheet to determine the costs of starting and operating a used car lot.

How can you get the money to start your business? There are numerous ways to finance the business, including personal savings, loans from relatives or friends, and traditional loans.

The common financing for the purchase of cars for your inventory is by obtaining financing from a commercial bank called a floor plan loan. A “floor plan” is a line of credit that allows you to purchase your inventory paying interest only and then repaying the principal on the loan as you sell your inventory. It’s a line of credit that you draw from as needed to purchase inventory. The collateral for the loans is the cars you are purchasing for inventory.

Floor plan loans are advantageous for businesses that carry durable goods inventory such as automobiles, appliances, diesel trucks, boats, recreational vehicles, trailers, heavy equipment, etc.

Most banks will have basic requirements before giving a floor plan loan. Your business must have its commercial accounts with the bank, and the bank will want to carry the paper (loans) for the customers buying your cars. This provides them additional profit from their business relationship with you.

You can find financial companies advertising in the NIADA magazine:  
<https://www.usedcardealermagazine.com/>

The dealer-only auctions such as Manheim now provide financial support to dealers. Manheim Financial Services (MAFS) provides floor plan inventory financing for independent car dealers and rental dealers in the U.S. and Canada. Manheim has over 90 locations across the U.S. and Canada, each of which includes a MAFS office and service-oriented staff to service their customer's floor plan needs.

You can get complete details at their website [www.manheim.com](http://www.manheim.com) in the Services section of their site.

## **Business Licenses and Permits**

Besides the dealer license from the state, you will need to obtain city, state and county licenses, and permits? You are responsible for all the required licenses and permits regardless of the size of your business. This is discussed in later sections.

## **A Lot of Work**

How many hours will I have to work? Typically, as a small car lot owner, you will be responsible for everything, from buying cars, attending auctions, negotiating with wholesalers, cleaning cars, meeting customers, and closing sales. Expect to spend long hours (perhaps 10 to 12 hours per day) on the business for the first years. This type of commitment is true for any start-up business, whether it's a car dealer or a plumbing business.

## **AN INTRODUCTION TO THE INDEPENDENT USED CAR BUSINESS**

Let's dig into some of the administrative details of running a car lot. The used car industry, as with any industry, has certain business practices that are used throughout the industry. A key to the successful establishment of a used car dealer is an understanding of these business practices.

The used car industry is composed of two major segments. The first segment is made up of the new car dealers who accept trade-ins on the sale of new automobiles and can also purchase used vehicles directly from customers, other car dealers, or at wholesale auto auctions.

The new car dealers then sell the used vehicles either to retail customers, used car dealers, directly to wholesalers through auctions, or to other miscellaneous customers.

The second segment of the industry is made up of independent auto dealers. These dealers are not affiliated with an automaker. Their principal business is the sale of used vehicles.

Since no trade franchise (that is, General Motors, Ford, etc.) is necessary, the size of the used car dealership and the capital required to enter the industry varies.

However, every used car dealer must be licensed with the state in which the dealership is physically located.

Independent auto dealers acquire vehicles from trade-ins on the sale of used vehicles. These dealers also purchase vehicles from individuals (private purchase arrangements), other new and used vehicle dealers, and at wholesale and retail auctions. Wholesale dealers are another source for these independent lots.

Typically, independent dealers maintain one or more sales locations where they keep their inventory. Most of these dealerships are engaged in retail sales.

For an independent dealer, both the sale and delivery of the vehicle generally occur on-site. Most sales are to individual customers, although dealers frequently, for various reasons, sell automobiles to other dealers or through auctions.

A few states also allow retail dealers to sell consumer-owned vehicles on consignment.

Wholesalers make up a smaller second segment of the used vehicle trade. Wholesalers do not sell to the general public and generally do not need a sale's lot. They do not need a place to display vehicles.

A wholesaler buys vehicles from retail dealers and either sells them directly to other retail dealers or takes the vehicles to auction. They may also purchase vehicles at auction for sale to retail dealers. Some wholesalers also purchase vehicles from public sources such as estates, fleets, businesses, and in response to newspaper ads, etc. Wholesale dealers can purchase at auction or from consumers for export.

See my manual "Used Car Wholesaler" which details this unique dealer business. Only a few states offer this license, but as a wholesaler, there are no state boundaries for the business. **A wholesaler CANNOT sell to the public.**

Are you going to do the mechanical prep of your vehicles? Most dealers do not do this when they start. However, you may find that as your volume grows, it may be more profitable to do your own vehicle repairs. Consider this when leasing your location. Is there a garage facility or could one be built on the location?

### **Impact of State Regulations and State Law**

Every state regulates the operations of the independent dealer. Requirements vary from state to state. The specific requirements imposed on a dealer depends on the particular state in which the dealer does business.

Common dealership activities regulated by states include:

- Transfers, assignments, and reassignments of titles
- Title transfer processes

- Collection and repossession rights and liabilities
- Consignment rules and procedures
- Payments of commissions for referring buyers
- Documentation for sales and purchases.

**Your state dealer board can supply you with the above regulations for your state and the requirements to meet the requirements. This will be discussed in any training class you may be required to attend as part of the licensing process.**

## **Curbstoners**

One problem that the industry faces is competition from unlicensed dealers (curbstoners) who buy, sell, and trade more used vehicles than a state allow without a license.

In almost every case, the curbstoner has no fixed place of business and fails to adhere to most of the accepted industry practices or customs. It is not known how much revenue the curbstoners generate, although industry officials acknowledge that the amount is significant. Since curbstoners do business illegally, it likely that their income from sales goes unreported to the IRS.

State attempts to enforce licensing laws against curbstoners are hampered by a lack of personnel and money. Furthermore, with no fixed place of business, a curbstoner is often difficult to track. Signs of potential curbstoning include; multiple auto listings with the same phone number and displays of multiple vehicles "for sale" in shopping centers or similar parking lots all with the same phone number.

Some states do allow the resale of a few cars a year. This could be a way for you to generate cash for beginning your business. Check with your Dealer Licensing Board to find the maximum number of cars that can be sold without a dealer's license.

Here's a site on stopping curbstoning. [www.stopcurbstoning.com](http://www.stopcurbstoning.com)

## **Records**

The Federal Truth in Mileage Act requires odometer statements to be retained by both the buying and selling dealers. Most states require that a licensed

dealer maintain certain records, which must be available for inspection by the appropriate state licensing or regulatory agency. Information about the records a dealer is required to maintain in a state can be obtained from the state agency responsible for the regulation of independent dealers. (Normally, this will be the state Motor Vehicle Division or the state Department of Revenue.) Aside from these state and federal requirements, other specific records that must be maintained will vary from state to state.

The sophistication of the accounting and records system (including record retention) will typically vary with the dealer's size and location. However, there are certain common industry practices that provide documentation for a sales transaction. These practices will vary from state to state since each state has different record retention requirements, but the basics will be the same. These industry practices are discussed in the various sections on income recognition and inventory. There are many programs that are used by dealers. Do a Google search for “accounting programs for auto dealers.

## **Car Jacket**

The key record of a car sale is the car jacket, customer file, or deal jacket. A separate file is normally maintained for each sale. Many dealers create a deal jacket whenever a vehicle is purchased and assign a stock number to the vehicle. In that case, the deal jacket may also be used to track the cost of the vehicle and the cost of reconditioning the vehicle for sale. The file generally contains:

### Cash Sale (No Trade-in)

- 1.Sales, Retail Buyer’s order (including the VIN),
- 2.Buyer’s name, address and other information,
- 3.Sales Price,
- 4.Sales tax (depending on the state, sales tax may be on the gross sales price or net sales price),
- 5.Documentary and Filing (Doc) fees,
- 6.State and Federal Disclosure statements, including Odometer readings,
- 7.Vehicle stock number,
- 8.Extended warranty or service contract information and information on any insurance purchased,
- 9.Form 8300, if applicable. Cash purchases over \$10,000. (money laundering)

### Sales with Trade-ins

- 1.Same items as for a cash sale, and
- 2.The payoff on any outstanding loans, if applicable,

### 3.ACV of the trade-in.

Pre-printed car jackets can be ordered from suppliers to the car industry. Do a Google search for: car jackets for dealers. You'll find these companies.

States require these files be maintained for a period of time on all purchases and sales by a dealer. It is a common request by a state auditor to ask to see.

The customer file may be a separate manila folder, an envelope with the information in it, or simply papers stapled together. All are acceptable methods of record retention. A dealer will normally also maintain cash receipts records that will show the cash received by the dealer daily. An analysis of the deposits will indicate the sources of the dealer's revenues, which could include:

- Auto sales
- Collections on self-financed sales
- Commissions from service/warranty contracts sold
- Commissions from disability and life insurance contracts sold - Commissions from bank financing
- Customer paid service work

### **Auctions**

Aside from customer trade-ins, the most significant source of inventory for dealers is an auction. Dealers use auctions both to buy and sell vehicles. Dealers use wholesale auctions, where only dealers are permitted to buy or sell. Most dealer transactions are handled by the wholesale auctions.

Some states also permit retail auctions, which are open to the general public, and may be used by the dealers as well.

Each auction company is run independently, maintains different records, and has its own procedures. Some common rules and procedures used in the auction industry include:

- Every dealer must register with the auction,
- The dealer will provide the auction with the year, make, VIN, and equipment of each vehicle offered for sale, either by phone or on site,
- The auction will issue the selling dealer an auction check, thereby assuming the risk of the collection on the buyer's check,
- The auction will handle the actual assignment of title to the buyer.

- The seller may set the floor or lowest price that the vehicle may be sold for by auction.

Generally, each auction holds its general wholesale sale once a week. It is common for dealers to attend more than one auction a week since each auction may offer different types of vehicles in varying price ranges for sale. Special manufacturer and fleet auctions are held at various times throughout the year.

Dealers often attend several auctions a month, some of which may be in another state. By attending auctions outside of his or her area, a dealer is able to take advantage of better market conditions for a specific type of vehicle. For example, a dealer in Florida may want to purchase convertibles, which may have a high price in the Florida market. However, a Wisconsin auction may offer convertibles for sale at much lower prices due to the lack of demand there. The Florida dealer will travel to Wisconsin, buy the convertibles, and profit from their sale to customers in Florida. Thus, a dealer from one part of the country can benefit from obtaining vehicles at an auction in another part of the country.

The starting point of an auction is the registration of the dealers participating in the auction whether they are buying or selling. The auction generally requires that the dealer is registered in advance. This usually involves obtaining a copy of the dealer's license.

This is simplified by a national registration service called Auction Access. It is a free service to the dealers. Most auction use this service for registration of dealers. You get complete information by visiting: <https://auctionaccess.com>

Once registered, a dealer may participate in an auction. The selling dealer will provide the auction with the appropriate information about the vehicles offered for sale, as discussed previously. The vehicles will be assigned a number, which will be displayed on the windshield, and offered for sale. Since the seller has the right to set a floor price below which the vehicle may not be sold, not all vehicles offered for sale at an auction are sold. However, on average, roughly 50 percent of the vehicles in a regular wholesale auction will be sold.

Once a buyer has successfully bid on a vehicle at auction, he or she is afforded an opportunity to inspect the vehicle to be sure that all representations about the vehicle made by the seller are correct. If there are no problems, the buyer then proceeds to settlement and gives the auction his or her check for the purchase

price. The auction fills in the title in the buyer's name and delivers the title to the buyer.

On the other side of the transaction, the seller will sign the title and deliver it to the auction for completion. The seller will then receive an auction check, with the restrictions noted below. Each party will also receive an invoice (Block Ticket) that shows the vehicle sold, as well as the identities of the seller and buyer. The auction invoice will also usually include an executed odometer statement.

The auction will not usually issue payment to a dealer without proof that a business bank account exists. Additionally, the auction normally provides restrictive endorsements on the check issued to the dealer to be certain that the proceeds are deposited to that account. For example, an auction will not issue a check to an individual but will issue the check in the individual business name. The check will normally bear some restrictive endorsement on the back, such as, "For Deposit to Account of Payee Only." Many auctions request a copy of a dealer's check to verify with the bank that the dealer has an account there.

Since the auctions guarantee that vehicle titles are lien-free, the auctions handle all title issues to ensure that the transfer is made correctly. Some common title problems include incorrect VIN, unsatisfied liens, incorrect title assignments, and an incomplete chain of title. The auctions have a great deal of experience with interstate transactions and generally have a very good working relationship with the various states Motor Vehicle Divisions.

### **Titling Issues and Processes**

Titling procedures are determined by state law; thus, there are 50 different sets of rules that apply. The state Division of Motor Vehicles, or similar agency, regulates the issuance and transfer of a vehicle title and maintains a record of the owner. This information is available, although its usefulness in tracking an unreported sale or sales will depend on the database used by that state. In most states, dealer-to-dealer transfers of the title are accomplished through dealer reassignments. These reassignments are not usually recorded unless the state issued the original title or is recording the title once the vehicle is ultimately sold to a retail customer. All these issues are compounded by the tremendous amount of interstate sales that occur. Although the use of state title transfers does have drawbacks and cannot be used to reconstruct or determine all a dealer's sales, it remains a useful tool in checking the accuracy of reported sales.

Despite no uniformity in titling rules or procedures, some very basic elements exist in all states:

- Every vehicle must have a title,
- There must be a written record of the sales transaction given to a customer,
- A title must contain certain specific information, although the contents will vary from state to state,
- A valid title must be produced in connection with a sale, but some exceptions exist for old vehicles in some states,
- Only dealers can reassign titles; individuals cannot reassign titles.

Generally, title to vehicles purchased at an auction is reassigned directly from the seller to the buyer, although some states require the auction to note on the reassignment of title that the transaction is an auction sale. Some dealers may also purchase vehicles purchased in Canada. Canadian titling laws are much different from those in the United States, and advice on procedures should be sought from an international examiner, who can put you in contact with the Revenue Service Representative for Canada. Do the same with any dealer transactions in Mexico.

In most states, dealers need not take actual title to a vehicle but can reassign the title. This may be done on the title, or on a separate sheet attached to the title. The significance of reassignment is that the dealer will not have to register the title with the Motor Vehicle Division until the vehicle is sold "at retail" to a non-dealer customer. This can make tracking the sale of a vehicle very difficult.

### **Example of titling**

A dealer in Virginia takes a vehicle with a Maryland title in trade on a sale. The dealer then sells the trade-in at a North Carolina auction, where the title is reassigned to the North Carolina dealer who acquires the vehicle. That dealer then sells the vehicle to a Florida dealer with a reassignment of the title.

The Florida dealer then sells the vehicle to a New York dealer, again reassigning the title. Finally, the New York dealer sells the vehicle to a California dealer, by yet another title reassignment. The California dealer then sells the vehicle to a California resident. The State of California will issue the new title to the retail purchaser. California may notify Maryland, the state with a record of the original title, of the new title. Maryland would then cancel the original title. The notice may show all of the reassignments. However, no title record of the vehicle's sales will appear in any of the intervening states. Virginia, North Carolina, Florida,

and New York Motor Vehicle Divisions will not record the vehicle being sold in their state. However, each dealer should have a deal jacket for the transaction involving the vehicle.

## **Automobile Sales**

Used vehicle sales, obviously, are the principal source of income of a dealer. The sales of autos will generally be made to three broad groups. First, the bulk of the income will be from the sale of a single vehicle to an individual buyer. The dealer may also have income from direct sales to other dealers or wholesalers and from the sale of vehicles at wholesale or retail auctions.

Generally, sales proceeds from an auction will be paid to the dealer by check marked "deposit only" or "deposit only to the account of the payee." Payments from sales to other dealers can be in cash, by check or from the proceeds of loans made by a third party. If more than \$10,000 is received in cash, the dealer will be required to file Form 8300, Report of Cash Payments over \$10,000 Received in a Trade or Business.

The ultimate determination of the sales price will depend on a number of factors. The initial "sales price" (asking or list price) established by the dealer is rarely the final sales price. The difference is a discount allowed to the buyer.

However, that discount will not be determined the same way for each buyer because different needs and desires motivate each buyer. Thus, some buyers want a large discount and accept the dealer's valuation of the trade-in; others want a large trade-in allowance (which in effect reduces the discount the dealer is willing to give) and still others only worry about the monthly payment. Since the dealer is interested in the bottom-line profit on the sale of the vehicle, the sales price on substantially similar vehicles may differ greatly. For example, an individual who is willing to accept the ACV for his or her trade-in may have a lower sales price (or greater discount) than an individual who insists on a trade allowance greater than the trade-in's ACV, as illustrated by the following.

### **Example of an automobile sale**

A dealer wants a gross profit of \$500 each on two identical vehicles, each with a cost basis of \$3,000. The asking price of each vehicle is \$3,900 before any discounts.

- Customer #1 has negotiated a final sales price of \$3,500, with a \$2,000 cash payment and a trade-in allowance of \$1,500, which is the ACV of the vehicle traded in. The sales contract may show the net price of \$3,500 ( $\$2,000 + \$1,500$ ) or the gross price of \$3,900, less a discount of \$400.
- Customer #2 has a trade-in with an ACV of \$1,500 but refuses to accept anything less than \$1,750 for his trade-in. For the second customer, on the identical vehicle, the final net sales price will be \$3,750 ( $\$2,000 + \$1,750$ ) to take into account the \$250 over-allowance. In each of these cases, the gross profit is \$500; however, the sales price and trade allowances are different. Furthermore, in each case, the cost of the trade-in for inventory purposes will be \$1,500.

Many dealers sell service or warranty contracts at or close to the time of the sale of the vehicle. These service/warranty contracts are most often third-party obligor contracts, with the dealer receiving a commission for the sale.

Some dealers have begun to establish separate related companies to sell these contracts. There are several business reasons to establish a separate company to sell the contracts. Liability can be isolated in a separate entity, ownership of the separate entity can be spread among employees or family members, and any problems associated with the sale of these contracts can be handled without jeopardizing the vehicle sales business. There are no inherent prohibitions against using a separate company for this business, and there are normally no additional costs that are incurred above the normal costs of creating a new entity.

Most of a used car dealership's income is from the sale of cars. Not all car sales are retail sales. Dealers may sell to other dealers, often in package deals. Dealers may also sell vehicles at various auctions; both wholesale (dealers only) and retail (public) auctions.

Not all dealerships have all of these secondary sources of income, but it is common for a dealer to have one or more of them. Generally, secondary sources of income are listed on the customer file.

Used car dealerships may also provide other income-producing services. These services include body repair work and routine maintenance, such as oil changes and tune-ups. Leasing used cars on plans similar to those of a new car dealership has become another source of income for used car dealers in certain parts of the country.

Dealers may also buy vehicles that are later scrapped or junked. When this occurs, it is common for parts from the junked car to be used to recondition other cars that are eventually sold to customers. A dealer may also buy cars that are already scrap cars (also called junked cars) for parts that are used to recondition cars for sale to customers. The parts taken from a junked car may be used to recondition several cars (for example, the carburetor used for one car, the alternator for another). However, it would be unusual for the parts to be sold to third parties since there is no network for such parts. A proportionate cost of the parts used should be added to the inventoried cost of the car sold. Once the usable parts have been removed, the junked car is normally sold to a scrap dealer or junkyard for a small fee. The income received for the scrap or junk value of the car should be recorded on the dealer's books, although the amount of such income is usually very small, normally under \$50 per car. Not many dealerships regularly purchase scrapped or junked cars due to space limitations and the bad appearance that the cars make on the dealer lot.

Dealers frequently attend auctions to purchase cars for inventory. Many auctions give prizes with the purchase of certain cars or hold drawings for prizes during the auction. Frequently these prizes are of minimal value; however, large items such as television sets and stereo equipment may occasionally be given away. Such prizes are includible as income to the dealership. New car dealerships may also give prizes to used car dealerships for purchasing certain types or quantities of cars during a given period of time. These prizes are also gross income.

### **Fee Income**

Auction fees are payments collected by a dealer for purchasing a vehicle for a customer at auction. Some dealers will bring the customer to the auction, although the dealer may have his or her buying card revoked by the auction if caught doing this. Other dealers will take a description of the vehicle as an open "buy order," then buy the vehicle when it goes through the auction. Many states have licensing requirements that make it illegal for some of the dealers to purchase a vehicle for a customer at auction. Dealerships caught in such activities will not only lose auction privileges but may also have their dealer license revoked.

Typical auction fees are paid by the customer, not the auction, and range from \$150 to \$350, depending on the cost of the car, relationship with the customer, etc. The dealer may be reluctant to admit this type of income as the activity is discouraged by the auction.

## Rebate Income

Dealerships may offer life insurance and disability insurance to buyers at the time of sale. The insurance policies are generally purchased from unrelated insurance companies, with the dealer receiving a commission from the sale of the insurance. There is very little self-insuring through related insurance companies in the industry, due to the complexity of meeting the definition of an insurance company and complying with the multitude of regulations set up by state insurance commissioners.

Referral fees from an insurance agent or agency are typically paid to the individual who made the referral rather than the dealership. The commission may be in cash, bartered insurance coverage, trips, etc. Such income should be noted in either the deal files.

Credit life and disability insurance (CLI) is usually offered in conjunction with the financing and provides that if the insured event happens (that is, the buyer dies or becomes disabled), the buyer's note will be paid off by the insurance company. The commissions may range from 30 to 50 percent. If offered, CLI should be a large source of income.

Most states allow car dealerships to sell CLI and earn commission income on each policy sold by the dealer, some states specifically prohibit car dealerships and their employees from receiving any portion of the insurance premium attributable to the retail sale of a motor vehicle.

Therefore, in states such as Michigan, it is a common practice for an automobile dealer to establish a "dealer-related" insurance agency with a family member of the owner as an officer or owner of the dealer-related agency. Michigan law is violated if it can be shown that the dealer controls or manages the insurance company.

Auto dealerships in Michigan and states with similar laws may not deduct under IRC section 162(a) the commissions paid to the Finance and Insurance manager for the sale of CLI. These expenses do not relate to the dealership business, but rather to the "dealer-related" insurance agency. Michigan law further prohibits the dealer related insurance agency from reimbursing the dealership for the dealer's actual costs incurred in connection with the sale of CLI.

If you are unsure of the laws regulating the sale of insurance by auto dealerships in your state, contact the state Attorney General's Office, Department of

Motor Vehicles, Department of Commerce, Financial Institutions Bureau, Insurance Bureau, or related state agencies for information.

Financing rebates may take several forms. There may be a reserve account set aside by the finance company for recourse paper or aggregate loan performance. As the loan portfolio ages, some of the reserves may be refunded to the dealer. Some smaller finance sources may make kickbacks to the dealer for sending the finance company business.

Some dealers sell a lot of "sleds," which often have had somebody or paintwork. Also, some dealers specialize in insurance rebuilds. It has been a common practice for body shops to inflate the costs of repairs and rebate the difference to the owner in cash.

### **Warranty Contracts**

Used car dealers sell two basic types of extended service contracts. The first type, which is known as a third-party or Administrator-obligor contract, is between the customer and an unrelated underwriter. The dealer is merely an agent for the underwriter and keeps as profit the difference between the sales price of the contract and the "cost" paid to the underwriter.

A second type is a contract between the customer and the dealer (known as a —Dealer-obligor contract). In the case of a dealer-obligor contract, the dealer may buy insurance covering his or her risk or be "self-insured. Dealer-obligor warranties are more profitable.

### **Consignments**

Some states allow dealers to sell vehicles on consignment. In these cases, an individual may contract with the dealer to sell the vehicle. The individual receives a stated price upon the actual sale of the vehicle. The dealer receives either a flat fee or any excess of the sales price over the stated floor price agreed to with the owner. There are two different practices for recording the cost aspects of consigned vehicles.

The first and preferred method, when the consignment agreement is entered into, a stock number is assigned to the vehicle. Costs incurred in prepping and repairing the consigned vehicle is posted to its assigned stock number. The stock numbers assigned to consigned vehicles may have a different numbering system or

some other designation that quickly identifies the vehicle as a consigned vehicle. At the time of sale, the consigned vehicle is then assigned another stock number to reflect the stated price to be paid the owner, and the reconditioning costs are transferred to the new stock number. Under the second method, a stock number is not assigned until the sale of the consigned vehicle occurs. In either method, incidental or reconditioning costs incurred by the dealer are deducted from the stated price paid to the owner. Many dealers also treat consignment sales from other dealers differently than consignment sales from the general public. Consignment sales from the general public are more detailed in the dealer's books because of titling concerns.

## **Dealer Financing**

Dealers commonly receive commissions on sales of financial products. Some dealers make arrangements with finance companies to provide financing for their customers. The finance company frequently pays the dealer a commission or "finder's fee" based on the amount of the loan, or a set fee per loan.

Dealers may also have gross income from a rate spread on a loan. A dealer may have made arrangements with a finance company to write loans at a set interest rate, 8 percent, for example. When a car buyer purchases an auto from the dealership, the dealership may write the loan for a higher interest rate, 10 percent, for example. The excess interest generated by the higher rate would be paid to the dealership by the finance company and would be includible income. The rate spread in this example is 2 percent; the difference between the rate the finance company charges the dealer and the rate the dealer charges the car buyer.

Dealer financing his or her own sales (Buy Here/Pay Here Lot) generally collects on the buyers note in one of two ways. First, he or she will get monthly or weekly payments over the term of the note. The portion of the monthly or weekly payment reflecting interest is income to the dealer. The principal portion of the payment will reduce the receivable since the sales income has already been recognized at the time of sale.

Alternatively, a dealer may sell a note or a number of notes (bulk sale) to a third party at a discounted amount. The discounts are often significant, usually exceeding 20 percent of the principal, and in some cases approaching 50 percent. The dealer may continue to have secondary liability for the note (a recourse note).

A dealer who finances a car sale customarily keeps a financing file. Since both the state and federal government under various statutes regulate the financing transaction, a dealer must maintain a paper trail of the transaction. A financing file usually contains the following documents:

- Promissory Note.
- Security Agreement.
- Disclosure Notices required by law (if not contained in the Note or Security Agreement).
- Credit Application and Credit Report.
- Vehicle Title. (Some states send the title to the owner and provide a notation of the lien on the title.) In those states, the dealer will not have physical possession of the title).

### **Sales taxes, registration, and licensing fees**

Sales taxes and registration/license fees are collected by the dealer and paid to the state. In most states, used car dealers are required to charge sales tax on all retail sales. Municipalities have their own retail sales taxes, which the dealers are also required to collect. In several states, autos with a lien will be charged an additional fee to register the lien. The lien fee is normally passed on to the customer. New license plates may or may not be required when the vehicle is sold, depending on state law. If license plates are necessary, many states require the dealer to collect the fee from the buyer and submit the additional amount to the state. The dealer may also have income from sales to other dealers or wholesalers and from the sale of vehicles at wholesale or retail auctions. Sales to other dealers are not subject to sales tax in many states. Check state and local laws to determine whether sales taxes are applied to wholesale auto transactions. Some dealers include these fees in gross receipts and deduct the amounts paid to the state as an expense. Other dealers will not include these amounts in income or expenses.

### **Repossessed vehicles**

Repossessions are common in the used car industry. When a repossession occurs, the industry practice is to bring the car back into inventory at the vehicle's ACV, determined by the N.A.D.A. blue book or other Department of Transportation approved valuation guide. Likewise, the defaulting buyer receives a credit against the balance due for the ACV of the car. Alternatively, the dealer may obtain bids from other dealers or simply sell the car at an auction. In those cases, the buyer is credited with the net sales price of the car.

State law often controls what the dealer can do with repossession, how the repossessed car should be valued, and what sales procedures must be used to sell a repossessed car. Accordingly, where the dealer has substantial repossessions, state law on repossessions should be reviewed. Repossession costs increase the basis of the car. These costs can include attorney' fees, repossession fees, repair costs, and re-title fees. Small dealers may have a better experience with repossessions than the larger dealers because they see it as a moneymaker, or they require a larger percentage of the purchase price as a down payment.

The dealer will try to collect the deficiency from the defaulting buyer; although state law will dictate what collection procedures may be used. The dealer will also resell the car, either in a private sale or at public auction. If the sales price is less than the ACV credited to the borrower, the dealer may attempt to collect the difference from the buyer. Likewise, if the sales price exceeds the ACV credited to the buyer, the deficiency is reduced by the excess of sales price over ACV. If the repossessed car is sold with an overage (sales price exceeds the amount owed the dealer), the overage is repaid to the owner of the vehicle. Such requirements vary from state to state and may be shown on the contract. Many dealers will create a new stock number for the repossession, while others will reassign (restock) the old number.

## HOW TO DETERMINE THE VALUE OF A VEHICLE

### WHOLESALE VALUES

There's an old saying in the car industry, "You make your profit when you buy the car. So how do you determine the "right" price or the "wholesale" price of a car? Many dealers refer to one of the pricing guides.

The National Automobile Dealers Association (N.A.D.A.) Used Car Guide gives the average prices for cars in your region. It is commonly called the "Blue Book." It's really orange. They also publish the N.A.D.A Older Used Car Guide (8 years to 17 years old).

Large bookstores and magazine stands sell individual copies of N.A.D.A Guides but these are the "consumer" versions which do not give the market prices for dealers. You can receive subscription information by calling 1-800-544-6232. Or write N.A.D.A Used Car Guide, 800 Westpark Drive, McLean, Virginia, 22102-9985. You can order all products at [www.nada.com](http://www.nada.com).

The Old Car Guide, "The Black Book," gives the average prices paid for cars older than those in the N.A.D.A. guide. Call 1-800-554-1026 for subscription information. Or write National Auto Research, P.O. Box 758, Gainesville, Ga. 30503. You can order their products at [www.blackbookusa.com](http://www.blackbookusa.com).

The Kelly Blue Book publishes several price guides. They have the "Used Car Guide" and the "Older Car Guide." You can subscribe by calling 1-800-444-1743. Or write Kelly Blue Book, Box 19691, Irvine, CA 92713. On-line ordering is available at [www.kbb.com](http://www.kbb.com).

There is a better way now. Dealers who have the technical savvy use Internet access. Price guides are available now in real time with the latest wholesale prices regularly updated with prices from wholesale auctions.

The most valuable pricing guide you will have as a dealer is the access to the history of auction sale prices. Manheim Auction is the largest auctioneer in the US, with over 130 auctions worldwide.

On a Smartphone or iPad, dealers have immediate access to the Manheim auction history while at an auction. Manheim and all the price guides have apps you can download to do immediate searches.

Some auctions that are the leading edge of technology and service to their customers have free Wi-Fi so the dealers can search for pricing, real-time while bidding at an auction.

When you register as a dealer at a Manheim Auction, you get access to the sales results for all 80+ auctions around the country. You access this database of thousands of cars sold weekly on their website [www.manheim.com](http://www.manheim.com). This enables you to know the most recent wholesale price of any car you may wish to bid on in an auction. You must be a registered dealer to access this information. **This is one of absolute best ways to determine the true wholesale value of a vehicle. Its what dealers are paying, and it can be localized, and it is current.**

Most all the independent auctions now give dealers access on-line to previous auction results.

When you register at most auctions, they use a service called Auction Access. Their website is [www.auctionaccess.com](http://www.auctionaccess.com). Having their access card gives you access to most dealer-only auctions in the US. The auctions use this centralized service to certified dealers.

Pricing in the used car market is not scientific. There are no stickers on the windows. No one can tell you how much a used car is worth! If I look at five 8-year-old Toyota Corollas, they will be worth as little as \$300 or as much as \$3000, depending on their condition, mileage and what a buyer is willing to pay

**The SECRET to knowing wholesale prices on cars is to attend auctions on a regular basis and to obtain reports of the selling prices. You'll then know the wholesale market price for your area.**

**I can't overemphasize this. Pricing of cars is not an exact science. The printed pricing guides are not exactly on target for every vehicle for every state and city. The most valuable tool I use is the Manheim sales database. With it, I can see what cars sold for at auction in the recent auctions. It is only available to registered dealers with Manheim.**

## **RETAIL VALUES**

The retail value of a car is whatever a consumer is willing to pay for it. How do you find what this price is? For the car you're selling, you'll need to research prices in the pricing guides, Auto Trader, Cars.com and other dealers.

When a dealer has the best guess value of a car, he will inflate this price so he can have negotiating room to come down in price with a potential buyer.

When a dealer specializes in certain brands, models, and age of vehicle, he gains knowledge of pricing from the experience of making hundreds of sales.

As a beginning dealer, one has to do the best job of research and learn from each selling experience. There is no other way.

Being in and on the market every day is the learning tool of pricing.

I have found the [www.Edmunds.com](http://www.Edmunds.com) True Market Value price for used cars is a good place to start basic research on the Web.

## **INVENTORY CONTROL**

After you buy a vehicle and it's on your lot when do you decide it's not going to sell and I must move it!

A dealer does cost analysis to know the daily cost of having a car unsold on his lot. It's his total expenses for a month/year divided by the number of cars sold. He must cover these expenses plus make a profit when the vehicle is sold.

A car costs the dealer money for every day it sits on the lot unsold. Here is the industry rule of thumb for watching inventory turnover.

Have a 45-day supply of cars based on monthly sales. If you sell 20 cars month, your inventory needs to be 30 cars on the lot. Less than 30 days may affect sales because there won't be enough choices for buyers.

Cars held for more than 60 days have a problem. Begin analyzing why a vehicle has not sold at the beginning of the age of 45 days. Between 45 and 60 days get rid of the car by reducing the price. Put it on sale. Moving it to auction or a wholesaler is your last choice. If you must sell it at a loss, do it! Don't continue losing, even more, money by carrying inventory that won't sell.

It's all about the bottom line.

**Analyze why it did not sell, learn from your mistake, and move on.**

**THE SECRET TO LEARNING THE VALUE OF THE VEHICLES YOU ARE BUYING/SELLING IS TO SPECIALIZE YOUR MARKET SALES.**

**YOUR DEALERSHIP CANNOT SERVE EVERY BUYER IN YOUR MARKETPLACE.**

**AS YOU SPECIALIZE IN SPECIFIC MODELS AND YEAR RANGES YOU BECOME AN EXPERT ON THE BEST ONES TO ADD TO YOUR INVENTORY.**

## DEALER ONLY AUCTIONS EXPLAINED

Let me **strongly recommend** you visit the Manheim Auction website: <https://www.manheim.com/>. This site is a wealth of information on wholesale auctions. **Take the time to visit this site! Really!**

ADESA is another large auction company. Visit their website at [www.adesa.com](http://www.adesa.com) to gain more knowledge.

Some smaller independent auctions are members of the association Independent Auctions. Their website is [www.independentauctions.com](http://www.independentauctions.com).

Check out the National Auto Auction Association at [www.naaa.com](http://www.naaa.com) where you'll also have access to information and videos about the dealer only auto auction industry. **Take the time to visit this site, too! Really, again!**

In the business, there's a saying you would be smart to have tattooed on your arm.

**NOT EVERY CAR AT AN AUCTION IS A BAD CAR,  
BUT EVERY BAD CAR GOES TO AN AUCTION!**

I remember the first time I went to auction. I was talking with a few wholesalers, and they all said, to be careful. Just be careful! I later learned what they meant.

Your first auction is exciting, to say the least. You walk in with your new license knowing that you're now an insider!

At my first auction, I saw over two thousand cars pushed through 10 lanes in just a few hours! It was exhilarating! Wahoo!

To get into a wholesale auction, you must be a licensed dealer or wholesaler. Most do not allow visitors. You cannot bring in a friend to see if there is a car, they wish you to bid on and then sell to them.

A wholesale dealer cannot sell retail. One of the “tricks” to bypass this is to buy a car for a friend at auction and then have a friendly dealer process the paperwork for a fee as a retail sale. Here in Colorado, that is not allowed. The state tries to close all the loopholes.

When you enter for the first time, you'll be required to register with the auction's business office. They'll ask you to fill out forms and show your state license. They'll issue you a pass so you can enter and bid on vehicles.

This can also be done online before you go to auction. Many auctions use a central service for registration call Auction Access. [www.auctionaccess.com](http://www.auctionaccess.com) The auction will require you fax or bring certain documents such as your license and bond.

Your information is then entered into a database, and you're “in”! In the larger auctions, you'll be issued an access card that has your photo and looks like a credit card. When you return for your second auction, you scan the card and out prints your bidding card. You'll have to have this visible when going past the guard to the auction area.

The auction will have a small restaurant outside the bidding area to get light coffee, drinks, and light meals or snacks.

You can use your time in the coffee shops to introduce yourself and talk to the dealers attending. I have learned a ton of information from these early mornings, informal discussions.

Most auctions start at 9:30. I get there early, at 8:00. I visit in the coffee shop and then go out to the cars lined up in their lanes to see what cars I have on my list. I also use this time to talk to other dealers and wholesalers out walking the lanes of cars doing the same.

I have never had anyone not be willing and helpful in sharing their experiences.

**A piece of advice: an auction is one of the best places to learn the basics of the business.**

Every auction provides free peanuts (in hulls) on the bidding floor. You throw the hulls on the floor. When they clean and sweep the floors, after the auction, the hulls help pick up dust and oil.

Let's see how an auction operates.

Cars for sale are delivered to the auction and registered. The auction will have computer listings for cars available for auction that week. These lists will be available online before the auction takes place. They will be available in printed form on the day of the auction.

A knowledgeable dealer goes to the auction lot the day before the auction. He will obtain the list of available cars online or obtain the list at the auction. He surveys the list for possible buys. He then inspects the cars to see if they are really are good potential buys. Based on prices from previous auctions and knowledge of the local market, he will set a maximum price to bid on each vehicle.

He will then be ready to attend the auction the next day and make good sound bids. **This process is an absolute necessity.** On the day of the auctions, the cars are pushed through like cattle, usually a car every two minutes. There is no time to evaluate cars during the actual auction.

The dealers at an auction do not fall in love with a car as consumers do. It is only a commodity, like a bushel of beans. It has to be purchased at the right price to make him a profit. If he can't buy it at his price, he stops bidding and walks away.

Experienced wholesalers can have agreements with used car dealers and act as their agent at the auctions. They buy cars for the dealers and use the auction credit line of the dealer. They receive a set fee for each purchase. This fee can vary, but typically it's in the range of \$100- \$300. A dealer agent can also sell cars at the auction for the dealer. I've seen wholesale agents buying for as many as six dealers at an auction. You may wish to have a wholesaler do the purchasing of your vehicles after you have experience in the auctions.

A seller may set a minimum bid for a vehicle. The sellers are also allowed to bid on their own vehicles. So, you can get caught up in the frenzy of bidding against the owner who is trying to bid up the price of the vehicle. That's why experienced dealers visit the auction the day before the auction to do their homework. They determine the maximum they will pay for the vehicle BEFORE the bidding starts.

After purchase, each auction will have its own process on payment and title transfer.

Each auction company is run independently, maintains different records, and has its own procedures. Some common rules and procedures are used in the auction industry include:

- Every dealer must register with the auction,
- The dealer will provide the auction with the year, make, VIN, and equipment of each vehicle offered for sale, either by phone or on site,
- The auction will issue the selling dealer an auction check, thereby assuming the risk of collection on the buyer's check,
- The auction will handle the actual assignment of title to the buyer,
- The seller may set the floor or the lowest price that the vehicle may be sold by auction.
- The seller can bid on his own vehicles. They do this to set the minimum price and to raise the bidding price on the floor!

Generally, each auction holds its general wholesale sale once a week. It is common for dealers to attend different auctions a week since each individual auction may offer different types of vehicles in varying price ranges for sale.

I have 5 auctions I can attend within 100 miles. So, I could go Monday through Friday.

Special manufacturer and fleet auctions are held at various times throughout the month. Dealers may attend several auctions a month, many of which are in another state. By attending auctions outside of his or her area, a dealer is able to take advantage of better market conditions for a specific type of vehicle.

For example, a dealer in Florida may want to purchase convertibles, which may have a high price in the Florida market. However, a Wisconsin auction may offer convertibles for sale at much lower prices due to the lack of demand in Wisconsin.

The Florida dealer will travel to Wisconsin, buy the convertibles, and profit from their sale to customers in Florida. Thus, a dealer from one part of the country can benefit from obtaining vehicles at an auction in another part of the country. Wholesalers also move cars from one area of the country to another

The starting point of an auction is the registration of the dealers participating in the auction whether they are buying or selling. The auction generally requires that the dealer be registered in advance. This usually involves obtaining a copy of the dealer's license and proof of payment method.

Once registered, a dealer may participate in the auction. The selling dealer will provide the auction with the appropriate information about the vehicles offered for sale, as discussed previously. The vehicles will be assigned a number, which will be displayed on the windshield, and offered for sale. Since the seller has the right to set a floor price below which the vehicle may not be sold, not all vehicles offered for sale at an auction are sold.

Once a buyer has successfully bid on a vehicle at auction, he or she is afforded an opportunity to inspect the vehicle to be sure that all representations about the vehicle made by the seller are correct.

If there are no problems, the buyer then proceeds to settlement and gives the auction his or her check for the purchase price. The auction fills in the title in the buyer's name and delivers the title to the buyer.

On the other side of the transaction, the seller will sign the title and deliver it to the auction for completion. The seller will then receive an auction check, with the restrictions noted below. Each party will also receive an invoice (Block Ticket) that shows the vehicle sold, as well as the identities of the seller and buyer. The auction invoice will also usually include an executed odometer statement.

The auction will not usually issue payment to a dealer without proof that a business bank account exists. Additionally, the auction normally provides restrictive endorsements on the check issued to the dealer to be certain that the proceeds are deposited to that account.

For example, an auction will not issue a check to an individual but will issue the check in the individual's business name. The check will normally bear some restrictive endorsement on the back, such as, "For Deposit to Account of Payee

Only." Many auctions request a copy of a dealer's check to verify with the bank that the dealer has an account there.

Since the auctions guarantee that vehicle titles are lien free, the auctions handle all title issues to ensure that the transfer is made correctly. Some common title problems include incorrect VIN, unsatisfied liens, incorrect title assignments, and an incomplete chain of title. The auctions have a great deal of experience with interstate transactions and generally have a very good working relationship with the various state Motor Vehicle Divisions.

## **ONLINE AUCTIONS**

The major auctions now allow dealers to buy online in real time video by using services such as OVE.com which is a Manheim company. These online sales allow a dealer to buy cars from various locations around the country without having to travel.

For the small independent dealer who may be many miles from large auctions, he can now watch and bid on the auction from the comfort of his office on the Internet.

Small independent dealers tend to limit their use of this service. Even though there is an auction guarantee for these vehicles, experienced dealers want and need to see, touch, and drive the car.

Some auctions have added return guaranties. A purchased vehicle meets the quality standards, but the buyer finds problems with the vehicle. Within a set number of days and a set mileage increase, then the buyer can return the vehicle with a full refund, including transportation costs and fees. This is a "guarantee" especially for on-line purchasers.

## **AUCTION FEES**

There is a fee charged to the buyer at the dealer only auctions. This is a sliding fee based on the selling price of the vehicle. These are at the low end \$150 for cars under \$1000 to a high \$450 to each for a vehicle selling for up to \$9,000. Over \$9,000

## AUCTION ON-SITE SERVICES

Auctions like Manheim provide additional services to dealers to improve the price the vehicle will get at the auction. Here is a Manheim listing, with details, from Manheim's website.

Most auctions provide many of these same services. These services are for a fee.

### MAFS

Manheim Financial Services (MAFS) provides floor plan inventory financing for independent car dealers and rental dealers in the U.S. and Canada. Manheim has over 90 locations across the U.S. and Canada, each of which includes a MAFS office and service-oriented staff to service our customer's floor plan needs.

### CONDITION REPORTS

Manheim InSight ECR is a premium, buyer-focused inspection product designed to increase in-lane and online success. Using state-of-the-art software, certified inspectors capture images and information related to vehicle equipment and condition.

Manheim InSight ECR features their exclusive AutoGrade - an industry first system that calculates the proper Manheim/NAAA Vehicle grade based on the collected vehicle information.

Vehicle images, Inspection content, and AutoGrade appear online through Manheim's Simulcast and may also be posted with ove.com listed vehicles.

### CERTIFIED INSPECTIONS

Manheim offers sellers an opportunity to highlight vehicles that are exceptional in regard to condition and reliability. Vehicles that are eligible for and undergo a Manheim Certified Inspection are checked for exterior and interior condition, as well as under the hood to assure reliability. The 32-point Inspection

covers engine, transmission, rear end, paint condition, mileage, body components, brakes, steering, title, and interiors.

## POST-SALE INSPECTIONS

Manheim Post-Sale Inspections evaluate the condition of vehicles purchased at Manheim locations, consisting of both a frame and a mechanical inspection and are offered with two guarantee options: 7-or 14-day. If any item or part that was inspected fails during that period, the item will be replaced or repaired at Manheim's option.

## DETAIL SERVICES

Manheim Frontline offers a variety of detailing services that will make your vehicles ready to sell. From simple washing to detail offers, including a comprehensive Frontline Ready Bundle, you can select the service level that optimizes your vehicles' cosmetic appearance. The Detail Double Check symbol ensures a trained Manheim inspector has reviewed your vehicle.

## BODY AND MECHANICAL

Since Manheim repairs and paints more vehicles annually than anyone anywhere, you can have confidence that the job will be done right. We offer a full spectrum of auto body repair services, from minor cosmetic repairs to wheel restoration and headlight brightening, to collision damage.

An experienced team prepares repair estimates and completes quality repairs by following a systematic, efficient process. State-of-the-art equipment and proper training ensure that vehicles are repaired completely and correctly.

## PAINTLESS DENT REMOVAL

Manheim Frontline also offers other high-quality cosmetic reconditioning services to repair vehicles quickly. PDR services, provided by Dent Wizard, the industry leader, (including exterior repairs for dings and dents, hail damage, creases, paint blemishes, and scratches) help vehicles sell faster and at the highest possible margin.

## HOW TO MAKE CONSIGNMENT SALES

Most states allow you to sell vehicles on consignment. In these cases, an owner contracts with you to sell his vehicle. The individual receives a stated price upon the actual sale of the vehicle. The dealer receives either a flat fee or any excess of the sales price over the stated floor price agreed to with the owner.

There are two different practices for recording the cost aspects of consigned vehicles.

In the first and preferred method, when the consignment agreement is entered into, a stock number is assigned to the vehicle. Costs incurred in prepping and repairing the consigned vehicle are posted to its assigned stock number. The stock numbers assigned to consigned vehicles may have a different numbering system or some other designation that quickly identifies the vehicle as a consigned vehicle. At the time of sale, the consigned vehicle is then assigned another stock number to reflect the stated price to be paid the owner, and the reconditioning costs are transferred to the new stock number.

Under the second method, a stock number is not assigned until the sale of the consigned vehicle occurs. In either method, incidental or reconditioning costs incurred by the dealer are deducted from the stated price paid to the owner

You will normally charge a non-refundable fee for taking a vehicle under consignment. This can be in the range of \$150 to \$250 dollars. That's the fee for

prepping and entering the car into the books of your dealership. You will then set a selling fee. This can be either a flat fee or a percentage. I prefer a flat fee of 10%.

Another option, which many dealers prefer, is to have the registration fee and then negotiate the amount the owner wants from the sale. The dealer then retains the difference from the actual selling price.

You'll need to have the seller complete a consignment form and a power of attorney for doing the title work. A power of attorney will be attached to the title submitted to the state for registration.

Your state may have a standard required form for consignment or a checklist to be used in designing your own form. Check with your state's dealer licensing organization.

A lot may also accept a consignment from a wholesaler. Verify the legality of this with your state licensing board

## GOOD RECORD KEEPING

The Federal Truth in Mileage Act requires odometer statements to be retained by both the buying and selling dealers. Most states require that you maintain certain records, which must be available for inspection by the appropriate state licensing or regulatory agency.

Information about the records a dealer is required to maintain in a particular state can be obtained from the state agency responsible for the regulation of independent dealers.

Aside from these state and federal requirements, other specific records that must be maintained will vary from state to state. The sophistication of the accounting and records system (including record retention) will normally vary with the dealer's size and location.

Your State's Independent Automobile Association can give you guidance and resources about record keeping.

However, there are certain common industry practices that provide documentation for a sales transaction. These practices will vary from state to state since each state has different record retention requirements, but the basics will be the same.

There is no overall computer accounting program specifically designed for just independent dealers. There is dealer management systems (DMS) software available. You can check out some of these software packages at the following websites.

[www.dealertrack.com](http://www.dealertrack.com)

[www.frazer.biz](http://www.frazer.biz)

[www.automanager.com](http://www.automanager.com)

[www.lotwizard.com](http://www.lotwizard.com)

[www.nowcom.com](http://www.nowcom.com)

[www.carlotmanager.com](http://www.carlotmanager.com)

[www.dealerclick.com](http://www.dealerclick.com)

You can do a Google search for “car dealer software” to find other vendors.

Some of these products also provide website designs that integrate directly with the software.

## **Deal Jackets**

The key record of a car sale is the car jacket, customer file, or deal jacket. A separate file is normally maintained for each sale. You should create a deal jacket whenever a vehicle is purchased and assign a stock number to the vehicle. In that case, the deal jacket may also be used to track the cost of the vehicle and the cost of reconditioning the vehicle for sale. The file generally contains:

### **Cash Sale Jackets (No Trade-in)**

1. Sales, Retail Buyer's order (including the VIN),
2. Buyers name, address and other information,
3. Sales Price,
4. Sales tax (depending on the state, sales tax may be on the gross sales price or net sales price),
5. Documentary and Filing (Doc) fees,
6. State and Federal Disclosure statements, including odometer readings,
7. Vehicle stock number,
8. Extended warranty or service contract information and information on any insurance purchased,
9. Form 8300, if applicable. (Cash sales of more than \$10,000 must be reported to the IRS with this form)

### **Sales Jackets with Trade-ins**

1. Same items as for a cash sale, and
2. The payoff on any outstanding loans, if applicable,
3. ACV of the trade-in.

You can purchase these deal jackets from suppliers such as Gallagher Promotional Products at

<http://www.gppinc.com>

<https://cheapassdealersupplies.com/deal-jackets/>

<https://usautosupplies.net/collections/vehicle-deal-jackets>

## TITLING ISSUES AND PROCESSES

Titling procedures are determined by state law. The state Division of Motor Vehicles, or similar agency, regulates the issuance and transfer of a vehicle's title and maintains a record of the owner.

In most states dealer to dealer transfers of title are accomplished through dealer reassignments. These reassignments are not usually recorded unless the state issued the original title or is recording the title once the vehicle is ultimately sold to a retail customer.

On a title, there are usually 4-6 blank options for dealers to "reassign" the title from one dealer to another dealer. The title is 'assigned 'over to the next dealer.

The change of title to a permanent owner is only done on a retail sale with the collection of fees and taxes. That is when the state reissues a new title to the new owner. There is only one space on a title to do this.

Despite uniformity in titling rules or procedures, some very basic elements exist in all states:

- Every vehicle must have a title,
- There must be a written record of the sales transaction given to a customer,
- A title must contain certain specific information, although the contents will vary from state to state,
- A valid title must be produced in connection with a sale, but some exceptions exist for old vehicles in some states,
- Only dealers can reassign the title; individuals cannot reassign titles.

Generally, title to vehicles purchased at an auction is reassigned directly from the seller to the buyer, (dealer to dealer) although some states require the auction to note on the reassignment of title that the transaction is an auction sale.

Some dealers may also purchase vehicles from Canada. Canadian titling laws are much different from those in the United States, and advice on procedures should be sought from the Canadian Province where the transaction is to take place.

Dealers need not take actual title to a vehicle but can reassign the title. This may be done on the title, or on a separate sheet attached to the title. The significance of reassignment is that the dealer will not have to register the title with the Motor Vehicle Division until the vehicle is sold "at retail" to a non-dealer customer.

## **Sales Taxes, Registration and Licensing Fees**

Sales taxes and registration/license fees are collected by the dealer and paid to the state.

In most states, used car dealers are required to charge sales tax on all retail sales. Many municipalities have their own retail sales taxes, which the dealers are also required to collect.

In several states, autos with a lien will be charged an additional fee to register the lien. The lien fee is normally passed on to the customer. New license plates may or may not be required when the vehicle is sold, depending on state law. If new license plates are necessary, many states require the dealer to collect the fee from the buyer and submit the additional amount to the state.

The dealer may also have income from sales to other dealers or wholesalers and from the sale of vehicles at wholesale or retail auctions. Sales to other dealers are not subject to sales tax in many states. Check state and local laws to determine whether sales taxes are applied to wholesale auto transactions. Some dealers include these fees in gross receipts and deduct the amounts paid to the state as an expense. Other dealers will not include these amounts in income or expenses.

Individuals who buy vehicles from other individuals and ask the seller to leave the title blank are violating state laws. It's called an "open title." When car ownership is transferred from one individual to another, your states want the sales tax for the transaction. The individuals who do this are buying and selling vehicles illegally. They do it intentionally to avoid sales tax and to avoid a paper trail of numerous buys and sales they are making.

Titling issues will be covered in the state-mandated classes if required in your state. The Independent Automobile Dealers Association, your state licensing group, or an independent training company will provide classes.

## EFFECTIVE ADVERTISING

One of the most important advertising features is the name of your business. Potential customers will see it every time they drive by. I prefer names that project a benefit to the customer. Examples of this would be:

Best Choice Auto  
Dependable Auto Sales  
Economy Auto Sales  
Best Buy Motors  
Better Car Auto Sales  
Cars 4 Less

To find a wide variety of name choices use Switchboard.com to look up used car dealers in every city and state. Choose a name you like and verify it's now used in your state. When you register the business name with your state, it will have to be unique in your state.

You also need to select a "benefit" statement to use with your name. An example is "Better Cars at Lower Prices." Again you can use the Internet to search for used car dealers and find a benefit statement or modifications of benefits statements you find when searching for other dealer's advertising on the Internet.

There are various ways you can do physical advertising. You may use a mix of advertising media. It will depend on your budget and an analysis of other dealers in your area.

Do your research. Check local media to see how other used car dealers are advertising. Do not try what you think will be effective advertising media.

**Follow the leaders.** They have tested all the various methods and have found the most effective. Do not try what you think may be a great new idea about advertising! You'll only lose money! Don't try to reinvent the wheel.

Where do dealers advertise? Check radio ads, TV ads, local newspaper classifieds, local shopper magazines, local "Auto Trader" type magazines, telephone directory advertising. I would NOT recommend using display ads in telephone directories. They are expensive and think about this.... How often have you gone to the yellow pages to look for car dealers?

Remember you are an independent used car dealer, so follow the ad leads for other independents NOT the franchise lots such as GM, Ford, etc. A lot of their advertising is to create branding in the consumer mind. An independent usually cannot afford that type of advertising.

In a later section, I will show you how to use Internet advertising effectively. **You must have a web presence in today's marketplace.**

**The most important advertising is location, location, and location.** The absolute best place to have your used car business is on "car row" in your town or neighborhood. When customers are looking to buy, they head to where all the dealerships are located. As an example of this, I know of a local dealership that moved from a good location to a new location where car dealers are the primary businesses. They increased their sales by 35%!

There are advertising methods that all successful independent dealers use. They are special event banners, sale signage, balloons, flags, and posters. These types of advertising campaigns make your lot more visible as people drive by. Rotate these campaigns, so your lot looks "new" at different times.

Special event banners usually evolve around sales; i.e., "End of Year Sale, Inventory Reduction Sale, Annual Spring Sale, Your Tax Refund is Your Down Payment Sale."

Other advertising methods are windshield signs for year and price. A supplier for these and other advertising tools is Gallagher Promotional Products. Their website address is <http://www.gppinc.com>.

A supplier of flags and banners is Flag and Banner. Their website address is <https://www.flagandbanner.com/flags/flags-advertising-automotive.asp>

The most effective advertising for the small independent is word of mouth. It takes time to build a customer base to create word of mouth advertising, but it will determine the overall long-term success of your business. This is built by excellent customer relationships. How to develop those relationships is covered in the "sales" portion of this manual.

Another tip. Physically rotate your inventory. Change how your inventory is displayed. People who drive by every day will be drawn to a lot when they see changes in the way it looks.

## SECRETS OF ADVERTISING ON THE INTERNET

Having your cars on the Web is a requirement for more sales. The cost and updating of a good website could cost you several thousand dollars.

There is a need to do that, but the cost may be initially too expensive

However, there are websites that want your business. Let's explore the primarily used car sites and what they offer a used car dealer.

I recommend you utilize the following services. The younger and savvy consumer is using the Internet to buy cars.

When advertising on the Internet, you **MUST** have photos and lots of them for each vehicle. You should have a minimum of 20-25 photos.

Some dealers are posting videos of their cars. This is beyond the scope of discussion in this book, but you need to explore this type of exposure.

### **CARS.COM**

Cars.com has a complete dealer support package. Here are the services they provide as taken from their website.

#### **Ad Package**

Cars.com Ad Package connects you with more qualified buyers. Our efforts draw millions of unique, ready-to-buy car shoppers to Cars.com monthly.

#### **Online Ad Reports**

Measure your merchandising effectiveness, find in-demand vehicles in your market, compare competitive pricing and more.

#### **Chat**

Chat lets you engage shoppers early in the buying process and start building a relationship with them. It's simple, easy, and free with your Cars.com ad package.

Cars.com has free local Dealer Workshops regularly scheduled around the country. They provide Twitter and blog updates to help you sell. They have a resource called Dealer Advantage, which has a wealth of information to help you be a successful dealer. Check it all out on [www.cars.com](http://www.cars.com) website. At the bottom of the page, you will find a link “Become a Cars.com Dealer” with dealer training and resources including free webinars and workshops.

<http://dealers.cars.com/wps/portal/dealercenter>

## **AUTO TRADER.COM**

Auto Trader provides many of the same types of resources to support your dealership as cars.com

Check them out at [www.autotrader.com](http://www.autotrader.com). At the bottom of the page, you will find a link “Become an Autotrader.com” dealer.

## **CRAIGSLIST**

Craigslist gets over 20 billion; yes billion, page views a month. Craigslist has decimated the newspaper classified ad business. Postings are free, and for the younger crowd, Craigslist is their first choice in shopping for anything, including used cars. [www.craigslist.org](http://www.craigslist.org). I have found the market on Craigslist is good for lower priced vehicles.

## **eBay MOTORS**

Over 4 million vehicles have been sold on eBay. What else can be said? It’s another valuable advertising medium. Go to [www.motors.ebay.com](http://www.motors.ebay.com). At the bottom of the page, you’ll find a link “Dealer Center.”

## **Summary**

There may be some legal issues in the future over Internet sales. At the present time, states regulate car dealers selling on the Internet. So/ when you sell a car on the Internet to an individual in another state, your state’s laws control the sale.

If you plan to do across state line sales on the Internet, I recommend you receive guidance from the National Association of Independent Automobile Dealers and your state dealer association.

Most buyers today use the Internet to do their car research and then contact the dealer by phone or visit. **You must have a web presence in today's marketplace.**

In today's marketing world, you must also create a presence in social media marketing; Facebook, Twitter, YouTube, email, etc.

This new marketing is complex and cannot be addressed in a chapter in this book. You can find references and help at the national dealer associations and your state dealer associations. It will probably require the help of specialists in this field.

## SELLING “CERTIFIED PRE-OWNED” CARS

Consumer research has shown there are advantages to selling your cars as “certified pre-owned,” CPO. Large franchise dealerships are using this marketing tool, and the consumer is knowledgeable and looks for it.

Your CPO vehicles will have a higher perceived value. It increases customer satisfaction. Inspected cars have fewer issues so the customer feels better about the purchase and so will you.

The average days on a lot for a CPO vehicle is 27 days. For a non-CPO vehicle, it is 55 days. So, the CPO vehicles turn twice as fast as non-CPO.

A CPO vehicle is inspected and warranted. You have to pay for this service or warranty unless you sell an add-on warranty and then the CPO service is free to you, the dealer.

Check out the National Independent Automobile Dealers Association program at this website. [www.niadacertified.com](http://www.niadacertified.com)

What makes the NIADA CPO Program innovative and different? Exclusive to NIADA members, this CPO program offers more than just your basic powertrain warranty coverage. The program not only includes the powertrain but also includes brakes, air conditioning, electrical components, and more! The program requires an inspection, and a dealer can certify vehicles in their own service department or work through an auction or another third party facility.

The program is fully insured by an “A” rated company, and the insurance company will issue a policy directly to the dealership. There is no deductible, and the warranty includes roadside assistance, towing, and rental.

In addition, if the dealer elects to up-sell the consumer to a NAC Vehicle Service Agreement, NAC will waive the cost of the CPO (which makes the CPO FREE).

With your own CPO program, you can compete with the large franchise dealer CPO programs.

## HOW TO BE AN EFFECTIVE SALESMAN

I think you know this intuitively, but car salesmen are on the bottom of the totem pole on the public's idea of honesty and ethics. Let me prove it, so there is no misunderstanding. In a recent Gallup poll, nurses were at the top with 82% of the responders saying they are ethical and honest. The good news is that car salesmen beat out the group at the bottom of the list, telemarketers! Car Salesmen: 8%. Telemarketers: 7%.

I wanted to introduce this terrible statistic to be sure that you understand the public's attitude about YOU when they walk into your business. It will be your job to overcome this.

Born salespeople are rare, but they can be trained. So let's get started in your training.

One of the problems of the car industry is the "pressure" put on customers. This has grown out of the accepted premise that a "qualified" purchaser will buy within 72 hours, so it is the salesman and sales manager's job to close the deal NOW! Don't let the customer "walk"!

This is obvious in the sales language of the car industry. "Would you buy NOW if the price/payment is right?" Would you buy NOW if I added floor mats at no cost?" What can I do for you to buy the car NOW?"

I know that customers feel this pressure and therefore interpret this as an attitude that the salesman is not honest with them. They believe and understand the salesman is only concerned about the sale, not the customer.

You must not use this approach. It will be hard to not fall into this approach, especially if you've had a week or month of slow sales!

So to have the right attitude when a customer walks on the lot, you must determine the business you are in. You might say I sell cars. No, that's not the basic service you are selling. You're selling happiness!

Yes, that's right, happiness. You are in the business of selling a product that will provide happiness.

We go on vacations, sports functions, dates, school, and work. Our last trip in this world is taken in a vehicle.

What product is used so much by the American public to achieve satisfaction or happiness? If our cars were taken away from us, we would not be happy.

When a customer walks into your business, you must approach the situation from the perspective that you can provide a service to make them happy. What a different perspective than I must make this sale!

Let's see how you approach that potential buyer when they stop by. Remember, you're selling a service, not a car.

The Introduction: Hi, welcome to Cars 4 Less, I'm Don Massey!

The next step is a question! Here is the question to NEVER ask.

"May I help you?" The answer to this question is normally, "No, I'm just looking." Not a good situation because the customer had just said I don't need help.

A better question would be, "What exactly brings you to my dealership today?"

Another question to avoid is: "If I give you the right price, can we make a deal today?" Customer surveys have shown this type of price question makes them uncomfortable and tense. If you do your job right and have the product they want, the sale will happen, today.

Place your emphasis on finding the right vehicle and build the quality factors, and the sale will take care of itself.

You should aim at closing 15% of those that visit your store. If you don't, then analyze the reason why. Did you have the product they wanted? Was the price of your vehicles in their range? Don't guess the reason. Develop a friendly enough relationship with the customer that you know the reason they did not buy. Knowing this answer can determine the success of your business. When customers take time to visit your business, they are typically buyers; you must determine why the public is not buying from your store.

Top salesmen with the best close rates demonstrate a lack of sales pressure. They have a way of making customers glad they came. They spend quality time

with the customer. They connect, listen, and lead the sale avoiding confrontation at any cost.

Price is the last point of discussion. It comes only after the customer bonds with the vehicle and the salesman.

Here are other considerations you should consider in talking with customers.

**Eye Contact:** Maintain eye contact 60% of the time. No eye contact gives the impression you're not concerned about the other person. Maintaining eye contact means you're interested in the person. Too much eye contact can be assumed to be too aggressive.

**Facial Expression:** The obvious thing is to smile! It adds warmth and confidence to the discussion.

**The Position of the Head:** Keeping your head straight will make you appear self-assured and authoritative. People will take you seriously. If you want to appear as friendly and open, tilt your head to one side.

**The Position of the Arms:** Arms crossed or folded over your chest infers you have shut other people out. You have no interest in them or what they say. This position can also say, "I don't agree with you." You might just be cold, but unless you shiver at the same time, the person in front of you may get the wrong message. The best place for your arms is by your side. You will look confident and relaxed.

**Posture:** Sit or stand erect if you want to be seen as alert and enthusiastic. When you slump in your chair or lean on the wall, you look tired.

Building relationships is part of the long-term marketing campaign for a dealer. After completion of the sale, send a personal thank you letter. You'll have the birth date of the purchaser so put them on a mailing list for an annual birthday card. Don't forget Holiday cards. Cards will keep your business in the thoughts of previous customers so that when they need another car, you'll be the first dealer that comes to mind. If a friend or relative needs a car, sending cards will help in referrals. Let's discuss why this is important. It's the women NOT the men who will remember the thoughtfulness of the card. And why is this important?

A J.D. Power & Associates study shows that women account for more than 50% of all auto purchasing, and they influence 85% of all car purchases. Women have a 95% veto power regarding automotive purchases!

So let's spend some time looking at women customers. Do you know that how a woman is treated on your lot is as important as the price? This is because women see male salesmen as too pushy and aggressive.

We need to understand that there is a very real difference between men and women. Both men and women want to be treated fairly and with respect. But with women, it is even more important because they have heard the terrible stories from friends and relatives of how badly they have been treated by car salesmen. Because of this, they are ultra-sensitive to your attitude and treatment of them as INDIVIDUALS.

Don't be condescending or treat them as a sex object. It is not the time to use the term "honey," or to flirt. Another thing to understand, women don't generally shop cars for fun. They are usually a serious buyer when they walk on your lot. Here are some guidelines on selling to women.

Give your business card to both the man and woman when they are shopping as a couple. Include the woman in the discussion and questions. Make sure you talk to her, not the spouse when she asks a question. Remember the woman has a 95% veto in the buying decision. Treat her as an equal in the process. On the test drive, give the woman the option of a turn to drive.

In summary, women are people who should be treated with the respect and attention any customer deserves.

With social media today, the initial contact is by phone or webpage because the potential buyer has visited the dealer's website.

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## HOW TO NAME YOUR BUSINESS FOR MAXIMUM SALES

Consider your business name carefully; you'll have to live with it for a long time. The name should give people some idea of the nature of your business and should also project the image you want to have. Try to pick one that will grow your business and not limit you in the future.

It is an excellent marketing strategy to have a benefit to the consumer in your name. Examples:

Best Choice Auto  
Dependable Auto Sales  
Economy Auto Sales  
Best Buy Motors  
Better Car Auto Sales  
Cars 4 Less

You can see the list can be exhaustive. Check Internet telephone directories for names of dealerships in several other cities for ideas.

As mentioned earlier, you should have a benefit statement for your business, such as "Better Cars at Lower Prices."

Along with a name, many businesses also develop a logo which provides a graphic symbol of the business. As with the name, your logo should be carefully developed to project the image you want for your business.

Once you come up with a name, make sure it is not already in use.

You can look up current business names in the local telephone book, local government offices, trade directories, the Federal Trademark Register, listings of corporate business names from the Secretary of State, or you can hire someone to do a search.

If your business name includes your last name, you may not need to register it. However, if the name you have chosen does not contain the last names of all the owners, you must file a Fictitious Business Name Statement. This is also necessary

if the business name implies greater ownership with such words as "and company," or "associates" or "& son/daughter."

File your Fictitious Business Name Statement with the County Clerk or State. You'll need to check with your local and state agencies for details.

## THE SECRET OF THE RIGHT LOCATION

Your choice of a location can make or break your business. Therefore, it is important to put careful thought and analysis into your needs. This is not a decision to be made quickly or lightly.

First, consider your type of business. Most car businesses are in the same area of town or along an auto sales corridor. This is the prime location for your business. Consider the following factors as they apply when choosing a location:

- Specific needs of your business--space, special installations, etc.
- Zoning requirements (check with your local planning office)
- The appearance of the area; safety
- The customer base of the area; population density and type
- Traffic patterns, accessibility, and parking
- Nature of the competition
- Cost
- Lease terms

There are several places to go for assistance in choosing a location. The local Chamber of Commerce can often help. Small Business Development Centers, funded in part by the U.S. Small Business Administration, have offices throughout the country which provide free counseling assistance as well as literature and information. There are also professional consultants, bankers, lawyers, or realtors who have information that can help in making this important decision.

If you plan to sell by appointments through website telephone contacts, then your location is not as important. In fact, very few people visit dealerships today to “kick-tires.”

They have done their research and found a car they are interested because of your web advertising. They are visiting because of the phone contact and your invitation to see the vehicle. A very low percentage of your customers will pay cash for your vehicles. As a service, you must provide them with access to financing. When you are planning your business, you must explore the financial services available to do this.

## HOW TO PROVIDE FINANCING FOR YOUR CUSTOMERS

A very low percentage of your customers will pay cash for your vehicles. As a service, you must provide them with access to financing. When you are planning your business, you must explore the financial services available to do this.

This is one of the reasons as a beginning dealer you may initially deal in lower priced cars. They are cheaper for you to purchase, and buyers will have the cash to purchase. These buyers usually do not have the credit rating to obtain a loan nor the cash flow to afford payments.

One primary source of financing for your customer could be your own bank. Contact the consumer credit loan officer in your bank to make arrangements. They will provide you the information and applications. Some banks will provide direct access to their credit application approval system so you can get an answer in a few minutes as to financing approval.

Another area of concern is F&I (financing and insurance) management. Financing is regulated by state and federal agencies. There are forms that must be completed and procedures that must be followed, or your dealership could be liable for fines or lawsuits.

It is beyond the scope and discussion of this manual to provide all the information you need on these topics.

Your state independent dealers association can be a resource to help you in this area, especially with state F&I regulations. You should join and support your state independent automobile dealers association.

I recommend you visit the F&I industry websites in the RESOURCES section at the end. You can also ask for help from your state agencies dealing with consumer protection and insurance.

There are software products available to manage your F&I business. You can find information on them at the websites I give in the RESOURCES section. You can also Google “F&I Management.”

Providing protection of the customer's personal and private information is now regulated by the Federal Trade Commission. As a dealer, you are required to provide protection of the customer's personal information. The regulation is called the "Red Flag Rules."

## RED FLAG RULES

Identity thieves use people's personally identifying information to open new accounts and misuse existing accounts, creating havoc for consumers and businesses. Financial institutions and creditors are required to implement a program to detect, prevent, and mitigate instances of identity theft.

The Federal Trade Commission (FTC), the federal bank regulatory agencies, and the National Credit Union Administration (NCUA) have issued regulations (the Red Flag Rules) requiring financial institutions and creditors to develop and implement written identity theft prevention programs, as part of the Fair and Accurate Credit Transactions (FACT) Act of 2003. The programs must be in place by November 1, 2008, and must provide for the identification, detection, and response to patterns, practices, or specific activities – known as "red flags" – that could indicate identity theft.

Who must comply with the Red Flags Rules? The Red Flags Rules apply to "financial institutions" and "creditors" with "covered accounts."

Under the Rules, a **financial institution** is defined as a state or national bank, a state or federal savings and loan association, a mutual savings bank, a state or federal credit union, or any other entity that holds a "transaction account" belonging to a consumer. Most of these institutions are regulated by the Federal bank regulatory agencies and the NCUA. Financial institutions under the FTC's jurisdiction include state-chartered credit unions and certain other entities that hold consumer transaction accounts.

A **transaction account** is a deposit or other account from which the owner makes payments or transfers. Transaction accounts include checking accounts, negotiable order of withdrawal accounts, savings deposits subject to automatic transfers, and share draft accounts.

A **creditor** is any entity that regularly extends, renews, or continues credit; any entity that regularly arranges for the extension, renewal, or continuation of credit; or any assignee of an original creditor who is involved in the decision to extend, renew, or continue credit. Accepting credit cards as a form of payment does

not in and of itself make an entity a creditor. Creditors include finance companies, **automobile dealers**, mortgage brokers, utility companies, and telecommunications companies. Where non-profit and government entities defer payment for goods or services, they, too, are to be considered creditors. Most creditors, except for those regulated by the Federal bank regulatory agencies and the NCUA, come under the jurisdiction of the FTC.

A **covered account** is an account used mostly for personal, family, or household purposes, and that involves multiple payments or transactions. **Covered accounts** include credit card accounts, mortgage loans, automobile loans, margin accounts, cell phone accounts, utility accounts, checking accounts, and savings accounts. A covered account is also an account for which there is a foreseeable risk of identity theft – for example, small business or sole proprietorship accounts.

Under the Red Flags Rules, financial institutions and creditors must develop a written program that identifies and detects the relevant warning signs – or “red flags” – of identity theft. These may include, for example, unusual account activity, fraud alerts on a consumer report, or attempted use of suspicious account application documents. The program must also describe appropriate responses that would prevent and mitigate the crime and detail a plan to update the program. The program must be managed by the Board of Directors or senior employees of the financial institution or creditor, include appropriate staff training and provide for oversight of any service providers.

### **How flexible are the Red Flags Rules?**

The Red Flags Rules provide all financial institutions and creditors the opportunity to design and implement a program that is appropriate to their size and complexity, as well as the nature of their operations. Guidelines issued by the FTC, the federal banking agencies, and the NCUA <http://www.business.ftc.gov/privacy-and-security/red-flags-rule> should be helpful in assisting covered entities in designing their programs. A supplement to the Guidelines identifies 26 possible red flags. These red flags are not a checklist, but rather, are examples that financial institutions and creditors may want to use as a starting point.

They fall into five categories:

1. alerts, notifications, or warnings from a consumer reporting agency;
2. documents;
3. suspicious personally identifying information, such as a suspicious address;

4. unusual use of – or suspicious activity relating to – a covered account; and
5. notices from customers, victims of identity theft, law enforcement authorities, or other businesses about possible identity theft in connection with covered accounts.

What this means, as a dealer using the basic credit information, you have a responsibility to watch for suspicious information.

To receive more detailed information and support, check with the National Independent Automobile Dealer Association (NIADA) [www.niada.com](http://www.niada.com) and your state independent automobile dealers association. They will have a packet of information to show you how to comply with the Red Flag rule.

They will also have a package to show you how to comply with the federal guidelines on protecting privacy or as it is called the FTC Privacy Safeguard Rules.

This support is provided to NIADA and state organizations members only. You should join your state and national organizations. Their support and information are invaluable.

One point to make about lenders: You will sign a contract with the lender. Make sure you understand the contract. As an example, most lenders will have in the dealer agreement that if at some time in the future, they find that the buyer of the car used a fake identity, they can require you, the dealer, to buy back the car, i.e., satisfy the lien. By their contract, it is the dealer's responsibility to verify the identity of the purchaser.

Read and understand the contract.

## OTHER SOURCES OF INCOME FOR THE USED CAR DEALER

The following are sources of other income you may wish to add to your dealership. You should attempt to add them all. Each of them will increase your bottom-line profit.

In addition to income from the sale of used cars, many dealerships have secondary and related income sources.

- Service contract income
- Leasing Income
- Fee Income
- Insurance income
- Finance Income
- Warranty Income
- Repossessions

Used car dealerships may also provide other income-producing services. These services include body repair work and routine maintenance, such as oil changes and tune-ups.

Leasing used cars on plans like those of new car dealerships has become another source of income for used car dealers in certain parts of the country.

Dealers may also buy vehicles that are later scrapped or junked. When this occurs, it is common for parts from the junked car to be used to recondition other cars that are eventually sold to customers. A dealer may also buy cars that are scrap cars (also called junked cars) for parts that are used to recondition cars for sale to customers.

The parts taken from a junked car may be used to recondition several different cars (for example, the carburetor used for one car, the alternator for another). However, it would be unusual for the parts to be sold to third parties since there is no network for such parts. A proportionate cost of the parts used should be added to the inventoried cost of the car sold. Once the usable parts have been removed, the junked car is normally sold to a scrap dealer or a junkyard for a small fee — the income received for the scrap or junk value of the car usually very small, normally under \$50 per car.

Not many dealerships regularly purchase scrapped or junked cars due to space limitations and the bad appearance that the cars make on the dealer lot.

You may find that your auction gives prizes with the purchase of certain cars, or hold drawings for prizes during the auction. Frequently these prizes are of minimal value; however, large items such as television sets and stereo equipment may occasionally be given away. Such prizes are included as income to the dealership.

### **Fee Income**

Auction fees are payments collected by a dealer for purchasing a particular vehicle for a customer at auction. Some dealers will bring the customer to the auction, although the dealer may have his or her buying card revoked by the auction if he is caught doing this. Most auctions do not allow visitors.

You might take a description of the vehicle wanted by a buyer as an open "buy order," then buy the vehicle when it goes through the auction. Some states have licensing requirements that make it illegal for some of the dealers to purchase a vehicle for a customer at auction. Dealerships caught in such activities will not only lose auction privileges but may also have their dealer license revoked. Check your state regulations.

Typical auction fees are paid by the customer, not the auction, and range from \$150 to \$450, depending on the cost of the car, relationship with the customer, etc.

Bird Dog Fees are a form of commission payment, also known as finder or referral fees. These fees are generated by:

1. Serving as a broker between two dealers/wholesalers, etc.
2. Finding a retail buyer for another dealer.

### **Insurance Income**

You may offer life insurance and disability insurance to buyers at the time of sale. The insurance policies are generally purchased from unrelated insurance companies, with the dealer receiving a commission from the sale of the insurance.

Credit life and disability insurance (CLI) is usually offered in conjunction with the financing and provides that if the insured event happens (that is, the buyer dies or becomes disabled), the buyer's note will be paid off by the insurance company. The commissions may range from 30 to 50 percent. If offered, CLI could be a large source of income.

Although most states allow car dealerships to sell CLI and earn commission income on each policy sold by the dealer, some states -- Michigan, for example -- specifically prohibit car dealerships and their employees from receiving any portion of the insurance premium attributable to the retail sale of a motor vehicle.

Therefore, in states such as Michigan, it is a common practice for an automobile dealer to establish a "dealer-related" insurance agency with a family member of the owner as an officer or owner of the dealer-related agency. Michigan law is violated if it can be shown that the dealer controls or manages the insurance company.

If you are unsure of the laws regulating the sale of insurance by auto dealerships in your state, contact the state Attorney General's Office, Department of Motor Vehicles, Department of Commerce, Financial Institutions Bureau, Insurance Bureau, or related state agencies for information.

## **Financing Income**

Financing rebates may take several forms. There may be a reserve account set aside by the finance company for recourse paper or aggregate loan performance. As the loan portfolio ages, some of the reserves may be refunded to the dealer.

Dealers commonly receive commissions on the sale of financial products. Some dealers make arrangements with finance companies to provide financing for their customers. The finance company frequently pays the dealer a commission or "finder's fee" based on the amount of the loan, or a set fee per loan.

Dealers may also have gross income from a rate spread on a loan. A dealer may have made arrangements with a finance company to write loans at a set interest rate, 8 percent, for example. When a car buyer purchases an auto from the dealership, the dealership may write the loan for a higher interest rate, 10 percent, for example.

The excess interest generated by the higher rate would be paid to the dealership by the finance company and would be includible income. The rate spread in this example is 2 percent; the difference between the rate the finance company charges the dealer and the rate the dealer charges the car buyer.

A dealer financing his or her own sales (Buy Here/Pay Here Lot) generally collects on the buyer note in one of two ways. First, he or she will get monthly or weekly payments over the term of the note.

Alternatively, a dealer may sell a note or several notes (bulk sale) to a third party at a discounted amount. The discounts are often significant, usually exceeding 20 percent of the principal, and in some cases approaching 50 percent.

A dealer who finances a car sale customarily keeps a financing file. Since both the state and federal government under various statutes regulate the financing transaction, a dealer must maintain a paper trail of the transaction. A financing file usually contains the following documents:

- Promissory Note.
- Security Agreement.
- Disclosure Notices required by law (if not contained in the Note or Security Agreement).
- Credit Application and Credit Report.
- Vehicle Title. Some states send the title to the owner and provide a notation of the lien on the title. In those states, the dealer will not have physical possession of the title.

The average financial income from rebates is \$200.00 per vehicle.

## **Warranty Contracts**

Used car dealers sell two basic types of extended service contracts. The first type, which is known as a third party or “Administrator obligor contract,” is between the customer and an unrelated underwriter. The dealer is merely an agent for the underwriter and keeps as profit the difference between the sales price of the contract and the "cost" paid to the underwriter.

A second type is a contract between the customer and the dealer (known as “Dealer obligor” contract). In the case of a dealer obligor contract, the dealer may

buy insurance covering his or her risk or be "self-insured." Dealer obligor warranties are more profitable.

When selecting any program, you should consider the service provider's current ability and history with respect to the payment of claims. You should also inquire about the type of insurance coverage the provider has obtained for the program and obtain copies of the current insurance policy. There have been incidents of lawsuits where dealers have been held accountable for warranty work when the carrier has closed the doors.

The profit to you on warranties can be as high as 50% of the cost to the buyer.

Here are third-party warranty companies you can consider. Also, check with NIADA or your state independent association.

Protective Asset Protection Division  
[www.protectiveassetprotection.com](http://www.protectiveassetprotection.com)

Diamond Warranty Corporation  
[www.diamondwarrantycorp.com](http://www.diamondwarrantycorp.com)

## FEDERAL USED CAR RULE

Car dealers who sell used vehicles must comply with the Federal Trade Commission's (FTC's) Used Car Rule. In fact, car dealers who sell more than five used vehicles in a 12-month period must comply with the Rule. Banks and financial institutions are exempt from the Rule, as are businesses that sell vehicles to their employees, and lessors who sell a leased vehicle to a lessee, an employee of the lessee, or a buyer found by the lessee.

The Used Car Rule applies in all states except Maine and Wisconsin. These two states are exempt because they have similar regulations that require dealers to post disclosures on used vehicles. The Rule applies in the District of Columbia, Puerto Rico, Guam, the U.S. Virgin Islands, and American Samoa.

This section defines the Rule's requirements, explains how to prepare and display the **Buyers Guide**, and offers a compliance checklist.

You must post a **Buyers Guide** before you "offer" a used vehicle for sale. A vehicle is offered for sale when you display it for sale or let a customer inspect it for the purpose of buying it, even if the car is not fully prepared for delivery. This requirement also applies to used vehicles for sale on your lot through consignment, power of attorney, or other agreement. At public auctions, dealers **and** the auction company must comply. The Rule does not apply at auctions that are closed to consumers.

Previously titled or not, any vehicle driven for purposes other than moving or test driving, is considered a used vehicle, including light-duty vans, light-duty trucks, demonstrators, and program cars that meet the following specifications:

- a gross vehicle weight rating (GVWR) of less than 8,500 pounds;
- curb weight of less than 6,000 pounds; and
- a frontal area of less than 46 square feet.

Exceptions to the Rule are:

- motorcycles;
- any vehicle sold for scrap or parts if the dealer submits title documents to the appropriate state authority and obtains a salvage certification; and agricultural equipment.

## The Buyers Guide

A disclosure document that gives consumers important purchasing and warranty information, the Buyers Guide tells consumers:

- whether the vehicle is being sold "as is" or with a warranty;
- what percentage of the repair costs a dealer will pay under warranty;
- that oral promises are difficult to enforce;
- to get all promises in writing;
- to keep the Buyers Guide for reference after the sale;
- the major mechanical and electrical systems on the car, as well as some of the major problems that consumers should look out for; and to ask to have the car inspected by an independent mechanic before they buy.

**If you conduct a used car transaction in Spanish**, you must post a **Spanish language Buyers Guide** on the vehicle before you display or offer it for sale.

The Buyers Guide must be posted **prominently and conspicuously** on or in a vehicle when a car is available for sale. This means it must be in plain view, and both sides must be visible. You can hang the Guide from the rear-view mirror inside the car or on a side-view mirror outside the car. You also can place it under a windshield wiper. The Guide also can be attached to a side window. A Guide in a glove compartment, trunk or under the seat is **not** conspicuous because it is not in plain sight.

You may remove the Guide for a test drive, but you must replace it as soon as the test drive is over.

## Vehicle Information

At the top of the Guide, fill in the vehicle make, model, model year, and vehicle identification number (VIN). Write in a dealer stock number if you wish.

## Dealer Information

On the back of the Guide, fill in the name and address of your dealership. Also, fill in the name (or position) and the telephone number of the person the

consumer should contact with complaints. You may use a rubber stamp or preprint your Guide with this information.

## Optional Signature Line

You may include a signature line on the Guide, and you may ask the buyer to sign to acknowledge that he or she has received the Guide. If you opt for a signature line, you must include a disclosure near it that says: "I hereby acknowledge receipt of the Buyers Guide at the closing of this sale." This language can be preprinted on the form. The signature line and the required disclosure must appear in the space provided for the name of the individual to be contacted in the event of complaints after the sale.

## Warranty Information

- The Buyers Guide has two versions: One says "As Is-No Warranty;" the other says "Implied Warranties Only."
- *As Is-No Warranty*. If state law allows it, and you choose not to offer a warranty — written or implied — you must use the "As Is" version and check the box next to the heading "As Is-No Warranty" on the Guide.
- *Implied Warranties Only*. In states that limit or prohibit the elimination of implied warranties, you must use the "Implied Warranties Only" version and check the box next to the "Implied Warranties Only" heading if you don't offer a written warranty.
- *Warranty*. If you offer the vehicle with an express warranty, you must check the box next to the heading "Warranty" and complete that section of the Guide. Warranties required by state law must be disclosed in this section. Your state Attorney General can tell you about state warranty requirements.

**State Law** In some states, use of the "As Is-No Warranty" Buyers Guide may be legally sufficient to eliminate implied warranties. In other states, "as is" sales are allowed only if a specific action is taken or certain language is used. For example, some states may require you to eliminate implied warranties by using special language and/or a document other than the Guide.

If you're not sure which version of the Buyers Guide you should use or if you have questions about state requirements, contact the FTC or your state Attorney General.

## Is the Warranty "Full" or "Limited"?

For a warranty to be considered "full:"

- Warranty service must be provided to anyone who owns the vehicle during the warranty period.
- Warranty service must be provided free of charge when necessary, even for services like removing and reinstalling a system covered by the warranty.
- The consumer must be able to choose either a replacement or a refund if the vehicle can't be repaired after a reasonable number of tries.
- The consumer is not required to take any action to receive service, except to give notice that service is needed. Service must be rendered after notice unless the warrantor can demonstrate that it is reasonable to require consumers to do more than give notice.
- The length of implied warranties must not be limited.

The warranty is considered "limited" if any of these conditions don't apply.

## What Percentage of Costs Does the Warranty Cover?

Fill in the percentage of parts and labor costs covered by the warranty in the spaces provided. If a deductible applies to repairs made under warranty, put an asterisk next to the number and explain the deductible in the "systems covered/duration" section. For example, "\*A \$50 deductible applies to each repair visit."

## What Systems Are Covered? For how long?

There's one column to list the systems covered, and another to list the length of the warranty for each system. In the left-hand column, you must specify each system that's covered by the warranty. The Rule prohibits the use of shorthand phrases such as "drive train" or "power train" because it's not always clear what specific components are included in the "power train" or "drivetrain."

In the right-hand column, you must state the length of the warranty for each system. If all systems are covered for the same length of time, you may state the duration once.

## **What if the Manufacturer's Warranty Still Applies?**

If the manufacturer's warranty hasn't expired, you may disclose this fact by checking the "Warranty" box and including this disclosure in the "systems covered/duration" section: "MANUFACTURER'S WARRANTY STILL APPLIES. The manufacturer's original warranty has not expired on the vehicle. Consult the manufacturer's warranty booklet for details as to warranty coverage, service location, etc." The disclosure must be stated in the exact language quoted above. Using phrases such as "balance of factory warranty" are not sufficient.

If the consumer must pay to get coverage under the manufacturer's warranty, you may not check the "Warranty" box. Such coverage is considered a service contract. However, you may check the "warranty" box if you pay for coverage from the manufacturer and the consumer doesn't have to pay anything more than the price of the vehicle to get the coverage. If you provide a warranty in addition to the unexpired manufacturer's warranty, explain the terms of your warranty on the Buyers Guide.

## **Where Should Negotiated Warranty Changes Be Included?**

If you and the consumer negotiate changes in the warranty, the Buyers Guide must reflect the changes. For example, if you offer to cover 50 percent of the cost of parts and labor for certain repairs, but agree to cover 100 percent of the cost of parts and labor after negotiating with the customer, you must cross out the "50 percent" disclosure and write in "100 percent." Similarly, if you first offer the vehicle "as is" but then agree to provide a warranty, you must cross out the "As Is-No Warranty" disclosure and complete the "Warranty" section of the Buyers Guide properly.

## **What about Service Contracts?**

If you offer a service contract for repairs, check the box next to the words "Service Contract." However, if your state regulates service contracts as the "business of insurance," you don't have to check this box. Check with your Attorney General or state insurance commissioner to find out if your state regulates service contracts as insurance.

## What Do I Have to Give the Buyer at the Sale?

You must give the buyer the original or a copy of the vehicle's Buyers Guide at the sale. **The Guide must reflect all final changes.** If you include a signature line on your Buyers Guides, make sure the buyer signs the Guide that reflects all final changes.

If you offer a written warranty, or if the manufacturer's warranty still applies, you also must comply with the Magnuson-Moss Warranty Act and other FTC Rules, including the "Warranty Disclosure Rule." The Warranty Act contains provisions that establish consumers' rights with respect to written warranties. For example, the Act prohibits you from eliminating implied warranties when you provide a written warranty.

The Warranty Disclosure Rule requires that you disclose certain information about the coverage of your warranty and consumers' rights under state law. This information must be included in a single document that is clear and easy to read.

## Can the Buyers Guide Serve as My Written Warranty?

The warranty information you provide on the Buyers Guide is not enough to meet the requirements of the Warranty Disclosure Rule. Therefore, your written warranty and the Buyers Guide must be two separate documents.

Another federal rule — the FTC's Rule on Pre-Sale Availability of Written Warranty Terms — requires that you display written warranties in close proximity to the vehicle or make them available to consumers, upon request, before they buy.

Two publications are available to help you comply with these and other federal regulations on warranties: *A Businessperson's Guide to Federal Warranty Law* and *A Legal Supplement to Federal Warranty Law*. Both are available from the FTC. Call toll-free 1-877-FTC-HELP (382-4357), or write Consumer Response Center, Federal Trade Commission, Washington, DC 20580. You also will find the full text of these publications at [www.ftc.gov](http://www.ftc.gov).

## What Disclosures Should I Make if I offer a 50/50 Warranty or Another Type of Split Cost Warranty?

Split cost warranties are those in which the dealer pays less than 100% of the cost of a warranty repair. This type of warranty includes 50/50 warranties, where the dealer pays 50% of the cost for a covered repair, and the buyer pays the remaining 50%. Another type of split cost warranty is one under which the buyer pays a deductible amount, and the dealer pays the remaining cost for the repair.

If you offer a split cost warranty that requires you to pay a percentage of the repair cost for covered repairs, you should include the following disclosures in your warranty document:

- The percentage of the total repair cost you will pay.
- The percentage of the total repair cost the buyer must pay.
- How the total cost of the repair will be determined. For example, your warranty might state: "The total cost of a warranty repair will be the retail price ABC motors charges for the same job." As another example, your warranty might state: "The total cost of a warranty repair will be determined by adding the dealer's cost for parts to the labor cost. Labor will be billed at a rate of \_\_\_\_\_ per hour for the actual time required to complete the repair." As a final example, your warranty might state: "If the work is done by an outside repair shop, the total cost of a repair will be the same price ABC Motors is charged by the outside shop. If the work is done by ABC Motors, the total cost of the repair will be the same price ABC Motors charges non-warranty customers for the same job."

If your warranty requires buyers to pay a deductible, your warranty document should disclose the deductible amount and the details as to when and under what circumstances the deductible must be paid.

Dealers offering split cost warranties can require that buyers return to the dealer for warranty repairs. If your warranty includes this restriction, however, you should provide an estimate of the total repair cost before work is started. This will allow the buyer to decide whether to approve the repair or to have the work done elsewhere.

## Where Can I Get Copies of the Guides?

You can get Buyers Guides from business-form companies or trade associations, or you can download the Buyers Guide from the FTC's Web site. You also can generate them yourself on a computer. However, you must use the wording, type style, type sizes, and format specified in the Rule. You are not allowed to place any other wording or symbols (including logos) on the Buyers Guide. The Guides must be printed in 100% black ink on white paper cut to at least 11" x 7 1/4." These requirements cannot be modified in any way. You may use colored ink to fill in the blanks.

## How Are You Doing?

- Do you complete a Buyers Guide properly for each used vehicle offered for sale?
- Do you post the Buyers Guide ***prominently and conspicuously*** on each used vehicle you offer for sale?
- If you choose to include a signature line for the buyer's signature, do you include the following required disclosure language:

***I hereby acknowledge receipt of the Buyers Guide at the closing of this sale.***

- Do you put the following required disclosure in your sales contract:

***The information you see on the window form for this vehicle is part of this contract. Information on the window form overrides any contrary provisions in the contract of sale.***

- Do you give the vehicle's Buyers Guide or a copy to the purchaser at the time of sale and make sure it states the final negotiated warranty coverage accurately?
- If a sale is conducted in Spanish, do you use the Spanish language Buyers Guide?
- If you offer a written warranty, do you prepare a warranty document that complies with federal law?

### **What If You Don't Comply?**

Dealers who violate the Used Car Rule may be subject to penalties of up to \$11,000 per violation in FTC enforcement actions. Many states have laws or regulations that are similar to the Used Car Rule. Some states incorporate the Used Car Rule by reference in their state laws. As a result, state and local law enforcement officials may have the authority to ensure that dealers post Buyers Guides and to fine them or sue them if they do not comply.

The FTC may change the rules/application of the Buyer's Guide at any time. Here is the web address to get the latest information and to see copies of the Buyer's Guide.

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

## Example of a Completed Buyers Guide

# BUYERS GUIDE

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

**Chevrolet**                      **Cavalier**                      **1995**                      **IGIAD27P6DJ123456**  
VEHICLE MAKE                      MODEL                      YEAR                      VIN NUMBER

DEALER STOCK NUMBER (Optional) \_\_\_\_\_

WARRANTIES FOR THIS VEHICLE:

**AS IS - NO WARRANTY**

YOU WILL PAY ALL COSTS FOR ANY REPAIRS. The dealer assumes no responsibility for any repairs regardless of any oral statements about the vehicle.

**WARRANTY**

- FULL                       **LIMITED WARRANTY.** The dealer will pay **100\*** % of the labor and **100\*** % of the parts for the covered systems that fail during the warranty period. Ask the dealer for a copy of the warranty document for a full explanation of warranty coverage, exclusions, and the dealer's repair obligations. Under state law, "implied warranties" may give you even more rights.

SYSTEMS COVERED:

Engine  
Transmission & Drive Shaft  
Differential

DURATION:

90 days or 3,000 miles, whichever comes first.

\* A \$50 deductible applies to each repair visit.

**MANUFACTURER'S WARRANTY STILL APPLIES.** The manufacturer's original warranty has not expired on the vehicle. Consult the manufacturer's warranty booklet for details as to warranty coverage, service location, etc.

- SERVICE CONTRACT.** A service contract is available at an extra charge on this vehicle. Ask for details as to coverage, deductible, price, and exclusions. If you buy a service contract within 90 days of the time of sale, state law "implied warranties" may give you additional rights.

PRE PURCHASE INSPECTION: ASK THE DEALER IF YOU MAY HAVE THIS VEHICLE INSPECTED BY YOUR MECHANIC EITHER ON OR OFF THE LOT.

SEE THE BACK OF THIS FORM for important additional information, including a list of some major defects that may occur in used motor vehicles.

## HOW MUCH MONEY WILL YOU NEED TO START?

You can estimate your licensing, bond and insurance is going to be between \$3,000 - \$5,000 depending on your state.

The following is a list of startup costs and monthly expenses. Use this list to determine your initial cash requirements. Remember, you should have cash reserves to cover a few months of operating expenses.

### Start-Up Costs

- Fixtures and equipment
- Decorating and remodeling
- Installation of fixtures and equipment
- Starting inventory
- Deposits with public utilities
- Legal and other professional fees
- Licenses and permits
- Advertising and promotion for opening
- Consulting & software
- Cash
- Other

Determine an estimated cost of each of the above items. The total will give your estimated start-up costs. I would bump this estimate up by 25% to cover unforeseen expenses.

### Monthly Expenses

- Salary of owner-manager (the amount you need to pay yourself)
- All other salaries and wages
- Rent
- Advertising
- Supplies
- Telephone
- Utilities
- Insurance

Taxes, including Social Security  
Interest  
Maintenance  
Legal and other professional fees  
Miscellaneous

Now estimate your monthly expenses using the above items. To provide a cushion of time to build your customer base, you should have a cash reserve of twelve months expenses.

Wow! The startup costs and the twelve-month reserve! How do I find the money? Let's find out.

### **How Will You Finance Your Business?**

Sufficient capital is essential for both the start-up and continuation of the business. In fact, inadequate financing is one of the major causes of business failure. In order to avoid this, you must not only have money but the knowledge to manage it well. You also need enough money to get through the period of time before your business starts turning a profit. Ideally, you should have a 12-month cushion to handle all of your expenses with no revenue from the business.

Businesses usually are financed in one of three ways:

Self-financed - You start with your own money.

Debt-financed - You borrow money.

Equity financing - You take on someone who acquires a partial interest in the business in exchange for money.

If you choose to borrow money, you need to find a lender. This can be a friend, relative, acquaintance, bank, or other entity that is willing to take the risk of loaning you money.

In most cases, you need to have a well-developed and convincing business plan which contains both short- and long-term projections based on realistic figures covering at least the next two to three years. Lenders will usually require profit/loss statements, tax returns, and a current balance sheet. You will probably need some collateral to support the loan. Look at the equity in your house and/or life insurance policies, or other financial resources you may have. Be prepared to

demonstrate the ability to repay and the capacity to manage funds effectively. Borrow prudently and do not overextend yourself.

There are many possible sources of capital. However, be aware that many lenders perceive small businesses as risky investments. Sources include:

Commercial banks - Get to know your banker and come in with a well-developed plan. You will obtain your floor plan from this type of bank.

Borrowing on life insurance or home equity - You may be able to turn your equity into funds for your business.

U.S. Small Business Administration - There are special programs sponsored by the SBA. Contact them for information to see if you possibly qualify.

<https://www.sba.gov/>

Venture capitalists - This is not an easy option for small businesses just starting out. Venture capitalists invest in high-growth industries promising huge profits.

**My personal experiences with obtaining financing for a small business is very difficult. An individual should have enough personal cash to open the business and keep it running for 12 months. With that in your business plan, it will make it much easier to obtain your floor plan loan.**

Bob Hope had this excellent one-liner:  
A bank is a place that will lend you money if you can prove that you don't need it.

# BUSINESS PLANNING – WHERE TO START

## Self-Evaluation

Carefully consider your personal needs and those of your family before taking on this commitment.

1. Do I have what it takes to own/manage a car lot? You will be your own most important employee, so an objective appraisal of your strengths and weaknesses is essential. Some questions to ask yourself:

Am I a self-starter?

How well do I get along with a variety of personalities?

How good am I at making decisions?

Do I have the physical and emotional stamina to run a business?

How well do I plan and organize?

Are my attitudes and drive strong enough to maintain motivation?

How will the business affect my family?

2. Is the used car business the one I should do?

Usually, the best business for a person is the one in which they are most skilled and interested. Do you have a passion for cars? Can you deal effectively with many different types of people? Can you visualize yourself as a successful business person with a booming business in the used car industry? The people who are the most successful are those who work their passions. So if cars are your love, then this business is for you!

3. What is a business plan, and why do I need one?

A business plan precisely defines your business, identifies your goals, and serves as your firm's resume. Its basic components include a current and pro forma balance sheet, an income statement and a cash flow analysis.

It helps you allocate resources properly, handle unforeseen complications, and make the right decisions. Because it provides specific and organized information about your company and how you will repay borrowed money, a good business plan is a crucial part of any floor plan loan package. Your banker will require one.

## **Pitfalls**

On the other hand, there are a number of reasons why used car businesses fail. You can avoid many of the following pitfalls by planning ahead and seeking out help when needed.

- Insufficient assessment of professional and personal skills
- No business plan
- Inadequate financing
- Incomplete records
- No marketing strategy
- Poor understanding of the used car market in your area
- Buying cars needing too much repair
- Wrong location
- Weak management
- Hiring the wrong people
- Poor customer service

## **Know Yourself**

Going into business requires certain personal characteristics. Not everyone is suited to be a business owner. Take some time to think about your motivations, personality, and abilities.

As a first step, ask yourself why you want to own your own business.

- Freedom from the 9-5 work routine
- Being your own boss
- Do what you want when you want to do it
- Improve your standard of living
- Boredom with your present job
- Having a dream of owning your own business

Some reasons are better than others, but none are wrong. Be aware, however, that there are tradeoffs. For example, you can escape the 9-5 daily routine, but you may have to replace it with a 7 day a week, 7am - 8 pm routine.

Try to be objective in the following self-analysis. Remember, it is your future that is at stake!

Are you a natural self-starter, or are you a little lazy?  
Are you a leader?  
Do you like to make your own decisions?  
Do others turn to you for help in making decisions?  
Do you enjoy competition?  
Do you have self-discipline?  
Do you plan ahead?  
Do you like people?  
Do you get along well with others?

Think about the physical, emotional, and financial strains you will encounter in starting a used car business.

Are you aware that running your own car lot may require working 12-16 hours a day, six days a week, and maybe even Sundays and holidays?

Do you have the physical stamina to handle the workload and schedule?  
Do you have the emotional strength to withstand the strain?  
Are you prepared, if needed, to temporarily lower your standard of living until your business is firmly established?  
Is your family prepared to go along with the strains they, too, must bear?  
Are you prepared to lose your savings or equity in your home?

Certain skills and experience are critical to the success of the business. Since it is unlikely that you possess all the skills and experience needed, you'll need to hire personnel to supply those you lack. There are some basic and special skills you will need for your particular business. Identify your strengths and weaknesses with the following questions.

Do you know what basic skills you will need in order to have a successful business? Do you possess those skills?  
When hiring personnel, will you be able to determine if the applicants' skills meet the requirements for the positions you are filling?  
Have you ever worked in a managerial or supervisory capacity?  
Have you ever worked in a business similar to the one you want to start?  
Have you had any business training in school?  
If you discover you don't have the basic skills needed for your business, will you be willing to delay your plans until you've acquired the necessary skills?

If you don't have the answers to the above and you really had a burning ambition to want to open a used car business, then here's one of my **STRONG** recommendations.

Get a job as a used car salesman at a larger independent used car dealership. If there are none near you, then get a used car sales job at a franchise dealership. There are always job openings for these salesmen.

If you have no experience in the auto business, this is the best way to learn a business from the inside out. Spend 12-18 months as an investment in the future of your own business. It sounds like a long time, but it will help you immeasurably.

You'll then be able to determine if you truly like the car business and you'll learn the inside secrets of how a used car business functions and is managed.

This is an investment by you of only your time to keep you from losing your investment of dreams and money later. And you'll be paid while learning!

Another alternative: start your business part-time selling low cost (\$2,000-\$8,000). Test the water by swimming in it!

## PLANNING FOR YOUR USED CAR BUSINESS

So, you're ready to jump into the car business. Let's review the steps to implement your new business.

- Decide on a legal structure
- Select a business name
- File a fictitious business name statement
- Obtain a business license
- Check the zoning laws and other land use ordinances
- Obtain necessary permits and licenses from your city and county
- Obtain necessary permits and licenses from state and/or federal governments
- Apply for state employer ID number
- Apply for the federal identification number
- Develop a financial plan
- Develop a marketing plan
- Obtain insurance coverage
- Decide on an accounting system
- Seek out assistance if needed
- Starting a business from scratch

### **It All Starts with Your Business Plan**

The business plan is your blueprint for success. It sets down your goals for the business, assists in analyzing the feasibility of a new business, defines your customers and competitors, and points out your strengths and weaknesses. It also details your plans for the future.

Develop the business plan yourself rather than hiring someone else to do the work. After all, it's your business. In some areas, you may want to consult professionals for advice. Once the plan is developed, refer to it often. It should also be updated periodically, at least once a year.

Use the following basic outline to organize your own plan. There should be a separate paragraph with a heading that identifies each area you are discussing. It should be concise, factual, and easy to read.

## **Business Plan Outline**

Summary

Business Description

Name

Location and plan description

Product/service

Market and competition

Management experience/expertise

Business goals

Summary of financial needs and application of funds

Earnings projections

Market analysis

Description of the total market

Industry trends

Target market

Competition

Products or service

Description of product line or service

Marketing strategy

Overall strategy

Pricing policy

Management plan

Form of business organization

Board of Directors/Advisors composition

Officers, organization chart, and responsibilities

Resumes of key personnel

Staffing plan/number of employees

Facilities plan/planned capital improvements

Operating plan/schedule of upcoming work for two years

Financial data

Personal financial statements (previous 2-3 years), if seeking a loan

Two-year financial projections

Income statement (profit/loss statement)

Balance sheets

Cash flow

Capital expenditures

Explanation of projections

Key business ratios

Explanation of the use and effect of new funds (loans, etc.)

There are many excellent books and Internet resources to help you prepare your business plan. The Small Business Administration ([www.sba.gov](http://www.sba.gov)) is a good place to start. They describe business plans and have templates from Palo Alto Software ([www.bplan.com](http://www.bplan.com)).

If this is the first time you have considered a business plan, it may seem overwhelming! It's not. It gives you a template to consider all aspects of starting a new business. If you do this, you'll discover things that could affect the success of your endeavor.

### **Get Help from the Experts**

There are a number of outside professionals with whom you will want to establish a relationship.

#### Accountant

An accountant may be consulted to set up a good bookkeeping system for your business. Inadequate recordkeeping is a principal contributor to the failure of small businesses. Make sure that you understand the bookkeeping system you are using and that you receive and study regularly produced financial reports.

Accounting rules for the used car business are defined by IRS regulations. Attempt to find an accountant who is familiar with them, or you'll be paying to train your accountant who doesn't know the regulations.

The excerpt from the IRS agents' guidelines for auditing, which I include later, can give a good insight into the way your business accounting procedures should be set up.

#### Attorney

An attorney's services are not only essential in the planning stages of your business, but throughout the life of the business. The attorney can assist you in choosing your legal structure, drawing up agreements and contracts, and providing information on your legal rights and obligations. There are also online resources which provide legal information.

#### Banker

The capital requirements of small business make it essential that a good working relationship is established with a local banker. Bankers are a good source of financial information and for obtaining financing. It is recommended that you establish a relationship with your banker prior to applying for a loan.

### Insurance Agent/Broker

There are many different kinds of insurance options available for business owners. An insurance agent or broker can advise you about the type and amount of coverage that is best for your business. The agent may be able to tailor a package that meets your specific needs at reasonable rates. If you are starting a new business, the insurance agent will need in-depth information about your business in order to help you get the necessary insurance coverage. Insurance for new businesses can be expensive.

### Consultants

Each of us has talents in many areas, but no one can be a master of everything. Consultants are available to assist in those areas in which you need expert help. There are business, management, and marketing consultants, promotion experts, financial planners, and a host of other specialists who can help make your business more successful.

Here's another great tip. Consultants can be expensive, and it's difficult to find one experienced in car sales. I recommend you find a person who has owned a used vehicle and pay for his insights and expertise. Ask the local Chamber of Commerce, Rotary Club, or Lion's Club members if they know of someone. Check with your state's independent automobile dealer association for a recommendation.

This person can be your greatest asset. Pay him an hourly fee to help you plan your business.

## WHAT VEHICLES TO SELL?

This is a question you must know the answer.

General answers might be:

“Oh, I think the high end, low mileage cars would be best.”

“I KNOW that the Ford F-150 is a hot seller.”

“I understand the Toyotas and Hondas 5-10 years old are in demand.”

“My Nissan has been a great car for 5 years! I’ll specialize in Nissan.”

“How about selling any car below a price of \$7,000?”

All these answers could be right or wrong.

Starting a new business, you MUST know what are the best vehicles to sell.

How do you find out? Well, you can guess and lose a lot of money with wrong guesses.

The wrong vehicle means either the demand for it is so low it won’t sell, or you paid more than retail for it.

First, a recommendation. Begin your business selling vehicles priced under \$10,000. You want to minimize your losses if you make mistakes in selecting the wrong car.

These lower priced vehicles will sell for cash so you won’t have to have to provide any financing.

Now how do you determine the best vehicles to start with? Market research!

If you are starting a new business, you should do research on similar businesses in your area or marketplace. You have to understand your competition. They have the experience and knowledge you don’t have.

How to do this. A few years ago, you would have to driver around and check dealers for the vehicles and prices they are charging.

Today the Internet simplifies your work. Just visit their websites. Example, you decide to begin by selling cars for less than \$10,000 or less. Find local dealers who are selling vehicles in this price range.

Read their websites. Keep records of the dates you visit, and the details of the vehicles being sold. This should include, brand, model, age, mileage and price. Note changes in pricing.

Regularly visit the sites and see what vehicles are no longer in inventory and the new ones added. It would be ideal to do this daily.

Analysis of this data will show you which were either sold or sent to auction and what models, age, and mileage are being added.

**The ones added are what the owner knows from experience sells in his (your) marketplace.**

Can you see that you must do this research (spying)!

## THE LEGAL STRUCTURE OF YOUR BUSINESS

Most small businesses start out as either a sole proprietorship or a partnership, but many eventually explore the transition to another entity. Contact an attorney or accountant to learn the advantages and legal requirements of each to decide which form is best for you.

### **Sole Proprietorship**

This is the simplest and least regulated form of organization with minimal legal start-up costs. A person (or couple) owns and operates the business and is responsible for procuring financing. The sole proprietor has total control, receives all profits, and business income is taxed as personal income. The major disadvantages include potential personal liability for the owner and potential dissolution of the business upon the owner's death. I cannot recommend operating a car dealership as a sole proprietor.

### **Partnership**

A partnership is relatively easy to form and can provide additional financial resources. Each partner is an "agent" of the partnership and can hire employees, borrow money, and operate the business. Profits are taxed as personal income, and the partners are still personally liable for debts and taxes. Personal assets can be attached if the partnership cannot satisfy creditors' claims. A special arrangement, called a "limited partnership," allows partners to avoid personal liability. Limited partnerships must be registered and must also pay a franchise fee. When entering into any partnership, a written agreement is essential. I don't like partnerships. I would NEVER enter a partnership with a family member.

### **Limited Liability Company**

The Limited Liability Company is treated as a partnership for U.S. income tax purposes and also provides the limited liability of a corporation. This option may be the preferred choice for certain new operations and joint ventures. Owners of Limited Liability Companies are called "members." These are comparable to stockholders in a corporation or limited partners in a limited partnership. To create a Limited Liability Company, Articles of Organization are filed with the Secretary of State. The members must also execute an operating agreement which defines the

relationship between the Company and its members. Not all states have this option available.

## Corporation

The most complex of business organizations, the corporation acts as a legal entity which exists separately from its owners. While limiting the owners from personal liability, this creates a "double taxation" on earnings (corporate tax and personal tax). A corporate structure may be advantageous because it allows capital to be raised more easily through the sale of stocks or bonds and can continue to function even without key individuals. It also enables employees to participate in various types of insurance and profit-sharing plans. Costs to incorporate vary from state to state. Contact the Secretary of State for more information. A special type of corporation, an S corporation, allows owners to overcome the double tax and shareholders to offset business losses with personal income. S corporations are subject to an annual surcharge.

My recommendation as a sole owner, you consider a Sub Chapter S or a Limited Liability Corporation. I am a Sub Chapter S Corporation. In an LLC or S Corp, the company pays no corporate income tax. The profits are passed to the owner as dividends and taxed as personal income. The primary benefit of this is no double taxation.

It will cost you around \$1000 for a lawyer to incorporate you or you can do it yourself following the instructions and forms at your state's Secretary of State website. There are also "incorporation services" available on the Internet for a small fee.

The incorporation is a state function usually by the Secretary of State. I did it all online in Colorado.

The subchapter S designation is an IRS function. You complete a simple form and submit it to the IRS. See [www.irs.gov](http://www.irs.gov) for the form and instructions for completion.

There are also websites where you can file the incorporation papers for a fee.

## INSURANCE REQUIREMENTS

What kinds of insurance are needed for your business? Talk to an insurance agent and discuss it with her/him. Some of the possibilities include:

Your license will usually require you have what's called "Garage Liability" insurance. This insurance may include some of the following as riders.

Basic Fire Insurance

Extended Coverage- protects against conditions not covered by fire insurance including storms, explosions, smoke damage, and various other disasters

Liability Insurance covers claims against the business for bodily injury.

Vandalism and Malicious Mischief Coverage

Theft Coverage - protection from burglary and robbery

Vehicle Insurance - for the use of vehicles for business

Workers' Compensation

Health Insurance

## UNRAVELING THE CONFUSION OF LOCAL AND STATE REGULATIONS

This is the part of ventures that many people dread. Getting through the maze of government regulations can certainly be one of the most confusing aspects of doing business. But while this process may be intimidating, it is important to do it correctly since noncompliance can result in costly penalties.

A used car business has city, county, state, and federal regulatory requirements. It is your responsibility to adhere to any and all regulations that apply to your business.

What do you need to do? The answer is different for a used car business in each city, county, and state. You have to start by asking questions. Begin with your city and/or county government. Describe your business, and a friendly worker will direct you to the appropriate forms and requirements.

Dealer License

Business License - permit to operate a business locally.

Police Permit- some cities require a police clearance or permit.

Seller's Permit - required in states with sales tax. Apply to the appropriate state agency.

Building Permits, Fire Certificates, Zoning Permits. Check with your local planning department.

## HOW TO KEEP PROPER BUSINESS RECORDS

Keeping accurate and up-to-date records is crucial to a successful business. Records are the most important management tool you possess, and they come in handy at tax time too. An accountant can help set up a recordkeeping system, or you can find books and forms to get you started. A good rule of thumb is to keep your records as simple as possible.

Before you start your business, be sure to open a business checking account. This will help keep your personal and business finances separate and will provide a record of deposits and expenses. Avoid using the business account for personal expenses.

Besides financial records, depending on your type of business, you may need to keep track of other information, including but not limited to:

- Inventory
- Client Contacts
- Petty Cash
- Suppliers
- Employee data
- Mileage
- Telephone Calls
- Accounts Payable
- Payroll

The ability to find and use information when you need it is invaluable. You can keep track of your information manually or use one or more of the many computer programs available for small businesses. Be sure to back up your work!

Accounting is one of those topics that make people nervous, but keeping books doesn't need to be complicated. In fact, simplicity is the key to a good system for small businesses. Keep in mind that your records need to be complete, so you have the information you need for business decisions and taxes.

The accounting methods you use are determined by the IRS. You will want to talk to an accountant for help in setting up your system. Even with the support of a professional, you should understand your own system thoroughly.

You can read the free report you received taken from the actual IRS audit manual for used car dealerships. This is the guide used by IRS agents when doing an audit. It will give you insights into the documentation and accounting needed for a used car business.

## GET A HANDLE ON YOUR BUSINESS FINANCES/TAXES

You need to understand the financial situation of your business if you are to know what is happening and why to predict, what is going to happen and make good decisions for the future. The information below will help you design and interpret your own financial statements.

### Balance Sheets

A balance sheet shows the worth of the business. Traditionally, the business' assets are shown on the left side of the page and liabilities and net worth on the right.

$$\text{Assets} = \text{Liabilities} + \text{Net Worth}$$

There are two main categories of assets: current assets (anything that can be converted to cash within a year) and fixed assets (buildings, equipment, etc.). Liabilities are divided into current liabilities (short-term bills such as inventory, salaries, etc.) and long-term debt (such as a mortgage, etc.). The difference between the assets and liabilities equals net worth.

### Profit and Loss Statements

Follow the money coming in and going out over time in your business with a Profit & Loss Statement. Blank spreadsheets are available from local agencies such as the Small Business Development Center or SCORE or check accounting books at the library or any business stationary store. Your spreadsheet should have a column for each month and keep track of at least the following information:

- Total Sales
- Cost of Sales
- Gross Profit
- Owner's Wages/Draw
- Salaries
- Payroll Taxes
- Supplies
- Advertising
- Auto/Travel
- Dues & Subscriptions
- Postage
- Legal & Accounting

Office Supplies  
Telephone  
Utilities  
Depreciation  
Interest  
Insurance  
Rent  
Taxes & Licenses  
Loan Payments  
Net Profit/Loss

## Taxes

Being an entrepreneur does not exempt you from paying taxes. Tax laws may be complicated and confusing, but you are responsible for those related to your business.

The Internal Revenue Service (IRS) allows the deduction of all legitimate business expenses (with a few exceptions) as long as they meet three rules:  
The expenses must be incurred in connection with your business.  
The expenses must be "ordinary and necessary."  
The amounts must be "reasonable."

Become familiar with which expenses are deductible. The IRS has free publications, which can answer many of your questions. You need documentation of expenses in case you are audited. Tax laws change from year to year. Your accountant can help make you aware of those changes that affect your business.

There is tax help available on the Internet, including complete access to the U.S. Tax Code. You can also go directly to the IRS or other tax resources. A partial listing of free IRS publications for business owners includes:

Circular E: Employer's Tax Guide (#15)  
Tax Guide for Small Business (#334)  
Tax Withholding & Estimated Tax (#505)  
Tax Calendar (#509)  
Self-Employment Taxes (#533)  
Depreciation (#534)

Business Expenses (#535)  
Accounting Periods and Methods (#538)  
Starting a Business and Keeping Records (#583)  
Business Use of Your Home (#587)  
Business Use of a Car (#917)  
Business Reporting (#937)

These reports can be obtained from your local IRS office or online at  
<http://www.gpo.gov>

You will probably be responsible for other taxes besides federal. You also have to pay state and any local taxes. Businesses with employees must pay disability and unemployment insurance tax. If you have employees, you must have a Federal Tax ID number.

## INVALUABLE RESOURCES

Here are Internet Web sites that **YOU MUST VISIT** to get more insight and information about operating your used car business.

**Do not fail to visit every one of these sites as part of your learning process.**

**AutoTrade.com** has an excellent resource for dealers:

<https://www.coxautoinc.com/learning-center/>

**Mannheim Auctions** operate 124 wholesale auctions around the world. This excellent website has the inside info on how to register for auctions and how they operate. <http://www.manheim.com/>

**National Automobile Dealers Association**, founded in 1917, represents more than 20,000 new car and truck dealers. <http://www.nada.org>.

**National Independent Automobile Dealers Association** headquartered in Arlington, Texas, NIADA has over 19,000 members nationwide. Formed in 1946 to represent independent automobile dealers, NIADA is the voice of the used motor vehicle industry. NIADA provides support to the industry through conferences, training, and online videos. This group has a wealth of information for both new and seasoned independent dealers.

<http://niada.com>.

**National Auto Auction Association** is the largest of dealer auctions. Great information and training at [www.naaa.com](http://www.naaa.com)

**ADESA** is an independent auction association. Visit their website at [www.adesa.com](http://www.adesa.com) to gain more knowledge.

Some smaller independent auctions are members of the association **Independent Auctions**. Their website is <http://independentauctions.com>

**Ward's Dealer Business**. Ward's has covered the auto industry for more than 75 years. Ward's has industry news as well as data and analysis products to meet virtually any information need. <http://www.wardsauto.com>.

**Finance and Insurance Management.** The industry magazine can be found at <http://fi-magazine.com>.

**State Dealer Associations:** Almost every state has a dealer's association. To find yours, do a search on Google.com for "your state's name" automobile dealers association, i.e., "Texas automobile dealers association." **DO THIS!**

### **INDUSTRY NEWSLETTERS**

**SubPrime Auto Finance News** [www.subprimenews.com](http://www.subprimenews.com)

**Auto Remarketing** [www.autoremarketing.com](http://www.autoremarketing.com)

## APPENDIX I

This is the arbitration policy that will be in place in when you purchase a vehicle at an auction that is a member of the National Auto Auction Association.

**Visit their website at [www.naaa.com](http://www.naaa.com). They will have regular updates to this policy on the website. This policy is provided for general information only!**

Individual auctions may add to this policy. Check with your local auction.

If your auction is not a member of the NAAA, then you need their complete policy statement.

If you have a problem with a buy or sale at auction, you cannot use the excuse; I didn't know that was a different arbitration policy than the NAAA.



### **National Arbitration Policy: In-Lane and Online**

#### **I. General Policies**

**1. Fair and Ethical Sale:** The sales made at an Auction are intended to promote fair and ethical treatment to both the Buyer and Seller. If Auction determines that the transaction is not fair and ethical to either party, the Seller and the Buyer agree that Auction may cancel the sale, at its sole discretion. Federal, State, and Local

laws supersede these policies where applicable. This provision also applies to any clerical or administrative error made by Auction. Any arbitration conducted at Auction is subject to the Terms and Conditions of the Auction.

## **2. Auction Role in Sale:**

a. Auction makes no representations or guarantees as to the description, equipment, warranties, service policy, title status/accuracy, or odometer on any vehicle sold or offered for sale.

b. Auction is not a party to the contract of the sale. The sales contract is between the Seller and Buyer only. The Seller is required to give the Federal Odometer Mileage Statement in connection with any auction sale as required by the Motor Vehicle Information and Cost Savings Act of 1972 or any other applicable laws. Auction is not responsible for the accuracy of odometer readings, odometer statements, or damage disclosure statements.

c. All vehicles bought or sold on the premises must be processed through the Auction office. Failure to do so will result in the suspension of trading privileges at Auction.

## **3. Lot Sales/ Outside Sales**

a. Any sale in which the Auctioneer does not state the selling price of the vehicle or “sell under the hammer” is considered a “Lot Sale.”

b. All “Lot Sales” are conditional until the buyer signs the block ticket or appropriate document for the vehicle signifying they have inspected and accepted the vehicle. Until the appropriate document is signed, the sale is not binding to either party.

c. Sellers may guarantee “Lot Sales,” but must do so in writing. Vehicles sold after crossing the block are still subject to the announced conditions noted on the Auction sales receipt. These transactions are subject to the terms noted in the Disclosure/Discovery section of the policies.

d. Buyers are cautioned to inspect “Lot Sale” vehicles very carefully and verify announced conditions before purchasing.

#### **4. Auction VIN Policies**

- a. All vehicles consigned must have a public Vehicle Identification Number (VIN) plate attached to the vehicle. Those vehicles having a reassigned VIN plate by the State in place of the original VIN plate must be announced or will be subject to sale cancellation or Buyer return. Auction reserves the right to refuse the sale of any vehicle in which the VIN plate appears to be altered in any way.
- b. Seller guarantees VIN plates and years on any vehicle up to 20 model years old with the exception of the VIN/plates and year on trailers, RVs, and watercraft, which are guaranteed up to 10 model years.

**5. Auction Right of Review** - Auction reserves the right to review any audio/video documentation to verify the accuracy of a sale.

#### **6. Auction Exclusions**

- a. Auction is not bound by the information listed in Electronic Data Vehicle Histories (EDVH) (i.e., Carfax, AutoCheck, etc.) and any vehicle may not be arbitrated solely on EDVH data. Auction may investigate vehicle history based on information found in EDVH for information that may impact arbitration.
- b. Vehicles are not subject to arbitration if they exceed 20 model years, with the exception of trailers, RVs, and watercraft, which cannot be arbitrated if they exceed 10 model years.
- c. Kit vehicles, homemade vehicles, or modified vehicles are sold “AS-IS” and cannot be arbitrated for odometer, frame, VIN plates, warranty books, or model year.

#### **7. Online Buyer Responsibilities**

- a. The Buyer or Buyer’s agent (transporter or driver) should note any obvious damage on the gate release prior to removing the vehicle from the Auction or facilitation service provider’s location. Auction or facilitation service provider and Seller will not be responsible for any obvious damage not identified on the gate release or the condition report once the vehicle is removed from the Auction or facilitation service provider’s location.

b. Buyer will inspect the vehicle immediately upon arrival at Buyer's location. The Buyer must verify the Seller's representations and notify the Auction or facilitation service provider immediately of any discrepancies within the time frame as stated in this arbitration policy. Buyer will verify odometer reading upon arrival at Buyer's location. Mileage must be the same as when purchased if arbitrating for the inoperable odometer.

c. The Buyer is responsible for understanding the Online Bidding/Proxy Bidding and Buy Now procedures for online buying channels

d. It is strongly encouraged that an On-Line Buyer should have a Post Sale Inspection (PSI) on vehicles purchased.

**8. Government Inspection** - All vehicles registered/sold at Auction are subject to inspection, with or without prior notice, by the FBI, State Police, National Auto Theft Bureau, Local Police Authorities, any other governmental agency, or quasi-governmental agency.

**9. Buyer Responsibilities** - The Buyer is responsible for listening to announcements related to each vehicle, made by the Auctioneer or Selling Representative, prior to the start of the sale. The Buyer is also responsible for observing and understanding the sale lights (Green, Yellow, Red, Blue), which identify various sale conditions for the vehicle.

**10. Seller Responsibilities** - All guarantees, as stated by the Seller, are those of the Seller only. The Seller understands that the sale light/video display is a binding arbitration representation of vehicle condition, and is therefore responsible for ensuring that their vehicles sell under the correct light in the lane.

## **II. Sale-Light / Video Display Systems: In-Lane and Online Simulcast Only**

**1. Auction System** – Auction has a standardized light/video display system to describe the condition and/or announcements related to the vehicle being sold. The system is defined as:

**a. Green Light – “Ride and Drive”:** The green light signals that this vehicle is guaranteed under the conditions outlined in the Disclosure/Discovery Arbitration section, except for specific announcements made prior to the sale.

b. **Yellow Light – “Announcements”**: This light is an indication to the Buyer that the Auctioneer or Selling Representative has made announcements that qualify/clarify the condition or equipment and limit arbitration of this vehicle.

c. **Red Light – “AS-IS”**: Vehicles selling under the red light will only qualify for arbitration under the rules outlined in the Disclosure/Discovery section. (AS-IS dollar amount, model years, and mileage is subject to local auction policy).

d. **Blue Light – “Title Attached/Title Unavailable/Title Absent”**: This light is used to announce that the title is not present at the time of the sale. For Auction rules regarding titles, please refer to the Title Arbitration Policy section. If “title attached/unavailable/absent” is not announced, a vehicle could be arbitrated for misrepresentation.

### **III. Disclosure / Discovery Requirements Arbitration Guidelines**

Vehicles that have any of the following defects, conditions, or discrepancies that were not disclosed or announced at the time of sale must be reported to Auction within the time frame noted below in order to be eligible for arbitration. The only exception is if there is a pending Post Sale Inspection (PSI). Vehicles must be returned to Auction in the same or better condition than when purchased.

**1. By Sales Channel** – Some arbitration policies are sales channel specific. The two sales channels are defined as follows:

a. **In-Lane**: All purchases made by a bidder on Auction location property. Vehicles purchased in an online event sale by bidders at a location will be considered “in-lane.”

b. **On-Line**: Defined as purchases made by a remote bidder via the internet. Due to the differences associated with purchasing through online channels, such as the inability of the buyer to view the vehicle, additional time parameters and damage disclosure requirements for arbitration have been included.

**2. Time Period**: Definition codes for discovery time periods as set forth below in the **Arbitration Matrix (Appendix I)**:

a. All Online arbitrations must be initiated within 2 calendar days of Buyer’s verified receipt of the vehicle and cannot exceed 10 calendar days from purchase. Purchase of a Post Sale Inspection (PSI) may increase arbitration timeframes of

items covered in the PSI. It is the auction or facilitation service provider's responsibility to inform Seller of any pending PSI or arbitration resulting from the Sale.

b. Sale day is day 1.

c. Arbitration shall end at the closing time on the last calendar day in the time period. Below are the definitions of the time codes referred to in the Arbitration Matrix Table at the end of this document.

i. (A) In-lane – Sale day only

ii. (B) In-lane – 7 calendar days

iii. (C) Online – 2 calendar days upon verified arrival to Buyer not to exceed 10 calendar days from purchase

**3. Process** - The arbitrator will inspect only the defect(s) which are on the arbitration form/documents.

Each vehicle transaction is allowed one chance at mechanical, electrical, or cosmetic arbitration. If a price adjustment is made and accepted, the vehicle becomes "AS-IS" property of the Buyer and is not subject to any further arbitration for mechanical, electrical, or cosmetic defects or adjustments. The decision of the arbitrator is final and binding to both Buyer and Seller.

**4. Fees** - Auction reserves the right to assess an arbitration fee to the Buyer. Any arbitration must be properly documented in writing and signed by the arbitrator. If the arbitration is valid, Auction reserves the right to assess an arbitration fee to the Seller. This fee is in addition to any charges associated with the arbitration procedure; such as check out fees at a specialty shop or transportation costs to and from a garage, etc.

## **5. Exclusions:**

**a. Noise and Inherent Conditions:** No arbitration can be based on noises or conditions that are inherent or typical to a particular model or manufacturer unless deemed "excessive" by the arbitrator on non-warranty items. OEM dealer warranty guidelines will be used where applicable to determine whether the condition is excessive.

- b. **Manual Transmissions:** Vehicles with standard transmissions cannot be arbitrated for manual clutches unless the defect will not allow a safe test drive.
- c. **Wearable Items:** Auction will not arbitrate vehicles for wearable items. For purposes of this policy, wearable items are defined as parts of the vehicle that the manufacturer recognizes the need for replacement/adjustment during the expected life of the vehicle. These items are normally identified in the Owner's Manual for routine check and replacement and would include, but not limited to: tires, wipers, brake pads, shoes, rotors, belts, hoses, lubricants/fluids, timing belts, bulbs, filters, shocks & struts.
- d. **As-Is:** Any in-lane or online vehicle sold "AS-IS" is NOT subject to mechanical, electrical, or cosmetic arbitration. AS-IS selling price, model years, and mileage is subject to local auction policy.
- e. **Unsafe vehicles:** Auction reserves the right to reject any vehicle that management judges to be unsafe.

#### **6. 4x2 Disclosure Rule:**

All multipurpose and utility-type vehicles are assumed to be 4X2 unless otherwise announced.

However, if a 4X2 multipurpose, utility-type vehicle or pickup has been altered in appearance or stance to resemble a 4X4, a 4X2 announcement will be required. Examples include new badges, raised suspension, and off-road tires.

#### **7. Arbitration by Selling Channels:**

a. **All Selling Channels** - Seller will be held responsible for the accuracy and completeness of all representations or descriptions. This includes handouts, catalogs, vehicle markings, and verbal or written statements made by Seller or Auctioneer at the time of sale, independent of vehicle "light" designation or guarantee offered. This includes all vehicles offered for sale either in-lane or on the internet including all images and text representations made by Seller, designee or Seller's agent including 3rd party condition reports or vehicle listing agents at the time of sale. This includes, but is not limited to year, make, model, odometer reading, equipment, and announced conditions. Repair costs will be determined by the auction and will reflect the auction cost to repair.

**b. In-Lane:**

Any single mechanical or electrical defect that has a repair cost of \$500 or more is subject to arbitration on Green Light vehicles. Single defects less than \$500 are deemed minor and not subject to arbitration. Auction will not arbitrate visible defects or announced conditions.

**c. Online:**

Sellers who sell to online buyers through any of the online channels and provide a condition report have the additional responsibility to disclose defects or damage that are “visible” in nature. The Seller must disclose damage (but not actual repair cost) with a cumulative auction (wholesale) repair cost in excess of \$500.

Undisclosed cumulative damage in excess of \$500 is subject to arbitration by the Buyer due to inadequate disclosure of damage or condition. Actual images of the listed vehicle must be used unless proper disclosure is noted by the Seller, which makes it known the actual vehicle is not shown.

**d. Online without Vehicle Condition Information** - Vehicles sold through online channels without a written condition report, inspection, or a disclosure as to the vehicle’s condition, will be subject to In-Lane policies (b) as detailed in this policy.

**8. Seller Fees:**

The Seller is responsible for reimbursement of all reasonable documented expenses incurred by the Buyer (excluding profit, commissions, and detail charges) on vehicles arbitrated for unannounced conditions not detectable through vehicle inspection (i.e. stolen vehicle, theft recovery, odometer discrepancy, title discrepancy, frame damage, flood damage, salvage, manufacturer buyback, etc.). Expense reimbursements will be at the sole discretion of Auction and will, at times, be limited to reasonable and documented expenses and transportation only.

## **9. Buyer Responsibilities and Liabilities:**

a. It is the Buyer's responsibility to watch lights and listen to announced conditions before placing bids. Once the vehicle is sold, the Buyer should check the Auction sales receipt to confirm the vehicle price and announcements are correct before legibly printing and signing their name or electronically signing the Auction sales receipt.

b. Buyers should thoroughly check and, if possible, test drive every vehicle. If there is any problem, a complaint must be properly filed with the Arbitration Office within the established arbitration time limit. The Buyer assumes responsibility for mechanical or electrical failure once the arbitration period is over.

c. Buyer agrees to be liable for any and all work done to a vehicle prior to returning the vehicle to Auction except on vehicles arbitrated for unannounced conditions not detectable through vehicle inspection. (i.e., stolen vehicle, odometer, theft recovery, title brands, title discrepancy – does not include title attached/unavailable/absent).

Mileage must be the same as it was when it left Auction if arbitrated for the inoperable odometer. Vehicle must be returned in a timely manner consistent with auction direction.

d. The Buyer is financially responsible for any pending sale until arbitration is final.

## **10. Manufacturer's Warranty:**

The availability of a manufacturer's warranty shall not affect a Buyer's right to arbitrate a vehicle.

**11. Auction Notice** - The Buyer shall not surrender possession of the vehicle to any claimant, except as required by legal process, nor shall Buyer voluntarily pay or acknowledge the validity of any claim, without the prior approval of Auction.

Time is of the essence. Any failure on the part of the Buyer, after becoming aware of the said claim, to notify Auction of any claim in a timely manner or failure of the Buyer to cooperate in defending any such claim shall relieve Auction of any liability under this policy.

**12. Payment in Arbitration** - Seller will not be paid for vehicles in arbitration until arbitration is settled, and vehicles are sold. For arbitrations occurring after the seller has been paid, the seller is required to promptly return the payment to the auction if the transaction is voided as a result of arbitration.

**13. Return Process** - A vehicle is not considered returned until received, inspected, and approved for return by Auction management. Any vehicle returned must be in the same or better condition as when sold. Any vehicles delivered to and left on Auction premises without Auction approval remain the sole responsibility of the Buyer. Buyer assumes all risk of loss.

**14. Fees on Returned Vehicle** - There may be a charge for excessive mileage on a returned vehicle (*at the discretion of Auction*).

#### **IV. Title Arbitration Policy**

##### **1. Seller Title Responsibilities:**

All titles submitted by Seller must be in Seller's company name on the title or on a properly executed reassignment form. The Seller guarantees the titles of vehicles that are sold through Auction. This guarantee of the title warrants that the title shall be marketable and free and clear of all liens and encumbrances. This includes any brand (such as 'salvage') noted upon the current or any prior certificate of title unless such encumbrances were announced at the time the vehicle is sold through Auction and for a period of four (4) years from the date of sale.

Seller's liability under this title guarantee shall never exceed the Auction sale price (the "maximum amount") of the vehicle, and this maximum amount shall be reduced by two percent (2%) per month following Auction sale date. All liability under this title guarantee shall expire and terminate 48 months after Auction sale date. Auction will not be responsible for any expenses incurred on vehicles returned for late title.

**2. Seller's Title Guarantee:**

Sellers warrant, represent and guarantee that they have and will convey a certificate of title, properly executed, valid in the state where the transaction is occurring and clear of all liens and encumbrances (except current year DMV fees in California), and that he will warrant and defend the title against the claims and demands of all persons whatsoever.

**3. Auction Right to Remediate Clerical Error** – If the title problem is due to a clerical or coding error, or incomplete documentation, Auction shall be given reasonable time after receiving a notice to have the error corrected.

**4. Buyer's Title Claim Notice to Auction** – Whenever any claim is made by any person against the title of a vehicle, whether by suit or otherwise, the Buyer, after becoming aware of the said claim, shall immediately notify Auction. This involves giving full particulars of claim, cooperating fully in defending any legal action, and in taking other steps to minimize possible loss.

**5. Title Assignment** - Title must be reassigned directly to Buyer. No title assigned directly to Auction will be accepted.

**6. Payment After Title Receipt** - Seller will not be paid for vehicles until a transferable title is received.

**7. Non-titled Vehicles Rules:**

a. Auction accepts no responsibility for non-titled vehicles sold without a title. The seller must announce the vehicle being sold with a bill of sale only and that there is no title to transfer.

b. All non-titled vehicles and equipment will be sold "AS-IS."

**8. Titles Not Permitted:**

a. Applications or other documents related to a duplicate title will not be accepted (*unless announced as such or if allowed by the appropriate jurisdiction*).

b. Foreign titles, such as Canadian titles, are unacceptable.

## 9. Assignment Title Timelines

- a. Seller has up to a maximum of [see Auction Title Policy (Auction Choice)] calendar days for the title to be received by Auction [*sale day is day (1)*].
- b. After (Auction Choice) calendar day period, it is the Buyer's option to return the vehicle or wait a reasonable period of time for the title.

### c. Buyer Responsibilities:

The Seller/Auction shall not be liable for any vehicle sale or repairs made by the buyer before the title is received by the buyer. If the title has been mailed from Auction to Buyer, Buyer may not return vehicle. Buyer is required to notify Auction in a timely manner consistent with Auction policy before returning vehicles. If a valid negotiable title is presented within the Auction policy notice period, the transaction will stand.

d. If, after 90 calendar days, Seller has not produced negotiable title and Buyer has not returned the vehicle, this title guarantee shall not apply and Auction shall have no duty to produce the certificate of title to the Buyer and shall have no duty to pay Seller.

## 10. Seller Title Disclosures – (Subject to Auction Title Policy):

- a. Vehicles lacking a properly assigned title or reassignment to transfer a title at the time of sale must sell “Title Attached/Title Unavailable/Title Absent” unless the announcement is not required within the region.
- b. Vehicles lacking lien release or a valid repo affidavit for a repossessed vehicle (where allowed by law) must be sold “Title Attached/Title Unavailable/Title Absent” unless the announcement is not required within the region.
- c. Any and all “Title Brands” or discrepancies, which may affect a vehicle's value must be announced. Some examples include, but are not limited to: Salvage, Previous Salvage, Not Actual Miles, Odometer replacement, Lemon Law, Rental/For Hire, Reconstructed, Stolen Vehicle, Exempt, Theft Recovery, Flood/Fire histories, disclosure requirements (if required by state; i.e. 25%) and Insurance transfers.

**11. Auction Title Indemnity** - In regard to defect in title, and in any matter relating to odometer mileage, odometer statements, or damage disclosure statements: Seller and Buyer agree to indemnify and hold harmless Auction from any liability, loss costs, damage or expenses, including attorney fees which may arise either directly or indirectly from the sale and purchase of the consigned vehicle including but not limited to title services provided.

**12. Buyer Delivery Responsibility:** Auction will not be responsible for titles mailed from Auction and not received by the Buyer. Buyer has the choice of alternative delivery method and will pay Auction for such service.

**13. Seller Additional Fees:**

- a. Seller will be responsible for the buy fee plus reasonable transportation expenses to and from the Buyer's dealership to Auction on vehicles returned for "no title."
- b. Titles received after the maximum time defined in Auction Title Policy (Auction Choice) may be subject to a late title fee. All expenses to obtain a title will be charged to the Seller.

**14. Seller Mileage Announcements:** Mileage announcements are not required on vehicles deemed exempt from Federal/State Odometer and Title disclosure laws unless a mileage discrepancy is known or apparent to the seller. The Seller may represent miles on exempt vehicles – any statement made by the Seller and all known odometer discrepancies are grounds for arbitration.

**V. Gray Market & Canadian Vehicles**

**1. Eligible Vehicles** - Only vehicles made in North America for Canadian use and properly converted to U.S. specifications can be sold and must be announced as such. No other Gray Market vehicles are accepted for sale.

**2. Seller Responsibilities:** Seller must inform Auction that a vehicle has Canadian history at the time of registration and must disclose that to the Buyer in writing as an announced condition on the block ticket unless the car is (5) years or older.

### 3. Proper Conversion

- a. If a vehicle was manufactured in Canada for the Canadian Market, the Manufacturer is required to obtain and affix a U.S. Safety Standard Certification Label to the vehicle.
  - b. All other vehicles imported from Canada must be imported through a Registered Importer. Registered Importers are required to post a bond with the U.S. Department of Transportation. All vehicles imported through a Registered Importer must have:
    - i. U.S. Safety Standard Certification Label that identifies the Registered Importer
    - ii. Valid U.S. Title
  - c. All Canadian vehicles, whether imported by a Manufacturer or a Registered Importer, must show miles per hour on the speedometer and miles traveled on the odometer. Title 49, United States Code, Chapter 327, Section 32704, allows replacement odometers without a door frame sticker if the conversion from kilometers to miles can be done without changing the distance traveled by the vehicle; therefore, replacement of an odometer under these circumstances does not have to be announced by the Seller.
- 4.** “Gray Market Vehicles” will not be accepted for sale unless they meet ALL Federal D.O.T. / E.P.A. Mandated Guidelines. Documentation must be provided. Sellers will not offer for sale any European manufactured vehicles.

## APPENDIX II

# Vehicle Reconditioning Check Lists

### **BUT FIRST!**

Since 1996 vehicles have included on-board diagnostic tools. If the vehicle's "system" detects anything is out of spec, it sets a "trouble code". These can be monitored by an ODB diagnostic car code reader. When this code is set, the check engine light is turned on. This means you can hook up the ODB diagnostic car code reader to see what the problem is.

The reader must be plugged into the ODB system. This is usually done through a connector under the dash near the steering wheel column.

There are now ELM327 connectors which are Bluetooth based. They can send error codes to an app on your cell phone. These apps provide more detailed info than the older car code readers.

These tools can give you information about major vehicle problems that could be missed through the usual visual inspection procedures.

**Do a search on YouTube to view videos of these great tools. Search for ODB car code readers and ELM327. The ELM327 tools give you access to repair reports through the app and databases of over 6.6 million vehicle specific diagnostic reports.**

After you decide the best one for your use, they are available on Amazon.

The following is a comprehensive, reconditioning 110-point checklist.

# 110 - Point Quick Inspection Checklist

## AIR CONDITIONING/ HEATING SYSTEMS

1. A/C COOLING OPERATIONS TO SPECIFICATIONS
2. CHECK A/C AND HEATING FAN OPERATIONS
3. CHECK HEATER AND DEFROSTER FUNCTIONS

## BRAKING SYSTEM

4. PARKING BRAKE SETS AND HOLDS VEHICLE
5. BRAKE FLUID CLEAR AND UNCONTAMINATED
6. BRAKE FLUID AT FULL MARK
7. DISC BRAKE WEAR ON PADS TO MEET STATE REGULATIONS
8. DRUM BRAKE SHOES- WEAR ON SHOES TO MEET STATE REGULATIONS
9. NO EXCESSIVE WEAR OR GROOVES ON ROTORS
10. NO EXCESSIVE WEAR OR GROOVES ON BRAKE DRUM
11. NO EXCESSIVE PEDAL OR CHASSIS VIBRATION DUE TO BRAKING
12. PARKING BRAKE RELEASES PROPERLY
13. CHECK MASTER CYLINDER FOR LEAKS
14. ENSURE THAT ANY WHEEL LOCKS HAVE PROPER KEY

## CHASSIS

15. CHECK FRAME
16. INSPECT UNDERSIDE FOR ANY DAMAGE
17. INSPECT UNDERSIDE/BODY

## ELECTRONIC SYSTEMS

18. BATTERY CABLES AND TERMINALS ARE CLEAN AND SERVICEABLE
19. BATTERY MOUNTS ARE SECURE
20. ALL WIPER SPEEDS AND MOTOR WORKS PROPERLY
21. CONVERTIBLE TOP OPERATIONS/LOCKOUT FUNCTION PROPERLY WORKS
22. CRUISE CONTROL FUNCTIONS NORMAL. ELECTRONIC KEY WORKS.
23. ALL POWER WINDOW CONTROLS OPERATE PROPERLY

24. REAR DEFROSTER GRID LINES NOT DAMAGED OR TORN
25. REAR DEFROSTER INDICATOR LIGHT WORKS ON/OFF
26. SUNROOF OR CONVERTIBLE TOP OPERATES PROPERLY/OPEN TO CLOSE
27. WINDSHIELD WASHER OPERATES
28. WIPER ARMS RETURN TO PARK POSITION WHEN TURNED OFF

## **EXTERIOR**

29. BACK UP LAMPS WORKING WITH NO BROKEN /CRACKED LENSES
30. BRAKE LIGHT FUNCTIONS PROPERLY WITH NO BROKEN/CRACKED LENSES
31. ALL BULBS WORK/ NO CONDENSATION BEHIND LENSES
32. CHECK FOR GLASS DEFECTS
33. GAS DOOR LATCH RELEASE OPERATES CORRECTLY
34. HEADLAMPS ARE ALIGNED
35. HEADLAMPS HIGH AND LOW BEAM FUNCTION PROPERLY
36. REAR LICENSE LAMP WORKS/ NOT BROKEN OR CRACKED
37. POWER SIDE MIRRORS OPERATE CORRECTLY
38. NO EXCESSIVE WIND NOISE
39. SIDE MARKERS FUNCTION AND ARE NOT BROKEN/CRACKED
40. WHEEL COVERS ARE SECURE AND ARE NOT CRACKED

## **HANDLING**

41. NO EXCESSIVE VIBRATIONS OR STEERING SHIMMY AT ANY SPEED
42. STEERING OPERATION NORMAL
43. STEERING WHEEL CENTERED WHILE DRIVING STRAIGHT
44. VEHICLE TRACKS AND DRIVES STRAIGHT ON LEVEL SURFACE

## **INTERIOR**

45. DOME LIGHT OPERATES PROPERLY
46. ASHTRAY PRESENT AND CLEAN/ OPEN AND CLOSES
47. CIGARETTE LIGHTER WORKS
48. CLOCK OPERATES AND KEEPS PROPER TIME
49. AUDIO/CASSETTE/CD SYSTEM OPERATES FULLY
50. AUDIO SPEAKERS WORK PROPERLY
51. DASH LIGHTS AND DIMMER SWITCH OPERATES PROPERLY

52. REAR VIEW MIRROR IN PLACE AND NOT DAMAGED
53. DOOR LOCKS AND CHILD SAFETY LOCKS FULLY-FUNCTIONAL
54. ALL DOORS OPEN AND CLOSE PROPERLY
55. ALARM SYSTEM WORKS
56. ALL GAUGES READ CORRECTLY
57. HOOD LATCH OPERATES FULLY
58. HORN WORKS
59. INTERIOR FREE OF EXCESSIVE SQUEAKS OR RATTLES
60. TURN SIGNALS OPERATE FULLY/ WITH STEERING WHEEL TURN OFF SWITCH
61. SEATBELTS INTACT WITH NO TEARS/ FULLY FUNCTIONAL TO STATE SPECS
62. CHECK ALL SEAT ADJUSTMENT SETTINGS
63. WINDOW LOCK CONTROLS FULLY FUNCTIONAL
64. ALL WINDOWS OPEN AND CLOSE PROPERLY

### **SUSPENSION & TIRES**

65. CHECK TIRES FOR EXCESSIVE WEAR, BUBBLES, GOUGES OR CUPPING
66. CHECK TIRES FOR PROPER MATCHING
67. TIRE PRESSURE CHECKED FOR SPECS
68. SHOCK ABSORBERS CHECKED FOR EXCESSIVE WEAR OR LEAKAGE
69. STRUTS CHECKED FOR EXCESSIVE WEAR OR LEAKAGE
70. CHECK FOR MISSING OR DAMAGED VALVE STEMS

### **TRANSMISSION & TIRES**

71. AUTO TRANSMISSION SHIFTS AND LOCKS PROPERLY
72. TRANSMISSION OPERATES SMOOTHLY WITH NO ABNORMAL NOISE/VIBRATION
73. TRANSMISSION OVERDRIVE OPERATES FULLY AND PROPERLY
74. CLUTCH FLUID FILLED TO PROPER LEVEL
75. CLUTCH OPERATES SMOOTHLY WITH NO EXCESSIVE NOISE OR VIBRATIONS
76. TRANSMISSION AND TRANSFER CASE FLUIDS ARE CLEAR AND DIRT FREE
77. CHECK TRANSFER CASE FOR 4WD OPERATIONS
78. CHECK TRANSFER FROM 2WD TO 4WD

- 79. CHECK FOR OVERDRIVE SWITCH ON/OFF
- 80. TRANSMISSION FLUID TO FILL LEVEL

### **TRUNK**

- 81. INSIDE TRUNK RELEASE OPERATES FULLY
- 82. JACK/SPARE TIRE/TOOLS ARE PRESENT AND SECURED
- 83. SPARE TIRE IS INFLATED AND IN OPERABLE CONDITION
- 84. TRUNK LATCH WORKS
- 85. TRUNK LIGHT WORKS
- 86. TRUNK INTERIOR TRIM IN PROPER PLACE

### **UNDER THE HOOD**

- 87. NO DAMAGE TO AXLE SHAFT
- 88. NO DAMAGE TO DRIVE SHAFT
- 89. CHECK CV JOINT BOOTS
- 90. CHECK ENGINE OIL AND FILTERS
- 91. COLD ENGINE OPERATION NORMAL
- 92. COLD HIGH IDLE CORRECT
- 93. DRIVE BELT TENSION AT SPECIFICATION
- 94. DRIVE BELT AND HOSES FREE OF CRACKS OR DAMAGE
- 95. ENGINE REACHES NORMAL OPERATING TEMP
- 96. HOT DRIVE ABILITY NORMAL
- 97. INSPECT BODY SURFACE FOR VISIBLE DAMAGE
- 98. INSPECT COMPLETE EXHAUST SYSTEM AND HANGERS FOR LEAKS/DAMAGE/WEAR
- 99. INSPECT FOR ANY OIL LEAKS
- 100. INSPECT FOR WATER LEAKS
- 101. INSPECT LOWER BODY PANELS FOR DAMAGE
- 102. CHECK FOR ANY ABNORMAL ENGINE NOISES/ HOT&COLD
- 103. THROTTLE DOES NOT STICK SHUT ON COLD STARTS
- 104. ROAD TEST VEHICLE FOR EXCESSIVE NOISES AND RATTLES
- 105. ROAD TEST VEHICLE FOR OPERATIONS AND PERFORMANCE
- 106. CHECK MUFFLER AND ALL PIPES

### **COOLING AND FUEL SYSTEMS**

- 107. INSPECT FOR FUEL LEAKS
- 108. INSPECT FOR COOLANT LEAKS

- 109. ENGINE COOLANT LEVEL AT SPECS WITH COLD ENGINE START
- 110. ENSURE FUEL CAP IS PRESENT

### **REMOTE KEYS**

IF VEHICLE IS EQUIPPED FOR REMOTE KEYS, CHECK THAT ALL REMOTE OPERATIONS ARE FUNCTIONING.