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The Equal Credit Opportunity Act (“ECOA”) and its implementing regulation, Regulation B, prohibit discriminating against credit applicants on the basis of their race, color, religion, national origin, sex, marital status, age, and other factors. Regulation B states that this prohibition applies not just to intentional discrimination but also to credit practices that appear neutral but nevertheless result in a negative “disparate impact” on customers who are members of one of these protected classes (assuming the customers in the different classes being compared are similarly situated). Because a finding of disparate impact typically is established by a statistical evaluation of past credit transactions, dealers and other creditors cannot ensure they are complying with ECOA solely by training their employees to avoid considering these prohibited factors when making credit decisions. Dealers must also ensure that their policy for determining the amount they earn for arranging financing will not give rise to post transaction claims that the policy resulted in a negative statistical disparity in the amount of dealer participation paid by customers in a protected class (i.e., a class defined by color, national origin, or one of the other prohibited bases listed above).

On March 21, 2013, the Consumer Financial Protection Bureau (“CFPB”) issued a fair lending guidance bulletin to indirect auto finance sources (which the CFPB refers to as indirect auto lenders) stating “that certain lenders that offer auto loans through dealerships are responsible for unlawful, discriminatory pricing” and that lender policies “that allow auto dealers to mark up lender established buy rates and that compensate dealers [for originating credit contracts] in the form of dealer [participation] create a “significant risk” of fair lending violations. The bulletin instructs indirect auto finance sources on steps they should take to address this risk, which include either (i) eliminating dealer pricing discretion (such as by paying dealers a flat fee per transaction), or (ii) constraining dealer pricing discretion (by adopting a series of controls and monitoring the credit contracts the finance source purchases from dealers to see if there exists a statistical disparity in dealer participation as described above). Because the bulletin sets forth limitations on how indirect auto finance sources may compensate dealers for arranging financing for customers, it affects dealers even though the Dodd-Frank Act prohibits the CFPB from exercising any authority over dealers engaged in indirect financing transactions.

1 Other factors include the fact that a credit applicant relies on social security, welfare, or other public assistance or has exercised a right under a federal consumer credit law.

2 The term usually associated with intentional discrimination is “disparate treatment.” Disparate treatment involves treating credit applicants differently on a prohibited basis even if there is not a deliberate intent to discriminate. An example of disparate treatment would be if a creditor were to require that a minority applicant provide greater documentation to secure financing than a similarly situated non-minority applicant.

3 While ECOA clearly prohibits disparate treatment, substantial controversy exists over whether ECOA also prohibits disparate impact. Consistent with NADA’s cautious approach to disseminating compliance guidance to its members, this guidance and the policy and program templates assume (but do not concede) that a disparate impact theory of liability exists under ECOA.

4 The term “dealer participation” (also known by such terms as “dealer reserve” or “dealer spread”) refers to the dealer's participation in (i.e., its portion of) the contract interest rate that the customer pays to finance the purchase of a vehicle from the dealer. It is the difference between this retail rate (also known as the Annual Percentage Rate or “APR”) and the wholesale “buy rate” at which a finance source buys the finance contract (also known as a retail installment sale contract or “RISC”) from the dealer. Finance sources typically compensate dealers for arranging financing with the customer by permitting dealers to retain the dealer participation subject to parameters established by the finance source.


6 The CFPB was created in Title 10 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Pub. Law. §§ 111-203 (July, 21, 2010)(“Dodd-Frank Act”). Section 1029 of the Dodd-Frank Act excludes motor vehicle dealers engaged in indirect financing transactions (in which a dealer enters into a RISC with a customer and then assigns the contract to a third party finance source) from the authority of the CFPB, while continuing to subject dealers to the authority of the federal agencies that could exercise authority over dealers prior to the enactment of the Dodd-Frank Act. The CFPB, therefore, may not take actions directly against dealers engaged in indirect financing. However, CFPB actions
Since the CFPB issued its fair lending guidance bulletin, several indirect auto finance sources have informed dealers that they will monitor (i.e., conduct a statistical analysis of) the contracts they purchase from dealers. In many cases, these indirect finance sources have sent letters to dealers indicating that the finance source's statistical analysis identified unexplained differences in the amount of dealer participation paid by customers who are members of protected classes and customers who are not members of those classes. These letters typically offer the dealer the opportunity to respond to the finance source's preliminary findings. Usually as part of this process, dealers may provide to the finance source legitimate (non-prohibited) reasons that explain the purported pricing disparities.

In addition, on December 20, 2013, the CFPB and the Department of Justice announced an enforcement action against an indirect auto finance source (Ally) for alleged disparate impact discrimination. The action resulted in a consent order between the United States and Ally to resolve the government's allegation that "Ally engaged in a pattern or practice of discrimination on the basis of race and national origin in violation of ECOA based on the interest rate 'dealer markup' – the difference between Ally's buy rate and the contract rate – paid by African-American, Hispanic, and Asian/Pacific Islander borrowers who received automobile loans funded by Ally." Ally did not admit to the allegations and no court determined their validity. In addition, Ally stated in a press release that "it does not believe that there is measurable discrimination by auto dealers." Nevertheless, to resolve the matter, Ally agreed to undertake several actions, including the payment of a civil penalty and compensation to the alleged victims, monitoring the amount of dealer participation earned by dealers in retail installment sale contracts ("RISC") purchased by Ally, and taking “appropriate corrective action” if such monitoring reveals that dealers charged a higher amount of dealer participation to similarly situated protected groups of customers. 

**Fair Credit Compliance Program**

These and other related developments have prompted dealers and their attorneys to seek from NADA compliance guidance to minimize the fair credit risk identified in the CFPB guidance bulletin. This guidance and the *Fair Credit Policy* and *Fair Credit Compliance Program* templates are intended to respond to these requests. NADA may issue supplemental guidance as necessary to address additional compliance issues or subsequent developments related to this topic.

Although NADA is not aware of any evidence demonstrating that the ability of automobile dealers to negotiate contract rates with their customers results in disparate impact discrimination in today’s marketplace, we recognize that our members strive to adopt policies and procedures that will reduce their litigation exposure while demonstrating their ongoing commitment to regulatory compliance and the fair treatment of their customers. Therefore, in order to promote these goals, we set forth below and in the *Fair Credit Compliance Program* template that follows an alternative means for dealers to arrive at the amount of compensation they earn for arranging financing.

*Keep in mind that the finance compensation model that dealers adopt is an individual dealer decision that must be consistent with federal and state law as well as any contractual restrictions imposed on the dealer by its finance sources. It is essential that dealers consult their legal counsel when making decisions related to this topic.*

The most obvious way to reduce the possibility of a finding of disparate impact discrimination is for individual dealers to establish a means of compensation in which the determination of the amount of finance income they earn does not vary on a customer-by-customer basis. Examples of such an approach include charging each customer (i) a fixed number of basis points over the wholesale buy rate (i.e., the rate at which the finance source will purchase the credit contract from the dealer), (ii) a fixed percentage of the amount financed, or (iii) a fixed dollar amount. Of course, a major drawback to customers of such a rigid pricing policy is that it deprives dealers of the ability to “meet or beat” the most competitive credit offer that the customer has received from another creditor, which in turn limits the customer’s ability to reduce the amount that the

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8 The full terms of the consent order are available at [http://images.magnetmail.net/images/clients/NADA/attach/Ally_Consent_Order.pdf](http://images.magnetmail.net/images/clients/NADA/attach/Ally_Consent_Order.pdf)

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customer pays for credit. It also may be unrealistic to assume that most dealers would be able to adopt such an inflexible compensation approach when they typically have contractual arrangements with multiple finance sources and each of those sources establishes its own compensation schedule and financing parameters.

One potential way to eliminate a customer-by-customer determination of the amount the dealer earns for arranging financing while preserving sufficient flexibility to accommodate scenarios that may benefit customers, such as the “meet or beat” dynamic, is to establish a pre-set amount of compensation but allow for downward adjustments to that amount in the event that one or more pre-determined conditions occur. Examples of such conditions could include (i) the customer’s inability to satisfy a monthly payment constraint at the pre-determined amount, (ii) the customer’s access to a more favorable offer of credit from another creditor, (iii) a promotional offer that the dealer extends to all customers on the same terms, (iv) the fact that a particular transaction is eligible for a subvened interest rate from a manufacturer, finance source, or other non-affiliated third party, (v) the fact that a transaction is eligible for an employee incentive program, and (vi) documented inventory reduction considerations that are related to specific vehicles.\(^9\)

\(^9\) Dealers that follow this approach may wish to identify and include additional or different pre-determined reasons for deviating from their pre-set dealer participation amount. This should be acceptable provided the additional or different reasons are limited to neutral, pro-competitive factors that are completely unrelated to the customer’s status as a member of a protected class and are executed in good faith. However, it must be noted that the ECOA compliance approach set out in the text and the attached Program is modeled after the ECOA compliance framework that the Department of Justice (“DOJ”) incorporated into consent orders with two automobile dealers in 2007 to resolve claims of unintentional disparate impact discrimination. One of the consent orders is available at [www.justice.gov/crt/about/hce/documents/pacifico_order.pdf](http://www.justice.gov/crt/about/hce/documents/pacifico_order.pdf) (see, in particular, paragraph 7 entitled “Guidelines for Setting Dealer Reserves” and Appendix B). While this framework was developed solely for that purpose (and therefore does not create a safe harbor for complying with ECOA), it nevertheless provides a useful template for dealers to consider in developing their own approach to ECOA compliance. With this in mind, dealers should be aware that the specific allowable deviations noted in the text and the attached Program are those that were included in the DOJ consent orders. Dealers and their attorneys who adopt this compliance approach should proceed cautiously in adopting specific allowable deviations that differ from or are in addition to those contained in the DOJ consent orders.

If a dealer chooses to adopt this or a similar approach to dealer finance compensation, it should adopt written procedures that (a) identify each pre-determined condition that permits a downward deviation from its pre-set amount of dealer participation, (b) require its finance personnel to execute a standardized form that identifies the pre-set dealer participation amount, the final dealer participation amount, and, where the two differ, which pre-determined condition or set of conditions is present in the transaction that authorizes the deviation, (c) conduct formal training of all relevant personnel on its finance compensation policy, and (d) retain the compensation forms and otherwise monitor and document its compliance efforts.\(^10\) The training and monitoring functions are particularly important as fidelity to the program from the employees who must carry it out is essential to its success.

An attractive feature of this approach is that if the dealer develops appropriate, well-defined allowable adjustments and ensures that its personnel properly and consistently apply, document, and retain them, then the dealer is in a much better position to explain any unexplained pricing disparities that might otherwise lead a court, governmental enforcement agency, or indirect auto finance source that is monitoring the dealer’s credit contracts to conclude that such disparities are attributable to a customer’s background\(^11\) and therefore in violation of ECOA.

Dealers are not required to adopt this approach to standardizing the amount of dealer participation they charge in credit transactions and should consult with their individual legal counsel about whether they should do so. For dealers who wish to adopt this or a similar approach, we have developed the [Fair Credit Policy and Fair Credit Compliance Program](#) templates that begin at page 9. General and specific instructions for completing these forms are provided below.

\(^10\) These features were also part of the DOJ ECOA compliance framework that was included in the 2007 consent orders referenced above.

\(^11\) As used in this document, the term “customer’s background” refers to the customer’s status as a member of a protected class.
Instructions for Completing Fair Credit Policy and Compliance Program Templates

General Instructions and Disclaimers

Use of Templates. It is essential that, prior to adopting this Fair Credit Policy and Fair Credit Compliance Program, dealers read the templates carefully, make adjustments that are appropriate to their individual circumstances, and ensure that the final policy and program they adopt are reviewed by qualified counsel. While italicized language that appears in brackets identifies areas of the document where an individualized dealer entry is appropriate, dealers should modify both italicized and non-italicized portions of the document that they and their counsel determine is necessary.

Program Scope. The Fair Credit Compliance Program is broader than a pure dealer participation pricing policy that is designed to help mitigate a finding of disparate impact discrimination under ECOA and Regulation B. This is because, as explained above, ECOA and Regulation B prohibit intentional discrimination and (in the view of federal regulators) disparate impact discrimination, and it is therefore essential that fair credit training programs address both prohibitions. However, the Program does not attempt to address every issue that potentially relates to fair credit compliance at a franchised automobile dealership (e.g., how the dealership handles oral requests for financing, desking procedures, conditional sales agreements, and the sale of products to protect the customer’s investment in the financed vehicle). These issues are very dealer specific and need to be addressed in a manner that is appropriate to the dealership’s circumstances. For these reasons, the Program template should be viewed as part of a broader dealership effort to develop a comprehensive approach to fair credit compliance.

Program Approval. Neither ECOA nor Regulation B require creditors to adopt a written fair credit program or, if they adopt such a program, to have it approved by any particular body or individual officer within their business. However, for the reasons stated above, it is prudent for creditors to do so.

The Program template assumes that a board of directors will adopt the dealership’s Fair Credit Compliance Program, appoint a Program Coordinator to administer the Program, receive compliance reports from the Program Coordinator, and amend the Program as necessary to address fair credit risks that are present at the dealership. If the dealership’s governing structure dictates that another dealership body or officer should exercise these functions, the template should be modified accordingly. Regardless of which dealership body or officer acts in this manner, it is important that its leadership affirmatively establish and express support for its fair credit commitment.

Program Limitations. The Program’s approach to determining the compensation dealers receive for arranging financing for customers is not, and the Program template has not been, mandated by ECOA or Regulation B and neither have been formally adopted by any federal agency as a means of satisfying the requirements of federal law. Nor is there any guarantee that adopting the attached Program or any component of it will adequately protect a dealership from a governmental enforcement action or private lawsuit.

Notwithstanding these limitations, NADA believes the Program template represents a solid attempt to promote compliance with ECOA and Regulation B while preserving enough flexibility to allow customers to continue leveraging the overwhelming benefits that are produced by today’s intensely competitive vehicle financing market.

12 This is in contrast to other regulatory requirements such as the FTC Red Flags Rule which requires financial institutions and creditors to adopt a written identity theft prevention program and to have it approved by their board of directors or an appropriate committee of the board of directors. See 16 C.F.R. § 681.1(c)(1).

13 As with other areas of the law, it is essential that dealers and their attorneys stay abreast of legislative, regulatory, and judicial developments as well as finance source issuances that could affect their compliance obligations.
Specific Instructions

Fair Credit Policy

This document, which is set forth at Appendix A of the Program, serves as a strong, unambiguous statement affirming the dealership's commitment to ensuring equal credit opportunity and complying with all applicable fair credit laws. Whether adopting this or a different statement, dealers should ensure that their fair credit commitment is stated clearly and unequivocally. In addition, dealers should strongly consider prominently posting their fair credit policy in locations where it can easily be viewed by both consumers and employees.

Fair Credit Compliance Program

Section I – Scope. Paragraph (a) identifies the dealership employees, agents, and/or independent contractors (“dealership employees”) who are covered by the Policy and Program and the consequences for failing to comply with the Program.

Paragraph (b) states that the Program (i) carries out the Policy, (ii) applies to all activity related to the extension of credit at the dealership, and (iii) establishes how dealership compensation will be determined in indirect vehicle financing transactions (which it defines).

Paragraph (c) states that the Program does not confer any rights, benefits, or remedies to any person, except that it may be used by the dealership to discipline dealership employees who do not comply with the terms of the Program. This is intended to forestall a third party from bringing a legal action against the dealership for a violation of the Program.14

Section II – ECOA and Regulation B Compliance.

Paragraph (a) states the dealership’s strict prohibition against unlawful credit discrimination and defines what constitutes credit discrimination under ECOA and Regulation B. If the law of the dealer’s state or municipality (or other states or municipalities where the dealer conducts business) identifies “prohibited bases” beyond those contained in ECOA (for example, some jurisdictions identify sexual orientation as a prohibited basis), the additional prohibited bases should be listed in this paragraph (by entering them either in subparagraph 1 or in a new subparagraph 4) and the name of the state or local law containing the prohibition should be added to the section heading (after “Regulation B”). Paragraph (a) also states that this prohibition applies to disparate treatment as well as disparate impact discrimination.

Paragraph (b) states that the dealership complies with all applicable requirements contained in ECOA and Regulation B (not just the prohibition against unlawful discrimination) and cites, in particular, the dealership’s adherence to the law’s adverse action and other notification requirements (such as the need to issue a notice of incompleteness to credit applicants if the credit application is missing information required to make a credit decision) and the law’s records retention requirements.15 It then includes a placeholder for dealers to either (i) incorporate into this portion of the Program its written procedures for adhering to these requirements, or (ii) cross-reference the separate procedures the dealer has adopted for this purpose.

Section III – Appointment of Program Coordinator.

This section creates the position of Fair Credit Compliance Program Coordinator to administer the Program and specifies that the Program Coordinator will report directly to the board of directors. The employee who will perform this function is identified at the end of the Program (just above the resolution and signatures of the board of directors adopting the Program) and his or her specific duties are delineated in section V of the Program.

It is important to note that, as with the adoption of a written fair credit program, nothing in ECOA or Regulation B mandates the appointment of a Program Coordinator.16 However, the dealership’s ability to implement and carry out an effective fair credit compliance program will clearly be strengthened if it designates a senior manager to oversee (and, in many cases, execute) the multiple, recurring functions

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14 However, this language would not prevent a third party from bringing a legal action against a dealership for a violation of applicable federal, state, or local law to the extent permitted by such law.

15 Additional information on these topics is contained in NADA University’s publications entitled A Dealer Guide to Adverse Action Notices (2011) and A Dealer Guide to the Federal Records Retention Requirements (1998), which are available at www.nadauniversity.com.

16 This is in contrast to other federal rules, such as the requirement in the FTC Safeguards Rule that financial institutions appoint an employee or employees to coordinate the comprehensive written information security program that the rule requires financial institutions to develop, implement, and maintain. See 16 C.F.R. § 314.4(a).
established by the *Program*. It is essential that the Program Coordinator (i) have the full support of the board of directors, (ii) have the substantive expertise, time, and seniority to carry out the duties established in sections IV and V of the *Program* (including the ability to initiate the corrective action identified in the Dealer Participation Certification Form Review process set forth in section IV.d and Appendix D of the *Program*), and (iii) is not routinely involved in establishing the Final Dealer Participation Rate offered to the customers in individual transactions. This last requirement is important because the *Program* (a) requires in section IV.d that a review of the transaction be conducted by a person who did not participate in it to ensure it was carried in a manner that is consistent with the terms of the *Program*, and (b) designates the Program Coordinator to carry out this function. While the *Program* permits the Program Coordinator to designate another employee to perform the review function, the Program Coordinator generally should not participate in transactions as this could compromise the integrity of the designee's review.

**Section IV – Guidelines for Establishing Dealer Participation.** This section establishes the manner in which the dealership will determine the dealer participation amount to include in credit offers to customers.

Paragraph (a) states that the Program Coordinator will establish the pre-set standard dealer participation rate for the dealership and identify that rate (the “Standard Dealer Participation Rate”) on the form at Appendix B. Unless an allowable downward deviation identified in Paragraph (b) applies, the Standard Dealer Participation Rate will be added to the buy rate of the indirect finance source to which the dealer will assign the RISC to arrive at an APR that the dealership will offer to the customer.

Paragraph (b) identifies seven good faith, competitive reasons that are unrelated to the customer's background which, if present, allow the dealership to include in credit offers a dealer participation rate that is lower than the Standard Dealer Participation Rate. These are the same reasons listed in the 2007 DOJ Consent Orders mentioned in footnote 9 above. As stated in that footnote, dealers should be able to identify additional or different reasons for downward deviations in paragraph (b) provided they are limited to neutral, pro-competitive factors that are completely unrelated to the customer's background and are executed in good faith. However, as also explained, dealers should proceed cautiously in adopting downward deviations that differ from those listed in the DOJ consent orders.

For each allowable deviation that is contained in this paragraph, dealers should clearly state the prerequisites, including the necessary supporting documentation, that must be present in order to apply that deviation. In addition, dealers should, to the maximum extent possible, standardize the application of each deviation. For example, the third deviation allows the dealership to reduce the Standard Dealer Participation Rate when the customer states that he or she has access to a more competitive offer from another dealer or finance source. Dealers should determine whether, as a matter of policy, it will (i) reduce the Standard Dealer Participation Rate by the amount necessary to meet the competing offer, or (ii) reduce the Standard Dealer Participation Rate so as to beat a competing offer by a certain number of basis points. The bracketed italicized language that appears in the description of this allowable deviation should be modified to reflect this determination.

Similarly, the seventh deviation allows the dealership to reduce the Standard Dealer Participation Rate based on Inventory Reduction Considerations. It is essential that this subparagraph explain the process by which such considerations will be applied. In addition, because inventory reduction criteria may change more frequently than the frequency with which the dealership would be able to amend this portion of the *Program*, it may be prudent to permit the Program Coordinator to establish the current inventory reduction criteria on a separate document that can be provided to dealership employees who arrange the credit sale with the customer. The *Program* adopts this approach and creates Appendix C for this purpose.

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Because dealerships require the services of a program coordinator to oversee their compliance efforts in a variety of areas (whether as a matter of prudence or as necessary to comply with federal mandates such as the FTC Safeguards Rule requirement mentioned in the previous footnote), dealers should consider whether their management structure would allow them to achieve greater operational efficiency by consolidating the various program coordinator functions under a single senior dealership manager.
Paragraph (c) states that dealership employees who arrange the credit sale with the customer must complete, sign, and date a Dealer Participation Certification Form that documents the Standard Dealer Participation Rate, the final Dealer Participation Rate, and, where the two rates differ, the allowable deviation that applies to the transaction. Appendix D has been created to record this determination. Note that dealership employees who arrange credit sales with customers should be required to complete a Dealer Participation Certification Form for every credit sale transaction regardless of whether the Standard Dealer Participation Rate or a different dealer participation rate based on an allowable deviation was applied.

Paragraph (d) states that the Program Coordinator, or his or her designee, must (i) review each dealership credit sale within two business days of the credit sale to ensure that the Dealer Participation Certification Form was executed properly and in a manner that is consistent with the terms of the Program, and (ii) complete, sign, and date the Reviewer Certification that appears on that form. Should the reviewer determine that the form was improperly executed or that the Program terms were not otherwise followed, he or she will initiate the corrective action set forth in this paragraph and record that action in the Reviewer Certification. This may require coordinating with the finance source that took assignment of the RISC. In order to preserve the integrity of the review, the Program does not permit the reviewer to have participated in the credit transaction under review.

Dealers should ensure this paragraph and the corresponding language in Appendix D are tailored to reflect the dealership’s operational circumstances. For example, dealers should determine whether the reviewer requires two business days or a slightly longer period to complete the review and the date on which that period will begin (e.g., date of the credit sale, date of delivery, etc.) Similarly, dealers should identify the employees within the dealership with whom the Program Coordinator must coordinate to ensure corrective action is carried out with regard to both the affected customer and the responsible employee.

Section V – Training, Oversight, and Reporting.
This portion of the Program is intended to ensure that the dealer’s fair credit commitment is fully carried out. Paragraphs (a) through (h) delineate and explain the Program Coordinator’s duties. Dealers should carefully review this list to determine whether any of these duties, such as setting and prospectively changing the Standard Dealer Participation Rate, should be retained by the board of directors. If dealers decide that the board should retain any of these duties, this must be reflected in the other portions of the Program (including the appendices) that reference the retained duty.

With regard to paragraph (d), the Program Coordinator must clearly identify and communicate to dealership employees who arrange credit sales with customers both the Standard Dealer Participation Rate (as required in section IV.a of the Program) and the documentation required to substantiate each of the allowable deviations contained in section IV.b. This will facilitate the consistent application of the allowable deviations by dealership employees and will assist the Program Coordinator or his or her designee in completing the Reviewer Certification set forth in section IV.d and Appendix D of the Program.

With regard to paragraph (f), the Program Coordinator must randomly monitor dealership credit offers and conduct periodic audits of dealership credit sales to ensure the Program is being effectively implemented. As part of this auditing function, the Program Coordinator should monitor the frequency with which different dealership employees who arrange credit sales apply the dealership’s allowable deviations to the Standard Dealer Participation Rate. If such monitoring reveals that particular dealership employees have applied one or more allowable deviations significantly more or less frequently than the other dealership employees who arrange credit sales, then the Program Coordinator should closely scrutinize the employee’s application of such deviations to determine whether the employee is correctly applying the deviations and whether additional corrective action may be necessary.

The documents that should be retained (or cross-referenced) in the deal jacket or other location specified by the Program Coordinator include, at a minimum, those that set forth the buy rate and –

- for the first deviation, the rate cap imposed by the finance source (including a transaction specific rate cap that is lower than the finance source’s standard
rate cap based on its assessment of the customer’s repayment ability);

• for the second deviation, the monthly budget constraint stated by the customer (the Dealer Participation Certification Form records this information and therefore serves as appropriate documentation for this deviation);

• for the third deviation, the name of the dealer or lender that provided the more competitive offer and the APR contained in that offer (the Dealer Participation Certification Form records this information and therefore serves as appropriate documentation for this deviation);

• for the fourth deviation, the dealership advertisement or other communication identifying the terms of the dealership’s promotional financing campaign;

• for the fifth deviation, the manufacturer’s, finance source’s, or other third party’s advertisement or other communication identifying the terms of the subvention program;

• for the sixth deviation, the terms of the dealership’s employee incentive program; and

• for the seventh deviation, a description of how the vehicle to which the indirect financing transaction applies satisfies the inventory reduction criteria set forth on the form at Appendix C (the Dealer Participation Certification Form records this information and therefore serves as appropriate documentation for this deviation).

Section VI – Program Amendments.
This section establishes that the Program may only be amended by the board of directors, except that the Program Coordinator may, after consulting with the dealership’s legal counsel, add an allowable deviation from the Standard Dealer Participation Rate provided it consists of a good faith, competitive reason and the board of directors approves the amendment at its first meeting following such amendment.

If this occurs, the Program Coordinator needs to ensure that dealership employees are trained on the appropriate application and documentation of the added deviation and it needs to be appropriately reflected on the Dealer Participation Certification Form. Program Coordinators should be reminded of the need to exercise caution in adding to the list of allowable deviations.

Appendix A – Fair Credit Policy
See the description above under Fair Credit Policy

Appendix B – Standard Dealer Participation Rate
See the description above under section IV.a.

Appendix C – Inventory Reduction Criteria
See the description above under section IV.b.

Appendix D – Dealer Participation Form
See the description above under sections IV.c and IV.d.

Attached Templates
Fair Credit Compliance Program
Appendix A Dealership Fair Credit Policy
Appendix B Dealership Pre-Set Dealer Participation Rate (“Standard Dealer Participation Rate”)
Appendix C Dealership Inventory Reduction Criteria
Appendix D Dealer Participation Certification Form

Nothing in this guidance or the Fair Credit Policy or Fair Credit Compliance Program templates is intended as legal advice. It is essential that dealers consult with an attorney who is familiar with applicable federal, state, and local law and their operations to determine appropriate fair credit compliance procedures for their business to adopt.

This information is also not intended to urge or suggest that dealers adopt any specific practices or policies for their dealerships, nor is it intended to encourage concerted action among competitors or any other action on the part of dealers that would in any manner fix or stabilize the price or any element of the price of any good or service.
[Name of Dealership]

Fair Credit Compliance Program

[It is essential that dealers and their attorneys read the NADA Overview and Instructions that accompany this Program template before deciding whether and how to adopt it.]

I. Scope

a. Persons Covered

This Program (which includes all appendices to this Program) applies to all employees, agents, and/or independent contractors of [Name of Dealership] who are involved in any aspect of the Dealership operations described in section I.b of this Program (“Dealership employees”). Failure to comply with any requirement in this Program may result in disciplinary action, including termination of employment and/or the agency or independent contractor relationship.

b. Operations Covered

This Program carries out the [Name of Dealership] Fair Credit Policy at Appendix A of this Program, sets forth the fair credit requirements applicable to all Dealership activity related to the extension of credit, and prescribes in section IV the manner in which [Name of Dealership] determines the amount of its compensation when it engages in an indirect vehicle financing transaction. For purposes of this Program, an “indirect vehicle financing transaction” refers to a transaction in which –

1. [Name of Dealership] enters into a retail installment sale contract (“RISC”) with a customer for the purchase of a vehicle from [Name of Dealership];

2. [Name of Dealership] subsequently assigns the RISC to a third party finance source (“the Assignee”); and

3. [Name of Dealership] retains its right to receive a portion of the finance charge payable under the RISC, specifically the difference between the retail annual percentage rate (“APR”) and the wholesale interest rate at which the Assignee will buy the RISC from the dealer (“buy rate”) within the parameters established by the Assignee. This amount is referred to in this Program as “dealer participation.”

c. No Third Party Beneficiaries

Nothing in this Program, express or implied, is intended to or shall confer upon any person any right, benefit, or remedy of any nature whatsoever under or by reason of this Program or by reason of any federal, state, or local law. Notwithstanding this provision, this is a program of [Name of Dealership], and any violation of the Program by a Dealership employee can be the basis for disciplinary action, including termination of employment and/or the agency or independent contractor relationship.
II. Complying with the Equal Credit Opportunity Act and Regulation B

a. Prohibition Against Unlawful Credit Discrimination

As part of its fair credit commitment, [Name of Dealership] strictly prohibits discriminating against any credit applicant with respect to any aspect of the credit transaction –

1. on the basis of race, color, religion, national origin, sex, marital status, or age (provided the applicant has the capacity to contract);
2. because all or part of the applicant's income derives from a public assistance program; or
3. because the applicant has in good faith exercised any right under the federal Consumer Credit Protection Act.

[These are the “prohibited bases” set forth in the federal Equal Credit Opportunity Act. Add any additional prohibited bases that are identified by the law of your state and/or municipality and add the title of that law to the heading of this section.]

This prohibition against credit discrimination extends to both disparate treatment (i.e., treating a credit applicant differently than other credit applicants on one of the prohibited bases mentioned above) and disparate impact (i.e., applying a facially neutral policy in a manner that has an adverse impact on credit applicants who are members of a class protected against discrimination relative to similarly-situated credit applicants who are not members of that protected class).

b. Other Requirements

[Name of Dealership] also fully adheres to and will comply with other applicable requirements set forth in the Equal Credit Opportunity Act and Regulation B including, but not limited to, the adverse action and other notification requirements prescribed in 12 CFR § 202.9 and the records retention requirements prescribed in 12 CFR § 202.12.

[Set forth or cross reference the Dealership’s specific procedures for complying with these requirements.]

III. Appointment of Fair Credit Compliance Program Coordinator

Upon its adoption of this Program, the [Name of Dealership] Board of Directors will appoint (and, thereafter, replace as necessary or appropriate) a Fair Credit Compliance Program Coordinator who will administer the Program. The Program Coordinator will report directly to the Board of Directors.

IV. Guidelines for Establishing Dealer Participation

The dealer participation rate that [Name of Dealership] will include in a credit offer to a customer in an indirect vehicle financing transaction will be determined in accordance with the guidelines set forth in this section.

a. Pre-Set Standard Dealer Participation Rate

The Program Coordinator will establish a pre-set rate of dealer participation that will be included in all credit offers that the Dealership extends to customers (the “Standard Dealer Participation Rate”) except as provided in section IV.b of this Program. The Program Coordinator will set forth the Standard Dealer Participation Rate in writing on the form at Appendix B of this Program and provide it to all Dealership employees. The Program Coordinator may change the Standard Dealer Participation Rate prospectively on a periodic basis through a written declaration to all Dealership employees.
b. Pre-Determined Allowable Deviations

Dealership employees may include a lower dealer participation rate in a credit offer to a customer only for the good faith, competitive reasons listed below. (Immediately below each reason is how that reason appears on the Dealer Participation Certification Form at Appendix D of this Program, which is described in paragraph (c) of this section.) When this occurs, Dealership employees must include sufficient documentation in the deal jacket or other location specified by the Program Coordinator to support the Dealership employee’s application of that reason and to verify that the final dealer participation rate was determined in a manner that comports with the terms of this Program.

1. Lower Cap Imposed by Assignee

☐ Dealer participation limited by finance source

If the Assignee has imposed a cap on the dealer participation that may be earned in the transaction that is lower than the Standard Dealer Participation Rate, the credit offer may include a dealer participation rate that is reduced to the rate cap level.

2. Monthly Payment Constraint

☐ Customer stated monthly payment constraint of $______ per month

If the customer states a monthly payment constraint in a fixed dollar amount that would preclude the customer from accepting the credit offer made under this Program, the Standard Dealer Participation Rate may be reduced to the level that will allow the customer to satisfy the monthly payment constraint.

3. More Competitive Offer

☐ Customer stated competing offer by __________________ (name) of _____%

If the customer (i) states that he or she has access to a credit offer from another dealer or a lender that is lower than the credit offer from the Dealership made under this Program and (ii) identifies the terms and source of the competing credit offer, the Dealership’s credit offer may include a dealer participation rate that is reduced so as to [select one of the following -- [meet the competing credit offer][beat the competing credit offer by a pre-determined number of basis points established by the Program Coordinator for all such scenarios]].

4. Dealership Promotional Financing Campaign

☐ Customer qualified for Dealership Promotional Financing Campaign

If the Dealership extends a promotional credit offer to all customers on the same terms or to all purchasers of certain vehicles on the same terms, the credit offer may include a dealer participation rate that is reduced to the level necessary to extend the promotional credit offer.

5. Manufacturer Subvention Program

☐ Customer qualified for subvened interest rate of ____% from __________________ (name)

If the customer qualifies for a manufacturer, finance source, or other third party interest rate subvention program, the credit offer may be made pursuant to the terms of that program without regard to the Standard Dealer Participation Rate.
6. Dealership Employee Incentive Program

[Include only if applicable]

❑ Customer qualified for Dealership Employee Incentive Program

If the customer qualifies for [Name of Dealership]'s Employee Incentive Program, the credit offer may include a dealer participation rate that is reduced pursuant to the terms of that program.

7. Dealership Inventory Reduction Considerations

❑ Customer purchased a vehicle that satisfies the Dealership's pre-determined inventory reduction criteria (describe how vehicle satisfies the criteria)

If the Dealership extends a credit offer pertaining to a vehicle that satisfies inventory reduction criteria that have been pre-determined by the Program Coordinator, the credit offer may include a dealer participation rate that is reduced in order to secure the sale of the vehicle. In establishing the inventory reduction criteria, the Program Coordinator will (i) consult with the manager(s) responsible for vehicle sales and the Dealership's floor plan line of credit, and (ii) identify in writing on the form at Appendix C of this Program and provide to Dealership employees the written inventory reduction criteria that a vehicle must satisfy in order to qualify for the reduction in the Standard Dealer Participation Rate. The written inventory reduction criteria should include relevant thresholds that the vehicle must satisfy such as the number of such vehicles in stock, the number of days the vehicle has been in inventory, and/or the declining value of the vehicle. The Program Coordinator may revise the inventory reduction criteria on a prospective basis as warranted by the circumstances provided these requirements are satisfied.

c. Dealer Participation Certification Form

A Dealership employee who arranges a credit sale with a customer must fully complete, sign, and date the Dealer Participation Certification Form set forth at Appendix D of this Program for each such credit sale and place the form in the deal jacket. The Dealer Participation Certification Form will be retained for the same period of time that the Dealership retains other documents related to credit transactions as set forth in section II.b of this Program.

d. Dealer Participation Certification Form Review

The Program Coordinator, or his or her Designee, will review each Dealership credit sale within two (2) business days of the sale to ensure that the Dealership employee who arranged the transaction executed a Dealer Participation Certification Form and completed and retained it in a manner that is consistent with the terms of the Program. The person conducting this review may not have participated in the credit transaction under review. If the reviewer determines that the Form was executed in a manner that is inconsistent with the terms of the Program, the reviewer will note the defect on the Form and initiate appropriate corrective action. Such action will include (i) ensuring that the customer receives a reduced interest rate or a refund if the transaction should have resulted in a lower interest rate for the customer, (ii) ensuring that appropriate corrective action is taken with regard to the Dealership employee who improperly executed the Form, and (iii) if the reviewer is not the Program Coordinator, promptly notifying the Program Coordinator of the defect. The Program Coordinator will coordinate with the [enter position title of appropriate employee(s)] to ensure such corrective action was carried out. Upon completion of the review, the reviewer will complete, sign, and date the Form's Reviewer Certification.
V. Training, Oversight, and Reporting

The Program Coordinator will complete the tasks listed below.

a. Ensure all current Dealership employees receive training on the [Name of Dealership] Fair Credit Policy and Fair Credit Compliance Program within 60 days of the Board of Director’s adoption of the Program.

b. Ensure all new Dealership employees receive training on the [Name of Dealership] Fair Credit Policy and Fair Credit Compliance Program prior to engaging in any credit operation described in Section I.b of the Program.

c. Ensure all current Dealership employees receive recurring training on the [Name of Dealership] Fair Credit Policy and Fair Credit Compliance Program on a periodic basis, at least once per year, and more frequently if the Program is amended in a substantive manner or if the Program Coordinator determines that additional training is necessary.

d. Establish the Standard Dealer Participation Rate as set forth in section IV.a of this Program and provide to Dealership employees this and any other information that is necessary to carry out the terms of the Program, including the documentation that must be present to support a Dealership employee’s application of an allowable deviation to the Standard Dealer Participation Rate.

e. Complete or ensure the completion of the Dealer Participation Certification Form Review as described in section IV.d of this Program.

f. Randomly monitor Dealership credit offers and conduct periodic audits of Dealership credit sales to ensure the [Name of Dealership] Fair Credit Compliance Program is being effectively implemented.

g. Submit a report to the Board of Directors, at least once per year, that sets forth (i) the Dealership’s level of compliance with the Fair Credit Compliance Program, and (ii) any recommended changes to the Program that may assist in carrying out its purpose.

h. Retain records documenting the completion of the training, oversight, and reporting tasks outlined in this section.

VI. Program Amendments

a. Except as provided for in section VI.b of this Program, amendments to the Program may only be made by the [Name of Dealership] Board of Directors.

b. After consulting with the Dealership’s legal counsel, the Program Coordinator may amend section IV.b of this Program in a manner that adds a good faith, competitive reason for an allowable deviation from the Standard Dealer Participation Rate that is consistent with [Name of Dealership]’s Fair Credit Policy and is capable of being uniformly applied by Dealership employees. Any such amendment must be ratified by the Board of Directors at its first meeting following such amendment.
Appointment and Policy & Program Approval

The following employee has been appointed as the [Name of Dealership] Fair Credit Compliance Program Coordinator pursuant to section III of this Program:

________________________________________________________________________________

[Insert appropriate language indicating the Dealership’s approval of this Policy and Program, such as:]

By signing below, the undersigned, constituting all of the members of the [Name of Dealership] Board of Directors, acknowledge the Board’s approval of the foregoing [Name of Dealership] Fair Credit Policy and Fair Credit Compliance Program and its appointment of the [Name of Dealership] Fair Credit Compliance Program Coordinator this ____ day of ______________, 201_.

_______________________________________  ____________________________________________

_______________________________________  ____________________________________________

_______________________________________  ____________________________________________

_______________________________________  ____________________________________________

_______________________________________  ____________________________________________
[Name of Dealership]
Fair Credit Policy

[Name of Dealership] is fully committed to complying with the letter and spirit of federal, state, and local laws and regulations that are designed to protect its customers. This includes ensuring that all qualifying credit applicants have equal access to credit and are treated in a manner that is fair, professional, and consistent with the terms of the [Name of Dealership] Fair Credit Compliance Program. Engaging in any form of unlawful credit discrimination is destructive, morally repugnant, and will not be tolerated by [Name of Dealership].
Appendix B

[Name of Dealership]
Standard Dealer Participation Rate

The [Name of Dealership] Pre-Set Dealer Participation Rate (“Standard Dealer Participation Rate”) is ______%.

This rate applies to all indirect vehicle financing transactions beginning on (enter date) and is in effect until further written notice from the [Name of Dealership] Fair Credit Compliance Program Coordinator.

[Name of Dealership] Fair Credit Compliance Program Coordinator:

________________________________________
Signature

________________________________________
Printed Name
Appendix C

[Name of Dealership] Inventory Reduction Criteria

In order for a Dealership employee to reduce the [Name of Dealership] Pre-Set Dealer Participation Rate (“Standard Dealer Participation Rate”) based on Inventory Reduction Considerations as set forth in section IV.b.7 of the [Name of Dealership] Fair Credit Compliance Program, the vehicle must meet or exceed the following threshold(s):

___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________

These inventory reduction criteria apply to all vehicle indirect financing transactions beginning on ___________ (enter date) and is in effect until further written notice from the [Name of Dealership] Fair Credit Compliance Program Coordinator.

[Name of Dealership] Fair Credit Compliance Program Coordinator:

________________________________________________________________________
Signature

________________________________________________________________________
Printed Name
Appendix D

Dealer Participation Certification Form

Buyer(s) Name(s) _______________________________ Date _______________________________

Assignee _______________________________ VIN _______________________________

Standard Dealer Participation Rate ____% Final Dealer Participation Rate ____%

If the Final Dealer Participation Rate does not equal the Standard Dealer Participation Rate, check the allowable deviation box below and fill in the corresponding blanks.

- [ ] Dealer participation limited by finance source
- [ ] Customer stated monthly payment constraint of $______ per month
- [ ] Customer stated competing offer by ________________ (name) of ____%
- [ ] Customer qualified for Dealership Promotional Financing Campaign
- [ ] Customer qualified for subvened interest rate of ____% from ________________ (name)
- [ ] Customer qualified for Dealership Employee Incentive Program
- [ ] Customer purchased a vehicle that satisfies the Dealership’s predetermined inventory reduction criteria (describe how vehicle satisfies the criteria)

I certify that the information above is true and correct to the best of my knowledge and that any deviation from the Standard Dealer Participation Rate was made in good faith and in a manner that is consistent with the requirements of the [Name of Dealership] Fair Credit Compliance Program.

____________________________________
Signature

___________________________________
Date

___________________________________
Printed Name

Reviewer Certification

I have reviewed the above information and supporting documentation and:

- [ ] certify that the Final Dealer Participation Rate complies with the [Name of Dealership] Fair Credit Compliance Program, or
- [ ] certify that I have initiated the corrective action noted below.
  • Reduced the customer’s interest rate to ____% or provided a refund to the customer in the amount of $______.
  • Taken the following employee corrective action (describe):

___________________________________
Signature

___________________________________
Date

___________________________________
Printed Name

___________________________________
Title