



Competing With Car Yard Finance:

Why Best Interests Duty Gives Brokers the Edge Over Car Yard (POS) Finance



1. Introduction



In the competitive world of consumer lending, mortgage and asset brokers find themselves vying with car yard finance facilitators who leverage regulatory exemptions to gain an edge. Unlike brokers, who are bound by the Best Interests Duty (BID) to prioritize customer needs, car yard point-of-sale (POS) financing operates outside these rigorous standards. This is not a “Level playing field”!

This creates a disparity, allowing car yards to exploit legislative loopholes for swift sales while offering potentially less favourable outcomes to borrowers. However, this also underscores a key distinction: brokers bring unparalleled value through transparency, market access, and tailored advice. By understanding these dynamics, brokers can position themselves not as adversaries to car yards but as champions of informed, customer-focused financial solutions.

This document articulates the differences between these asset finance sectors and while this disparity exists, how mortgage & asset brokers operating under BID, can successfully compete in this lucrative market.



Let's Level The Playing Field!

1. Regulatory Compliance and Consumer Protections

Adherence to Best Interests Duty (BID): Mortgage brokers are legally required to act in the best interests of the customer, ensuring that recommendations align with the customer's financial goals and circumstances.

POS Facilitators' Exemptions: Car yard finance facilitators often operate under the POS exemption, which means they are not subject to the same rigorous consumer protection standards. This could result in customers being offered products that are more favourable to the dealership or lender, rather than the borrower.

Example Talking Point:

"As a licensed broker, I am legally required to prioritize your financial well-being. Car yards, on the other hand, might not have the same obligation and could push you into a deal that benefits them more than you."

2. Broad Market Access vs. Limited Options

- **Access to Multiple Lenders:** Mortgage brokers work with a wide range of lenders, offering diverse finance products tailored to the customer's needs.
- **Car Yard Partnerships:** POS finance facilitators typically work with a limited panel of lenders or a single financier, reducing choice and potentially leading to higher interest rates or less favourable terms.

Example Talking Point:

"I compare hundreds of loan options from a variety of lenders to ensure you get the best deal. Car yard finance often ties you to a single lender, limiting your options and flexibility."

3. Cost Transparency

- **Transparent Fees and Rates:** Brokers provide a clear breakdown of loan costs, including fees, charges, and interest rates, ensuring customers understand their financial commitments.
- **Hidden Costs in POS Finance:** Car yard finance deals may include inflated interest rates, hidden fees, or "add-ons" like extended warranties and insurance that drive up the overall cost.

Example Talking Point:

"When you work with me, you'll know exactly what you're paying for. Car yards may bundle additional costs into your loan without clearly explaining them, leaving you with unexpected expenses."

4. Tailored Financial Advice

- **Personalized Loan Structuring:** Brokers consider the customer's complete financial situation, offering loan structures that align with broader financial goals (e.g., offset accounts, variable vs. fixed rates).
- **Quick Sale Focus:** Car yards prioritize convenience and speed, often neglecting to consider the customer's long-term financial health or future borrowing capacity.

Example Talking Point:

"I take the time to understand your financial goals and find a loan that fits your lifestyle. A quick POS deal may seem easy but could cost you more in the long run."

5. Better Customer Support

- **Ongoing Relationship:** Brokers provide ongoing support throughout the life of the loan, assisting with refinancing, rate negotiations, and future financial needs.
- **Transactional Approach:** Car yard finance is typically a one-off transaction with limited post-sale support.

Example Talking Point:

"My relationship with you doesn't end once your loan is approved. I'll be here to help you manage your loan over time, unlike a car yard, which is focused on the sale."

6. Reputation and Expertise

- **Professional Expertise:** Brokers are experienced financial professionals with in-depth knowledge of the lending market and regulatory requirements.
- **Sales-Driven Approach:** Car yard finance facilitators are primarily salespeople, not financial experts, which can lead to suboptimal outcomes for the borrower.

Example Talking Point:

"Would you trust a car salesperson with your mortgage?" As a broker, I bring specialized financial expertise to ensure you get the best outcome."

By framing the conversation around trust, choice, transparency, and customer advocacy, mortgage brokers can highlight the limitations of car yard POS finance and position themselves as the better option for savvy, informed consumers.

This conversation needs to be delivered prior to the consumer entering the car yard because as soon as the consumer enters the car yard, the salesman's job is to create a relationship, sell the car and shuffle the consumer to their F&I person to give a quote irrespective of whether the consumer already has finance options. Car yard salespeople are trained expert's in sales, so make no mistake, - they want the finance sale as well!

It is well documented that a large percentage of people that purchase a house, look for a new car to put in the driveway within six months! This is a fact. Your obligation to your clients includes educating them on why they should be using you for all their financial transactions through conversations, emails and newsletters. Imagine that if you facilitate 20 home loans over twelve months and 60% of those people bought a vehicle with finance organised through your business, this could generate between \$30,000 to \$50,000 for your business. This is over and above any asset loans you facilitate through referrals or marketing.



3. The car yard experience



Let's look at what actually happens in many car yards!

Dealers now provide car loans at the time of purchase and this is actually where they make a considerable amount of their money. While it might seem like you're saving time by sorting everything out at once, proceed with caution. Salespeople within a car yard undergo extensive training on how to connect with their customers and assist with closing the deal

One key strategy is to combine the purchase of the vehicle and the provision of finance as a linked transaction. This allows the dealership to control the price of the sale as well as earn additional income from the finance. Purchasers can be disadvantaged by this process and the purchase of the vehicle. The finance should always be kept separate and a standalone process.

Some dealers may also use a process called 'Subvention' which is designed to link the purchase of the vehicle into a low interest loan. Clients are unable to negotiate on the price of the vehicle which helps the dealer protect their margins and they make their money on the sale of the vehicle instead of the finance. Interest rates can be as low as 0% and the purchasers tend to focus on the rate and not the price of the vehicle. It can be confusing for car buyers trying to determine if it is a good deal or not! In many cases it can be better to haggle a sharp price and arrange your own finance outside the dealership. Sometimes, the deals in the showroom just don't add up.

We did some number crunching with interesting results!

At least one leading brand was offering 0 per cent finance on quite a high retail price of \$24,990 drive-away for a small car that has in the recent past limbered to \$19,990 drive-away. At 0 per cent finance over five years the \$24,990 price would cost \$417 per month, presuming there are no other hidden charges or establishment fees.

But what happens if you buy the car at \$19,990 drive-away and arrange your own finance? If you have a good credit history, you might be able to get a rate of say, 5 per cent. (example rate) According to online calculators, that works out to be \$378.00 per month (excluding any fees) over five years, paying \$2,690 in interest, bringing the total cost of the car to just \$22,680.

It is clear that by combining the purchase of the car and obtaining of finance into a single transaction can place the purchaser at risk or see them repay more over the term of the loan. Separately, a car yard could offer a cheap interest rate to give the illusion that you are getting a good deal, but increase the establishment fees (in the fine print) which you pay for and added to the loan, and this increases your monthly repayment,- so it's not all about the interest rate! (compare actual loan repayments).

Exemptions for Point-of-Sale (POS) Facilitators:

- Historically, POS operators (e.g., car dealerships, retailers offering store finance) have been exempt from needing an Australian Credit Licence (ACL) under the National Consumer Credit Protection Act 2009 (NCCP Act).
- These exemptions allowed POS facilitators to arrange finance for consumers without being subject to the same obligations as brokers or other credit intermediaries.

In general terms there are significant differences in the structure of these (POS) businesses, with a different dynamic operating in relation to the role of POS finance. In the retail store context the retailer makes a profit from the sale or supply of goods or services, and the availability of credit maximises the volume of sales, and therefore the profitability of the business.

However, in relation to vehicle dealerships, cars can be sold at a loss or break-even price, with the dealership earning a profit on the transaction through the provision of finance and the sale of extra items (for example, servicing agreements, insurance and warranties). In other words, ***where no or minimal profit is generated from the sale of the vehicle the dealership will be under economic pressure to maximise the profit earned through commissions and other financial benefits payable in relation to the finance***, and from the sale of items (other than the vehicle) financed through the credit contract.

Consumers who opt to use POS finance are likely to approach the financing decision as an incidental matter once the primary decision to purchase goods or services has been made. Research demonstrates that consumers purchasing items such as household goods are often focused on obtaining the product and are financially or psychologically committed to the transaction. A review of practices in this area was undertaken by Professor Justin Malbon, in a report conducted for the Post Implementation Review of the Uniform Consumer Credit Code. His report, 'Taking Credit: A Survey of Consumer Behaviour in the Australian Credit Market' (the Malbon report), found that 46 per cent of respondents reported they had entered into a credit contract simply to purchase an item, rather than because of the terms of the credit offered. 17. Consumers may therefore make decisions in relation to the use of POS finance on the basis of convenience, rather than other factors such as price or other features of the credit contract. This means that consumers are unlikely to be familiar with the cost or terms of POS finance available before deciding to purchase goods or services.

The above is an Exerpt from Treasury Paper:

https://treasury.gov.au/sites/default/files/2019-03/POS_Discussion_paper.pdf

From this paper, it is obvious that Car Yards are able to make considerable profit from consumer finance without any recourse from the BID legislation or bear any responsibility to act in the best interests of the consumer. Other retailers that use POS do NOT make a profit from finance, which is what the legislation was initially designed for.

5. Conclusion



If you manage to chat to the consumer before they embark on their car hunt, you have a golden opportunity to enlighten them on the advantages of your services—ideally before they're lured into an ill-suited financing arrangement by a persuasive salesperson. The tip below can also be shared when assisting clients with property finance, offering them a valuable "heads-up" and a compelling reason to reach out to you when the time comes to buy their next vehicle. After all, a little foresight can go a long way in avoiding regret down the road!

TIP: As your client's financial advisor, recommend that they avoid disclosing how they plan to pay for a car when negotiating with a salesperson. Instead, they should focus on agreeing on the car's price first. If the salesperson believes there's a chance to earn from financing, they may be more flexible on the sale price. (Alternatively, they can mention they're considering financing without specifying the source of finance.)

Keep your cards close to your chest when negotiating a price and don't let on how you will be paying until you have the absolute best price.

If you would like to know more information around the content in this article or how you can effectively integrate asset finance into your business, speak with a BBC business advisor today!



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