Auto Dealer Law

The Definitive Legal Guide to the Purchase, Sale, and Operation of Vehicle Dealerships

First Edition

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NOLDS AND REYNOLDS UNIVERSITY ONLINE, November, 2006; \textit{F&I Matters}, NADC MEMBER CONFERENCE, Chicago, IL, April, 2006; \textit{Car Buyer’s Bill of Rights Training}, California (multiple sessions), May-June, 2005; and \textit{Negative Equity Disclosure}, NADC MEMBER CONFERENCE, Atlanta, GA, April, 2005.

Auto Advisory Services is a leading compliance consulting company. With a client base of nearly 500 dealerships, Auto Advisory Services offers comprehensive sales, finance, advertising, and DMV compliance services. Auto Advisory Services performs over 100 on-site compliance audits each month and the compliance hotline receives approximately 150 calls per week. Auto Advisory Services conducts industry workshops, publishes informative compliance publications, and is a contracted second line partner in conjunction with the California DMV’s Business Partner Automation program.

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Table of Contents

PREFACE AND DISCLAIMER........................................................................................................................................... XVII

PART I: BUYING AND SELLING THE DEALERSHIP

INTRODUCTION........................................................................................................................................................................... 1

For Dealers .................................................................................................................................................................................. 1
For Dealer Attorneys ...................................................................................................................................................................... 1
Periodic Updates........................................................................................................................................................................... 2
Organization of Book ................................................................................................................................................................. 2

CHAPTER 1: WHAT A BUYER SHOULD KNOW ................................................................................................................................. 5

Know What You Are Getting Into .................................................................................................................................................. 5
Have a Clear and Unambiguous Contract Professionally Prepared .................................................................................................. 6
Don’t Unexpectedly Get Stuck With the Seller’s Liabilities ........................................................................................................... 7

CHAPTER 2: WHAT A SELLER SHOULD KNOW ............................................................................................................................... 9

Understand Your Goals ................................................................................................................................................................... 9
Do a Deal That Can Close ................................................................................................................................................................. 10
Do a Deal That Allows You to Move On ......................................................................................................................................... 11

CHAPTER 3: IMPORTANT TERMS IN A BUY/SELL AGREEMENT .................................................................................................. 13

A Fully Negotiated and Comprehensive Buy/Sell Agreement is Key .......................................................................................... 13
The Process ...................................................................................................................................................................................... 14
Seller Preparations .......................................................................................................................................................................... 14
Buyer Preparations .......................................................................................................................................................................... 15
Preparing to Negotiate the Deal ...................................................................................................................................................... 16
Know the Other Party ..................................................................................................................................................................... 16
Negotiating the Overall Structure of the Deal ................................................................................................................................ 16
Understanding the Tax Issues ......................................................................................................................................................... 17
Letters of Intent ............................................................................................................................................................................... 18
The Buyer’s Investigation and Due Diligence .................................................................................................................................. 18

The Agreement ............................................................................................................................................................................... 19
What Are the Deposit Terms .............................................................................................................................................................. 19
Goodwill ............................................................................................................................................................................................ 19
New Cars .......................................................................................................................................................................................... 20
Demonstrators ................................................................................................................................................................................... 21
Loaners/Company Vehicles .............................................................................................................................................................. 21
Used Cars ........................................................................................................................................................................................ 21
Original Equipment Manufacturer (OEM) Parts and Accessories .................................................................................................. 22
Non-OEM Parts and Supplies ........................................................................................................................................................ 22
Fixed Assets ...................................................................................................................................................................................... 23
Work in Process and Sublet Inventory ........................................................................................................................................ 23
Franchisor .......................................................................................................................................................................................... 23
Excluded Assets ................................................................................................................................................................................ 24
Buyer’s Representations and Warranties ....................................................................................................................................... 24
Seller’s Representations and Warranties ......................................................................................................................................... 25
Schedules ........................................................................................................................................................................................ 26
Acceptance of Liabilities ................................................................................................................................................................. 26
Leases and Service Contracts .......................................................................................................................................................... 27
Seller’s Personal Benefits ................................................................................................................................................................. 28
Date and Terms of Closing ............................................................................................................................................................. 28

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# Table of Contents

Hart Scott Rodino/WARN/Information Safeguards ................................................................. 29
Employees.............................................................................................................................. 29
No Shop/Confidentiality ....................................................................................................... 30
Bulk Sale Compliance ......................................................................................................... 30
Real Estate ............................................................................................................................ 31
Management Agreements .................................................................................................... 31
Use a Closing Checklist ....................................................................................................... 32
Closing .................................................................................................................................. 32
Post-closing Indemnification ............................................................................................... 32
Standard Terms .................................................................................................................... 32

## CHAPTER 4: FACTORY APPROVAL .............................................................................. 35

Introduction ......................................................................................................................... 35
Get Approval of All Ownership Changes Before Making Them .......................................... 35
A Franchise Is Not Transferred in a Buy/Sell ..................................................................... 36
The Standard for Approval in the Buy/Sell Agreement ......................................................... 36
Application Process .......................................................................................................... 36
What is a Right of First Refusal? .......................................................................................... 37
The Approval Process ......................................................................................................... 37
The Effect of a Term Agreement ........................................................................................... 38
Franchisor Demands ........................................................................................................... 38
Approval Letter .................................................................................................................. 38
The Closing ......................................................................................................................... 38

## CHAPTER 5: LEGAL STRUCTURE OF THE DEALERSHIP ........................................ 41

Introduction ......................................................................................................................... 41
Available Forms of Ownership ............................................................................................ 41
The Formalities of an LLC and a Corporation ...................................................................... 42
Structuring a Group of Dealers ............................................................................................ 44
Protecting the Separate Structure of Each Operating Company ........................................ 44

## CHAPTER 6: CLOSING THE DEALERSHIP ................................................................. 45

Introduction ......................................................................................................................... 45
Why are you considering closing? ........................................................................................ 45
How long do you have? ........................................................................................................... 45
Can you cut expenses to survive? ........................................................................................ 45
Will your franchisor help? .................................................................................................... 45
Can you sell? ......................................................................................................................... 45
Is there a franchise reason you cannot close down? ............................................................. 46
What will your franchisor take back? ................................................................................... 46
What is the totality of your obligations and how will you handle those? ............................... 46
What do you owe customers? .............................................................................................. 46
What other outstanding obligations does the dealership have? ........................................ 46
What F&I obligations do you owe? ...................................................................................... 47
What real estate obligations do you have? .......................................................................... 47
Do you account for vehicle inventories on a LIFO basis? .................................................... 47
Must you stay in business as an independent dealer? ........................................................ 47
What impact will terminating as a franchised dealer have on other obligations? ............... 47
What is your personal liability as the dealer? ...................................................................... 47
Is your franchisor insisting upon a release? ....................................................................... 47
What will you do with your employees? ............................................................................ 47
What is your tax position? ................................................................................................... 47
Once you close, what will you do with your corporation or LLC? ..................................... 47
PART II: RUNNING THE DEALERSHIP

CHAPTER 7: PUBLIC RELATIONS

PART II: RUNNING THE DEALERSHIP

CHAPTER 7: PUBLIC RELATIONS

Introduction ................................................................................................................................. 51
A Crisis Involving the Dealership .............................................................................................. 51
Policy for Handling a Crisis ......................................................................................................... 51
Code of Ethics ............................................................................................................................. 52
Federal and State Law Enforcement .......................................................................................... 52
Government Investigations ......................................................................................................... 52
Impact on Public Relations ......................................................................................................... 53
Plaintiffs’ Attorneys .................................................................................................................... 53
Your Franchisor’s Crisis is Your Dealership’s Crisis ................................................................. 53
Educating the Media .................................................................................................................... 53
Speaking Publicly on Behalf of Your Dealership or Your Industry ........................................ 54

CHAPTER 8: EMPLOYEE RELATIONS

Introduction ................................................................................................................................. 57
Recruiting, Interviewing, Selecting Basics ............................................................................... 57
Recruiting ................................................................................................................................... 58
Interviewing ............................................................................................................................... 59
Written Interview Guidelines .................................................................................................... 59
Know What You Cannot Ask ................................................................................................... 59
Reference Checks and Verification of Applicant’s Information .................................................. 63
Internet ....................................................................................................................................... 63
Credit Reports and Investigative Background Checks ............................................................... 63
Criminal Background Checks .................................................................................................... 64
Driving Record .......................................................................................................................... 64
Occupational License Eligibility ............................................................................................... 64
Hire Packages ............................................................................................................................. 65
Federal I-9 Form .......................................................................................................................... 65
Pay Plans .................................................................................................................................... 66
Personnel Handbook .................................................................................................................. 67
Code of Ethics ........................................................................................................................... 67
Prevention of Discrimination, Harassment, and Retaliation ....................................................... 68
Employment at Will, Disclaimer of Contract, and Notification of Dealership Right to Change Terms of Employment ................................................................. 69
Workplace Violence .................................................................................................................... 70
Family and Medical Leave Act Policy ....................................................................................... 70
Appearance and Dress Code ..................................................................................................... 71
Privacy ........................................................................................................................................ 72
Drug and Alcohol Policy .......................................................................................................... 72
Use of Wireless Devices While Driving .................................................................................... 72
Technology Use Policy ............................................................................................................. 72
Email .......................................................................................................................................... 72
Internet ...................................................................................................................................... 73
Social Media ............................................................................................................................... 74
Software Policy .......................................................................................................................... 76
Protection of Dealership Assets ............................................................................................... 76
Vehicles ...................................................................................................................................... 76
Demonstrators ............................................................................................................................ 77
License Plates ............................................................................................................................. 77
Key Control ................................................................................................................................. 78
Red Flags Rule ........................................................................................................................... 78
Information Safeguards Rule ...................................................................................................... 78
Cosigner Policy .......................................................................................................................... 78
Wholesaler Policy ...................................................................................................................... 79
Policy Against Horseplay ........................................................................................................... 79
Acknowledgment of Receipt of Employee Handbook .............................................................. 79

www.autodealerlaw.com
Table of Contents

Disclaimer ............................................................................................................................................. 79
Designing and Implementing a Non-Discrimination and Non-Harassment Policy .................................... 80
Policy Against Discrimination and Harassment ..................................................................................... 80
  Limited Confidentiality ....................................................................................................................... 80
  Non-Retaliation ................................................................................................................................. 81
Training Employees and Managers ...................................................................................................... 81
  Employee Training ............................................................................................................................. 81
  Manager Training ............................................................................................................................... 81
The Steps to Follow in Handling a Complaint of Discrimination or Harassment ...................................... 82
  Interviewing the Complainant ......................................................................................................... 82
  Conducting the Investigation .......................................................................................................... 82
  Resolution ........................................................................................................................................ 83
  The Decision ..................................................................................................................................... 83
  Close the Loop ................................................................................................................................. 83
Use of a Non-Compete ........................................................................................................................ 83
  Non-compete Agreement ............................................................................................................... 84
  Confidentiality ................................................................................................................................. 84
  Non-solicitation ............................................................................................................................... 85
  New Employer Notification .......................................................................................................... 85
Pre-dispute Arbitration Agreements for Employment Matters .................................................................... 85
Job Evaluations .................................................................................................................................... 86
  No Real Confidentiality ............................................................................................................... 86
  Managers Must Know the Importance of Evaluations .................................................................... 86
  Evaluation Guidelines .................................................................................................................... 86
  Review of the Process .................................................................................................................... 86
Fair Labor Standards Act Compliance .................................................................................................. 87
  Introduction ....................................................................................................................................... 87
  Minimum Wage ............................................................................................................................... 87
  Dealership Exemptions .................................................................................................................... 87
    Salespeople ................................................................................................................................... 87
    Partsmen ....................................................................................................................................... 88
    Mechanics ...................................................................................................................................... 88
    Service Advisors ......................................................................................................................... 89
  Traditional Exemptions .................................................................................................................... 89
Employee or Independent Contractor ...................................................................................................... 90
  Clean-up Personnel, Dent Techs, and Pinstripers ........................................................................... 90
  Occasional Drivers .......................................................................................................................... 90
  IRS Guidelines ................................................................................................................................ 90
Customer Information .......................................................................................................................... 91
Unions .................................................................................................................................................. 91
  Concerted Activities ........................................................................................................................ 91
  When the Union Organizer Arrives ................................................................................................. 91
  Engage a Company Labor Lawyer ................................................................................................. 92
Discipline ............................................................................................................................................... 92
  Termination ...................................................................................................................................... 93
Employment Releases .......................................................................................................................... 93
  Age Discrimination in Employment Act ......................................................................................... 93
  Family and Medical Leave Act ...................................................................................................... 93
  Recommendation ............................................................................................................................. 94

CHAPTER 9: FACTORY RELATIONS ....................................................................................................... 95

  Introduction ...................................................................................................................................... 95
  Sales and Service Agreements ....................................................................................................... 96
  Term Agreements ............................................................................................................................. 97
    Beware of Manufacturer Side Agreements .................................................................................... 98
Keeping and Filing Franchisor Documents ............................................................................................. 99
Handling Manufacturer Communications ............................................................................................... 100
### Table of Contents

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paying off Floored Vehicles</td>
<td>128</td>
</tr>
<tr>
<td>Floorplan Audits</td>
<td>129</td>
</tr>
<tr>
<td>Master Dealer Agreements (Purchase and Lease)</td>
<td>129</td>
</tr>
<tr>
<td>Handling Repurchase Requests</td>
<td>130</td>
</tr>
<tr>
<td><strong>CHAPTER 12: PARTS AND SERVICE</strong></td>
<td>133</td>
</tr>
<tr>
<td>Introduction</td>
<td>133</td>
</tr>
<tr>
<td>Operational Issues</td>
<td>133</td>
</tr>
<tr>
<td>Customer Pay and Warranty Rates</td>
<td>133</td>
</tr>
<tr>
<td>Service Department Fees</td>
<td>134</td>
</tr>
<tr>
<td>Replacement Keys</td>
<td>135</td>
</tr>
<tr>
<td>Parts Department Scams</td>
<td>135</td>
</tr>
<tr>
<td>NHTSA “Make Inoperative” Prohibition</td>
<td>135</td>
</tr>
<tr>
<td>Tire Placards and Load Carrying Capacity Modification Labels</td>
<td>136</td>
</tr>
<tr>
<td>Odometer Repairs</td>
<td>137</td>
</tr>
<tr>
<td>Tool Reimbursement Plans</td>
<td>138</td>
</tr>
<tr>
<td>Environmental Issues</td>
<td>138</td>
</tr>
<tr>
<td>Clean Air Act</td>
<td>138</td>
</tr>
<tr>
<td>Clean Water Act</td>
<td>139</td>
</tr>
<tr>
<td>Safe Drinking Water Act</td>
<td>139</td>
</tr>
<tr>
<td>Resource Conservation and Recovery Act</td>
<td>139</td>
</tr>
<tr>
<td>Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA)</td>
<td>139</td>
</tr>
<tr>
<td>Safety Issues</td>
<td>140</td>
</tr>
<tr>
<td>Federal and State OSHA</td>
<td>140</td>
</tr>
<tr>
<td>The OSHA Asbestos Standard</td>
<td>140</td>
</tr>
<tr>
<td>OSHA Hazard Communication Standard (Right to Know Laws)</td>
<td>140</td>
</tr>
<tr>
<td>OSHA Lockout/Tagout</td>
<td>140</td>
</tr>
<tr>
<td>OSHA Respiratory Protection</td>
<td>140</td>
</tr>
<tr>
<td>DOT Hazardous Material Handling</td>
<td>140</td>
</tr>
<tr>
<td>Checklists</td>
<td>140</td>
</tr>
<tr>
<td>General Conditions</td>
<td>140</td>
</tr>
<tr>
<td>Sprinklered Premises</td>
<td>141</td>
</tr>
<tr>
<td>Walking Surfaces and Customer Areas</td>
<td>141</td>
</tr>
<tr>
<td>Flammable Liquids and Spray Painting</td>
<td>141</td>
</tr>
<tr>
<td>Service, Welding and Cutting</td>
<td>142</td>
</tr>
<tr>
<td>Tools and Equipment</td>
<td>142</td>
</tr>
<tr>
<td>Vehicles and Premises Security</td>
<td>142</td>
</tr>
<tr>
<td>Employee Training</td>
<td>142</td>
</tr>
<tr>
<td>Manufacturer Recalls</td>
<td>143</td>
</tr>
<tr>
<td>Lemon Law Issues</td>
<td>143</td>
</tr>
<tr>
<td><strong>CHAPTER 13: MANAGING LITIGATION</strong></td>
<td>145</td>
</tr>
<tr>
<td>Introduction</td>
<td>145</td>
</tr>
<tr>
<td>The Importance of a Complaint Handling Process</td>
<td>145</td>
</tr>
<tr>
<td>Early Assessment and Action</td>
<td>146</td>
</tr>
<tr>
<td>Avoid Litigation Grief</td>
<td>146</td>
</tr>
<tr>
<td>Insurance Company Involvement and Understanding a Reservation of Rights Letter</td>
<td>147</td>
</tr>
<tr>
<td>Defense Strategy</td>
<td>148</td>
</tr>
<tr>
<td>Arbitration or Litigation?</td>
<td>148</td>
</tr>
<tr>
<td>Pros</td>
<td>148</td>
</tr>
<tr>
<td>Cons</td>
<td>148</td>
</tr>
<tr>
<td>Early Settlement</td>
<td>148</td>
</tr>
<tr>
<td>Response to the Complaint</td>
<td>148</td>
</tr>
<tr>
<td>Discovery</td>
<td>148</td>
</tr>
<tr>
<td>Depositions</td>
<td>148</td>
</tr>
</tbody>
</table>
CHAPTER 14: ANTITRUST CONCERNS ................................................................. 155
Introduction ......................................................................................................................... 155
Price Fixing .......................................................................................................................... 155
  Vertical Price Restraints ................................................................................................. 155
  Horizontal Price Restraints ............................................................................................ 156
  Agreements on Other Operating Issues ........................................................................ 156
  Group Advertising .......................................................................................................... 156
Boycotts ............................................................................................................................... 156
Trade Association Activities ............................................................................................... 157
Individual Dealer Guidelines ............................................................................................ 158

CHAPTER 15: INSURANCE ..................................................................................... 159
Introduction ........................................................................................................................ 159
Buying Insurance ............................................................................................................... 159
  Use a Request for Proposal (RFP) .................................................................................. 159
  Work with Knowledgeable Dealer Personnel ............................................................... 159
  Get a Plain Language Proposal ..................................................................................... 159
  What will the carrier do in the event of loss? ................................................................. 160
Loss Control ....................................................................................................................... 160
Important Coverages and Terms ....................................................................................... 160
  Building (If Required) .................................................................................................. 160
  Personal Property – Contents (Includes Stock) ............................................................. 160
  Personal Property – Vehicles ....................................................................................... 161
  Business Income .......................................................................................................... 161
  Workers Compensation and Employers Liability ....................................................... 161
  Garage Liability (Includes Commercial General and Automobile Liability) ............. 161
  Garagekeepers’ Insurance .............................................................................................. 162
  Boiler and Machinery .................................................................................................... 162
  Umbrella ........................................................................................................................ 162
  Contingent Leasing Liability ......................................................................................... 162
  Cumulative Deductible Limit ....................................................................................... 162
  Crime .............................................................................................................................. 162
  Additional Qualifications ............................................................................................. 163
Claims Processes ................................................................................................................ 163
Reservation of Rights Letters .......................................................................................... 163

CHAPTER 16: CONTROLLING YOUR DEALERSHIP’S ORGANIC DOCUMENTS ....... 165
Introduction ....................................................................................................................... 165
Corporation or LLC Documents ....................................................................................... 166
Franchise Materials .......................................................................................................... 166
Finance Agreements .......................................................................................................... 166
Real Estate Documentation ............................................................................................... 167
# Table of Contents

Vendor Agreements ............................................................................................................. 167  
Other Important Documents ................................................................................................. 167  

**CHAPTER 17: EMERGENCY PREPAREDNESS** .................................................................. 169  
Introduction .......................................................................................................................... 169  
Prepare a Plan ....................................................................................................................... 169  
What to do During a Disaster ............................................................................................... 170  
Recovering from a Disaster ................................................................................................. 170  

**PART III: COMPLIANCE**  

**CHAPTER 18: THE CULTURE OF COMPLIANCE** ............................................................. 175  
Introduction .......................................................................................................................... 175  
What is the Culture of Compliance? .................................................................................... 175  
Tone at the Top ...................................................................................................................... 176  
Compliance Coordinator ..................................................................................................... 176  
Establishing and Maintaining Compliance Policies .......................................................... 176  
Understanding the Requirements ...................................................................................... 176  
Written Policies ................................................................................................................... 176  
Proper Paperwork ............................................................................................................... 177  
Implementation ................................................................................................................... 177  
Training ................................................................................................................................ 177  
Monitor and Enforce Compliance ....................................................................................... 178  
Inspect What You Expect .................................................................................................... 178  
If it Wasn’t Signed, it Wasn’t Seen .................................................................................... 178  
Internal Reviews (Audits) .................................................................................................. 178  
External Compliance Audits .............................................................................................. 179  
Federally Mandated Reviews ............................................................................................. 179  
Internal Investigations ....................................................................................................... 179  
Enforcement ........................................................................................................................ 180  
Retention Policy .................................................................................................................. 180  
Conclusion ............................................................................................................................ 180  

**CHAPTER 19: CASH REPORTING AND MONEY LAUNDERING PREVENTION** ............. 183  
Introduction .......................................................................................................................... 183  
Related Transactions Requirement ..................................................................................... 184  
Form Completion ................................................................................................................ 184  
Suspicious Transactions/Money Laundering ..................................................................... 185  
Notice to Customer ............................................................................................................. 185  
Consolidated Business Offices ........................................................................................... 185  
Adopting a Program ............................................................................................................ 186  
Don’t Leave Compliance Solely to the General Office ..................................................... 186  
Use a Backup System to Identify Reportable Transactions ............................................. 186  
Conducting a Self-audit ....................................................................................................... 187  
Salespeople Must Understand the Signals of a Suspicious Transaction .......................... 187  
Sample Cash Reporting Policy ......................................................................................... 187  
IRS Cash Reporting and Your Dealership, Questions and Answers on Form 830 .......... 188  

**CHAPTER 20: FAIR CREDIT REPORTING ACT** .............................................................. 195  
Introduction .......................................................................................................................... 195  
Permissible Purposes for Obtaining a Credit Report .......................................................... 195  
Compliance Tips .................................................................................................................. 195  
Running Credit Reports Without Written Permission ..................................................... 195  
Internet Credit Applications ............................................................................................... 196  
Telephone Credit Applications .......................................................................................... 196  
Adverse Action Notices ..................................................................................................... 197  
Under what circumstances do we have to give adverse action notice? .......................... 197  
What should the form look like? ....................................................................................... 198 

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What if our adverse action notice doesn’t contain any reasons for denial of credit? .......... 198
What happens if a customer makes a written request for specific reasons for credit denial? .......................................................... 199
What are the time constraints? .......................................................................................................................... 199
Record Retention Requirements .................................................................................................................. 199
Fraud and Active Duty Military Alerts ........................................................................................................ 201
Address Discrepancies .................................................................................................................................. 201
Information Available to ID Theft Victims ................................................................................................... 202
Customer Information and Records Disposal .............................................................................................. 202
Risk Based Pricing Notice (a/k/a “Credit Score Disclosure”) .................................................................... 203
What should the form look like? .................................................................................................................. 204
Timing......................................................................................................................................................... 204
Multiple Credit Scores .................................................................................................................................... 204
Multiple Consumers ..................................................................................................................................... 204
Credit Score Not Available .......................................................................................................................... 204
Business Credit ............................................................................................................................................. 204
Compliance Tips ............................................................................................................................................ 204
Additional Compliance Tips for California Dealers .................................................................................. 205
FTC Red Flags Rule .................................................................................................................................. 205
Definitions .................................................................................................................................................. 205
Basic Requirements ..................................................................................................................................... 206
The Details ................................................................................................................................................ 206
Step 1: Appoint a Red Flags Manager ........................................................................................................ 206
Step 2: Conduct a Risk Assessment ............................................................................................................ 207
Step 3: Create the Red Flags Program ...................................................................................................... 207
Step 4: Have the Board of Directors Approve the Red Flags Program .................................................. 209
Step 5: Train Appropriate Dealership Personnel ....................................................................................... 209
Step 6: Monitor Service Providers ............................................................................................................ 210
Step 7: Keep the Program Up-to-date ....................................................................................................... 210
Step 8: Periodically Report to the Board of Directors ............................................................................... 211
Conclusion .................................................................................................................................................. 211
Credit Application/Report Sharing With Affiliates (Affiliate Sharing Rule) .............................................. 211
Joint User Exception .................................................................................................................................... 211
Identifying Financial Institutions on Credit Applications .......................................................................... 212
Avoiding Problems ...................................................................................................................................... 212
Affiliate Marketing Rule ............................................................................................................................... 212
Liability for Violations of FCRA ................................................................................................................. 213
CHAPTER 21: EQUAL CREDIT OPPORTUNITY ACT ................................................................................. 215
Introduction .................................................................................................................................................. 215
Disparate Treatment .................................................................................................................................... 215
Disparate Impact ......................................................................................................................................... 215
Preventing Credit Discrimination Lawsuits ............................................................................................... 216
Yield-Spread Attacks .................................................................................................................................. 217
Credit Applications ....................................................................................................................................... 217
Use of Lender’s Credit Applications .......................................................................................................... 218
Credit Application Completion .................................................................................................................... 218
Cosigners ...................................................................................................................................................... 218
Exercising of Rights Under FCRA ............................................................................................................. 218
Penalties for Non-Compliance .................................................................................................................... 218
Adverse Action ............................................................................................................................................ 219
CHAPTER 22: TRUTH IN LENDING ACT ............................................................................................... 221
Introduction .................................................................................................................................................. 221
Applicability ................................................................................................................................................ 221
“The Federal Box” ....................................................................................................................................... 222
Chapter 23: Gramm-Leach-Bliley Privacy Act

Introduction .............................................................................................................. 233
FTC Privacy Rule ..................................................................................................... 233
Initial Notice ............................................................................................................. 233
Exceptions to Opt-out Requirements ..................................................................... 234
Annual Notices ........................................................................................................ 234
Nonpublic Personal Information .............................................................................. 234
Model Privacy Notices .............................................................................................. 236
Model Privacy Notice 1 (No Affiliates, No Opt-Outs) .............................................. 236
Model Privacy Notice 2 (No Affiliate Sharing, No Opt-Outs) ...................................... 239
Model Privacy Notice 3 (Affiliate Sharing (Non-Marketing), Joint Marketing, No Opt-Outs) ........................................................................................................ 242
Model Privacy Notice 4 (Affiliate and Nonaffiliate Sharing, Marketing, With Opt-Outs) ........................................................................................................ 246
FTC Safeguards Rule ................................................................................................ 249
Safeguards Compliance Manager ............................................................................ 249
Is the safeguards compliance manager position limited to only one person? ............ 249
Will the safeguards compliance manager face additional liability? ......................... 250
Risk Assessment ...................................................................................................... 250
Service Providers .................................................................................................... 252
What criteria must a service provider meet? ............................................................. 252
Examples of Service Providers ................................................................................ 252
Checklist of “Reasonable Steps” for Selecting Service Providers .............................. 253
Other Safeguard Rule Requirements ........................................................................ 253

Chapter 24: Office of Foreign Assets Control

Introduction .............................................................................................................. 255
Frequently Asked Questions ...................................................................................... 255
What transactions should we be concerned about? .................................................... 255
How do we check our customers against the list? ..................................................... 255
What happens if we run an OFAC check and get a match? ....................................... 255
When should we call the OFAC hotline (1-800-540-6322)? ..................................... 256
## Table of Contents

What if we can’t tell if the match is exact and can’t get through to the hotline? .................................................. 256
What if we have an exact match and cannot get through to the hotline? .................................................. 256
Do we have to file reports with OFAC? .................................................................................................................. 256
Where can we get the SDN list? .................................................................................................................. 256
Is this part of the USA PATRIOT Act? .................................................................................................................. 256
What do we tell a customer when we discover his or her name matches a name on the SDN list? .................................................................................................................. 256
Does anyone really get into trouble for this? .................................................................................................................. 256
Can we sell a car to Muhammad Ali? .................................................................................................................. 256

### CHAPTER 25: FEDERAL VEHICLE INFORMATION & LABELING ............................................................................. 259

Introduction .................................................................................................................................................................. 259
Monroney labels .......................................................................................................................................................... 259
American Automobile Labeling Act (“Parts Content Label”) .................................................................................. 260
Used Car Buyers Guides ........................................................................................................................................... 260
A Dealer’s Guide to the Used Car Rule .................................................................................................................. 260
Vehicle Information .................................................................................................................................................. 261
Dealer Information .................................................................................................................................................. 261
Optional Signature Line ........................................................................................................................................... 261
Warranty Information ............................................................................................................................................. 262
Is the Warranty “Full” or “Limited”? .................................................................................................................. 262
What if the Manufacturer’s Warranty Still Applies? .................................................................................................. 262
Penalties for Non-Compliance ................................................................................................................................ 265
Contractual Inclusion .............................................................................................................................................. 265
Sample Buyers Guides ............................................................................................................................................ 265
EPA Fuel Economy Guides ...................................................................................................................................... 274
NHTSA Comparative Insurance Guides .................................................................................................................. 274

### CHAPTER 26: MAGNUSON-MOSS WARRANTY ACT ................................................................................................. 275

Introduction .................................................................................................................................................................. 275
Rules Promoted Under Magnuson-Moss Warranty Act .................................................................................................. 275
Pre-sale Availability Rule ........................................................................................................................................... 275
Warranty Disclosure Rule ........................................................................................................................................ 276
Dispute Resolution Rule ........................................................................................................................................... 277
Breach of Warranty Claims ......................................................................................................................................... 278
Unlawful Tie-in Sales Provision .................................................................................................................................. 278

### CHAPTER 27: FEDERAL ODOMETER ACT

(MOTOR VEHICLE INFORMATION AND COST SAVINGS ACT) ................................................................................. 279

Introduction .................................................................................................................................................................. 279
Tampering and Impermissible Operation of Vehicle .................................................................................................. 279
Repair and Replacement Procedures .................................................................................................................................. 279
True Odometer Replacement Story .................................................................................................................................. 280
Disclosure Requirements on Transfer .................................................................................................................. 280
Odometer Certification .................................................................................................................................................. 280
Vehicles Exempted ...................................................................................................................................................... 281
Distribution of Copies .................................................................................................................................................. 281
Record Retention .......................................................................................................................................................... 282
State Law Preemption .................................................................................................................................................. 282
Penalties for Noncompliance ....................................................................................................................................... 282

### CHAPTER 28: MANUFACTURER RECALLS .................................................................................................................. 283

Introduction .................................................................................................................................................................. 283
Dealer Obligations in the Event of a Manufacturer Recall .......................................................................................... 283
Suggested Dealership Procedures ................................................................................................................................... 284
Lessons Learned from the Toyota Sudden Acceleration Recall .................................................................................. 284

www.autodealerlaw.com xiii
### Advertisement Compliance

- **Introduction**
- **Important Note Regarding State Advertising Laws**
- **What is the Definition of Advertising?**
- **Often Overlooked Media**
  - Internet
  - Billboards/Electronic Message/Reader Boards
  - Price Stickers
  - Signs, Banners, Posters and Showroom Window Paint
- **What Is Not Advertising?**
  - One-on-one Communications
  - Monroney Labels
- **Unauthorized Advertising**
- **Federal Truth in Lending and Consumer Leasing Act Advertising Requirements**
- **Retail Installment Sales**
CHAPTER 33: DO-NOT-CALL, DO-NOT-EMAIL, DO-NOT-FAX, ........................................ 317

Introduction .................................................................................................................. 317
Do-Not-Call .................................................................................................................... 317
Prerecorded Outbound Calls (“Robo Calls”) ..................................................................... 317
Do-Not-Email (CAN-SPAM Act) ........................................................................................ 317
Do-Not-Fax .................................................................................................................... 317
Telephone Fax Machines ................................................................................................. 318
Unsolicited Advertisement ............................................................................................... 320
Damages ........................................................................................................................... 320

CHAPTER 34: SALES AND FINANCE PRACTICES ......................................................... 321

Proper Desking Practices ................................................................................................. 321
Avoiding Payment Packing .............................................................................................. 321
Evolution of “The Leg” .................................................................................................... 322
Best Practices .................................................................................................................. 323
Avoiding Credit Discrimination Claims ........................................................................... 323
Finance Menus ................................................................................................................. 323
Credit Application Completion ......................................................................................... 325
Taking the Application .................................................................................................... 325
Applicant’s Income ......................................................................................................... 326
Telephone and Internet Applications .............................................................................. 326
Privacy Policy .................................................................................................................. 326
Safeguarding ................................................................................................................... 326
Warning ............................................................................................................................ 326
Code of Ethics ................................................................................................................. 326
CHAPTER 35: MISCELLANEOUS STATE COMPLIANCE ISSUES .............................................. 327

Vehicle History Disclosures .............................................................................................. 327
Selling Previously Damaged Vehicles .................................................................................. 327
Controlling Forms ............................................................................................................. 328
Miscellaneous Fees .......................................................................................................... 328
Maintaining Customer Paperwork (Record Retention) ...................................................... 329
Registration and Titling ..................................................................................................... 329
Cramdown .......................................................................................................................... 329
Lien Perfection Time Limits ............................................................................................. 329
Certified Used Vehicles Inspection Standards ................................................................. 330
Supplemental Stickers (Dealer Add-ons) ......................................................................... 331

INDEX .................................................................................................................................. 333
When car dealers ask questions like, “I’m thinking about doing this thing. Tell me what I should know.” Whether that “thing” is selling or buying a dealership, revamping F&I compliance training, or any of a host of other “things,” some dealers expect that lawyers relish the opportunity to spend hours on a letter for which they can send a whopping bill. This is simply not true.

In reality, lawyers prefer discrete questions with clear answers. “How long after the deal can the customer who claims we violated the Truth in Lending Act sue us?” Or, “When do I have to file a cash report with the government for the $12,000 in currency that I received as a downpayment?” The statute of limitations for a TILA action is fairly clear – one year. The time period for filing an IRS 8300 report is also clear – fifteen days after receiving the qualifying amount.

Completing “Tell me what I need to know about…” assignments requires a combination of knowledge, experience, thoughtfulness, and hard work.

- **Knowledge.** Knowing how the car business works and the legal principles that apply are essential to analyzing the issues a dealer should know.

- **Experience.** The layout of the minefield of potential problems becomes somewhat clear only after years of handling car dealer problems.

- **Thoughtfulness.** It’s never enough to just describe the issues and give answers. A lawyer must think about the complex permutations of what can go wrong to provide appropriate warning flags.

- **Hard work.** A list of what a dealer should know doesn’t just appear on the paper (or computer screen). Providing sound advice on the various problems that may arise is hard work.

This is not to say that us lawyers are afraid of hard work. We have no problem digging in and doing the work necessary to help our clients. However, the “Tell me what I need to know” assignments are particularly stressful insofar as the answer, no matter how elaborate, comes with potential liability. Lawyers know that there is a real chance for an unhappy client to call up and claim that something was missed. If that client suffers losses because the lawyer failed to address an important issue, the client may bring a lawsuit. Lawyers like lawsuits, but not when they are defendants. So, to avoid this fate, lawyers when faced with these types of assignments spend an exorbitant amount of time researching all possible scenarios. This, of course, results in a bill that approaches the gross domestic product of some small countries.

Once a dealer is hit with one of these bills, he or she may never issue the “Tell me what I need to know” assignment again. Instead, dealers end up doing that “thing” – whether it is closing a dealership, dealing with the franchisor, drafting a pay plan, or designing a new sales form – without the benefit of sound legal advice.

That’s where this book comes in. It contains chapter after chapter of what a dealer needs to know before doing that “thing.” The authors are lawyers who are foolhardy enough to claim the knowledge, experience, thoughtfulness, and hard work to produce the lists of what dealers should know.

In the end, because we are lawyers who fear unhappy clients who sue their lawyers, we have a disclaimer: *we don’t represent you*. Nothing in this book is legal advice. It is general information designed to enhance your knowledge and enable you to ask your lawyer solid questions when you set out to do that “thing.”

Consulting your own lawyer is important. This book is written based upon federal law and general legal principles. However, sound legal advice must be based upon knowledge of applicable state laws, local regulations (at times), the enforcement policies of state and local regulators and law enforcement, and the litigiousness of the local plaintiffs’ lawyers.
Introduction

For Dealers

Auto Dealer Law (ADL) won’t teach you how to sell cars. We assume you already know how to do that. Rather, ADL will help you avoid some of the mistakes dealers commonly make. While nothing can substitute for the gut instinct required to be a successful dealer, there are many legal pitfalls that can be avoided simply by seeking proper advice. But in seeking that advice, dealers are often derailed by bad information. There are a lot of legal myths and misconceptions that “everybody knows” in the car business. This book is well-researched and authoritative. Our goal is to dispel these myths and clear-up some of the misconceptions in the industry.

ADL should provide you with a healthy dose of legal reality by identifying the legal traps that exist not only within the dealership, but also within the dealership acquisition/divestiture process. Put simply, ADL will help you reduce risk and avoid liability.

Make no mistake, we understand the paralysis that lawyers can sometimes induce. We understand that a key attribute of the highly effective dealer is the ability to properly assess and take risks. Yet, lawyers are all about avoiding risk. So, even when the dealer overcomes the fear of the whopping legal bill, the dealer and the lawyer aren’t always on the same page (or even the same planet it would seem). The lawyer’s perspective is often entirely different from the dealer’s. Dealers ask “How can I do this?” but the lawyer responds “Why would you want to?” Lawyers are constantly looking for reasons why things can’t be done whereas dealers are always trying to get them done. These competing vantage points often cause dealers to avoid discussions with lawyers, which is understandable. Who wants to pay $500 per hour to have an argument? Heck, you can have one of those for free when you get home. In reality, this yin and yang, if done constructively, will give you a bit more clarity when it comes time to make the decision. At the very least, regular conversations with your attorney will serve as a reminder as to just how complicated dealer operations have become.

Borrowing from an Alcoholics Anonymous catch phrase (perhaps inappropriately), recognizing you have a problem is the first step towards fixing it. Dealers must appreciate now more than ever that nearly every aspect of their operation is regulated; and not just lightly. Over the last five years, dealership sales and finance practices have come under more scrutiny than any other business practice we know. This combined with public perception concerns and massive amounts of new federal regulations makes running a dealership seem downright dangerous. Fortunately, though, the litigation and regulatory minefield can be navigated so long as you have a compass and a good map. We hope this book will serve as your map. As for the compass, that’s the gut instinct we already mentioned.

For Dealer Attorneys

As veteran dealer attorneys know, dealership representation can be complicated and dealership retail operations are anything but standard. This is not to say that dealerships don’t operate similarly to one another. They do. Rather, dealerships are run quite differently than standard retail operations. There is a considerable amount of dealership-specific jargon, laws, regulations, processes, and paperwork. All of which need to be thoroughly understood by attorneys representing dealership interests. This book will help attorneys gain a better understanding of dealership operations while providing authoritative guidance on a variety of legal topics.

If you are new to the industry, the best thing you can do to properly represent auto dealers (other than read this book) is to learn the business. Spend some time in dealerships and ask a lot of questions. Go through some deal jackets (folders that contain customer paperwork). Sit in on some F&I (finance and insurance) closings. Watch a sales manager desk a deal (providing sales and payment terms to sales personnel to present to the customer).

A great resource where dealer attorneys can turn to for help, networking and continuing education is the National Association of Dealer Counsel. Both authors of this book are founding directors and past-presidents of this solid organization. The NADC holds two meetings per year where highly relevant, dealer-specific legal topics are
discussed at length. The NADC also has an active email list serve and searchable website. With over 500 members, this is a resource that no dealer attorney should be without. For more information on the NADC, please visit www.dealerlaw.com.

Periodic Updates

This book provides clear direction on legal subjects for dealers and their attorneys. But, please note that things change quickly (particularly in the current political environment). Therefore, registered subscribers to ADL will receive periodic updates, amendments and enhancements.

Organization of Book

This book is divided into three parts,

- Part I: Buying and Selling the Dealership
- Part II: Running the Dealership
- Part III: Compliance

Part I discusses the many aspects of dealership buy/sells including what both the buyer and the seller should be looking for, standard and essential contract terms, and factory approval issues. In addition, this part addresses issues related to bankruptcy and the closing of dealerships.

Part II focuses on the myriad of legal issues involved with running dealerships. These issues include public, employee, vendor, factory, and finance company relations. This part also discusses litigation management, insurance, parts and service, antitrust concerns, record retention, and emergency preparedness.

Part III of the book is devoted entirely to legal compliance. Dealers continue to struggle with an ever-expanding array of laws and regulations relating to sales, finance, advertising, and vehicle titling. These compliance issues are as numerous as they are complex. This part sets forth federal compliance requirements in easy to understand terms and, for you overachievers, provides citations to specific laws, regulations and court decisions for further analysis. This part also provides some best-practices in the sales and finance arenas while mentioning some state law compliance issues to look out for.