



Financing Yourself Out of Customers

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Finance houses and OEM's became very creative over the last decade when it came to selling cars. They have created amazing finance offers to allow customers the opportunity to purchase cars they would not normally be able to afford- and they grabbed these finance options with both hands!

The markets have introduced balloon payments, guaranteed buy-back offers, trade assist offers, and have increased the finance period to 96 months, all in effort to keep up with the competition and to push product. This has however come back to haunt many OEM's and customers when the time came to trade in. Customers who have signed up on these structured deals are now stuck owing more than what their trade in is worth. Some customers are getting slapped with an additional bill for not complying with the finance deal's limitations and must pay excessive penalties. This leaves the customer with no choice but to extend their package to try and rectify their exceeded mileages and making repairs before the next period is over. I am sure some of these practices can be classified as reckless lending should the NCA investigate the matter?

I am reminded of the saying "penny wise, pound foolish". The customers are offered finance deals that is not financially viable: get the deal now, but then 3 years down the line the customer is not able to trade in and purchase another vehicle. This means that the dealer loses out on future business from a frustrated customer and also suffers reputational damage.

With the finance houses and OEM's having learned from their first round of offers, their new offers are not nearly as enticing as the original offer. A c-segment vehicle that was offered on a guaranteed buy-back deal for R4 500 a month is now between R9 000 and R12 000 for the same vehicle. If we consider our customer's financial positions, their income has not doubled over the same period, in fact their bills have increased, and they have even less affordability.

This situation is going to continue to spiral out of control unless the finance houses and the Dealers/OEM's put a stop to this madness. If all parties involved can agree to return to finance plans that made financial sense for the customers, in time we will be able to create a sustainable business with a healthy reputation once again.