



# F&I Product Cancellation & Refund Compliance

Lender handling of F&I product cancellations is under increased scrutiny by federal and state regulators.

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With the publication of the March 2019 edition of the Consumer Financial Protection Bureau (CFPB) Supervisory Highlights update, the CFPB signaled it is stepping up enforcement of legislation and regulation pertaining to early cancellation and refund of related premiums and fees for F&I products (aka voluntary protection products, optional protection products, ancillary products or aftermarket products).

As lenders recognize and respond to the growing regulatory compliance needs, one noted measure calls for lenders to develop a system of monitoring “optional products attached to loans or leases, including cancelling the products in a timely manner, where applicable.” Another compliance component is accuracy; requiring the lender to calculate the refund due for all cancellable products correctly.

## Types of Ancillary Products

### **Vehicle & Service Protection**

Vehicle & Service Protection products typically pertain to the physical and/or service protection of the vehicle. Often referred to as ‘Service Contracts’ as a whole, this category includes service contracts, extended warranties, roadside assistance agreements and maintenance agreements, as well as other vehicle protection products, such as paint corrosion warranties or tire repair warranties.

Some common reasons these product types are cancelled are early termination of the vehicle finance contract, for example a defaulted loan or repossession, or the product may be cancelled by the purchasing customer during a “free look” period or other legally permissible period. The value of these products may extend beyond the original finance term, and cancellation is not always a consideration if the vehicle is paid early or before the contract period.

### **Credit Retail & Debt Cancellation**

Credit Retail and Debt Cancellation products are tied to the vehicle finance contract; assuring the credit or debt part or whole of the financed balance. Similar to other product cancellations, these products may be cancelled by the purchaser after a “free look” period or may be automatically cancelled based on the product coverage, and in case of a total loss of the vehicle or termination of the vehicle finance contract. One of the most recognized and heavily regulated products, Guaranteed Asset Protection (GAP) insurance and waiver, falls into this category. Other examples of Credit Retail and Debt Cancellation product types are credit life, credit disability, and accidental health.

These contractual agreements allow a borrower to pay a separate charge so that the creditor will cancel or waive all or part of their loan balance in cases of coverable life events, total physical damage loss, or unrecovered theft of the motor vehicle.



## Types of Ancillary Products (cont.)

### Ancillary Product Cancellation Compliance

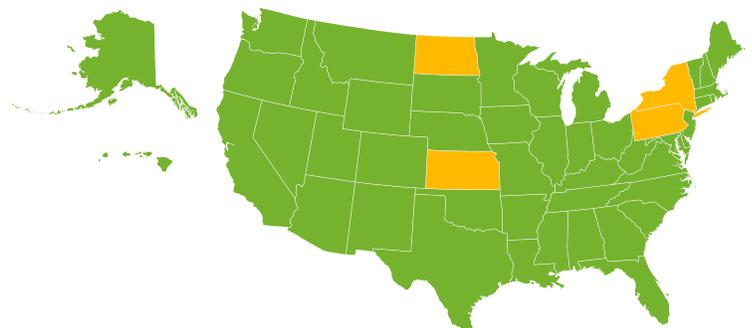
Almost every state currently has regulations or legislation in place governing aftermarket product cancellation and refunds. The CFPB takes state regulations into account in its investigations. Early termination or cancellation of ancillary products may either be initiated by the lender or the borrower to get prorated rebates of the premium amounts for the unused portion of the products. In cases of total loss, default, or repossession – rebates are first payable to the lender to cover any deficiency balance, and then to the borrower.

To ensure borrowers are treated fairly, regulations focus on:

- **Accuracy** – For example, in cases where the prorated rebate is calculated based on mileage, the lender must use the net mileage driven since purchase to correctly calculate the refund amount. Some state regulations specify a defined calculation to be used when determining the total refund due.
- **Transparency** – Borrowers are often unaware rebates are available, they are able to request them, or how to handle/process rebates themselves. The lender may not lead the borrower to believe the final disclosed or reported deficiency balance includes all available credits and rebates if and when the lender has not requested rebates for all eligible ancillary products.
- **Timeliness** – While the CFPB does not specify the definition of “timely,” many state regulations include a time frame for cancellations to be processed and refunds issued. These time periods can vary with as little as 30 days from cancellable event to refund issuance.

#### State Regulation of Aftermarket Product Cancellation and Consumer Refunds

-  Regulation currently in place
-  Legislation under consideration





## Types of Ancillary Products (cont.)

### Express Recoveries

There is an expectation for lenders to have system and processes in place to monitor timely and accurate cancellation of ancillary products via internal controls, effective tracking software, or combined measures.

Express Recoveries by F&I Express offers a fully scalable platform to help you remain in compliance with your F&I product cancellation and refunds.

#### Our services include:

- A platform that accommodates all lenders, all service providers, and all selling dealerships.
- Ability to easily prepare and file cancellations directly with providers and dealerships.
- Standardized process for payoff and non-payoff/default cancellations.
- Easy process tracking with real time account monitoring, report management, and analysis.
- Secure, whitelisted IP access to the platform.

**There is an expectation for lenders to have system and processes in place to monitor timely and accurate cancellation of ancillary products.**