



Aftermarket Product Cancellations & Refund Compliance

Lenders are under increased scrutiny by federal & state regulators. What you need to know to ensure compliance and improve your process.

In May 2022, the Consumer Financial Protection Bureau (CFPB) published its “Supervisory Highlights” report. In the report, the CFPB affirmed its commitment to enforce legislation and regulations concerning the refund of premiums and fees related to early cancellation of F&I aftermarket products.

In many states, the burden of ensuring compliance falls to lenders. What’s more, the regulatory environment is quickly evolving with pending legislation in several states across the country that stands to shift more of the burden to lenders.

To avoid compliance issues and ensure operational efficiencies, lenders will benefit from an optimized process for handling aftermarket cancellations in a timely and efficient manner.

Examiners found that servicers engaged in unfair practices by failing to request refunds from the third-party administrators for “unearned” fees related to one such add-on product, GAP, and failing to apply the applicable refunds to the accounts after repossession and cancellation of the contracts. The CFPB will continue to scrutinize servicer practices to make sure that borrowers aren’t overcharged when their loans end early.

—CFPB “Supervisory Highlights” (May 2022)

What Are Aftermarket 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 death.

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.

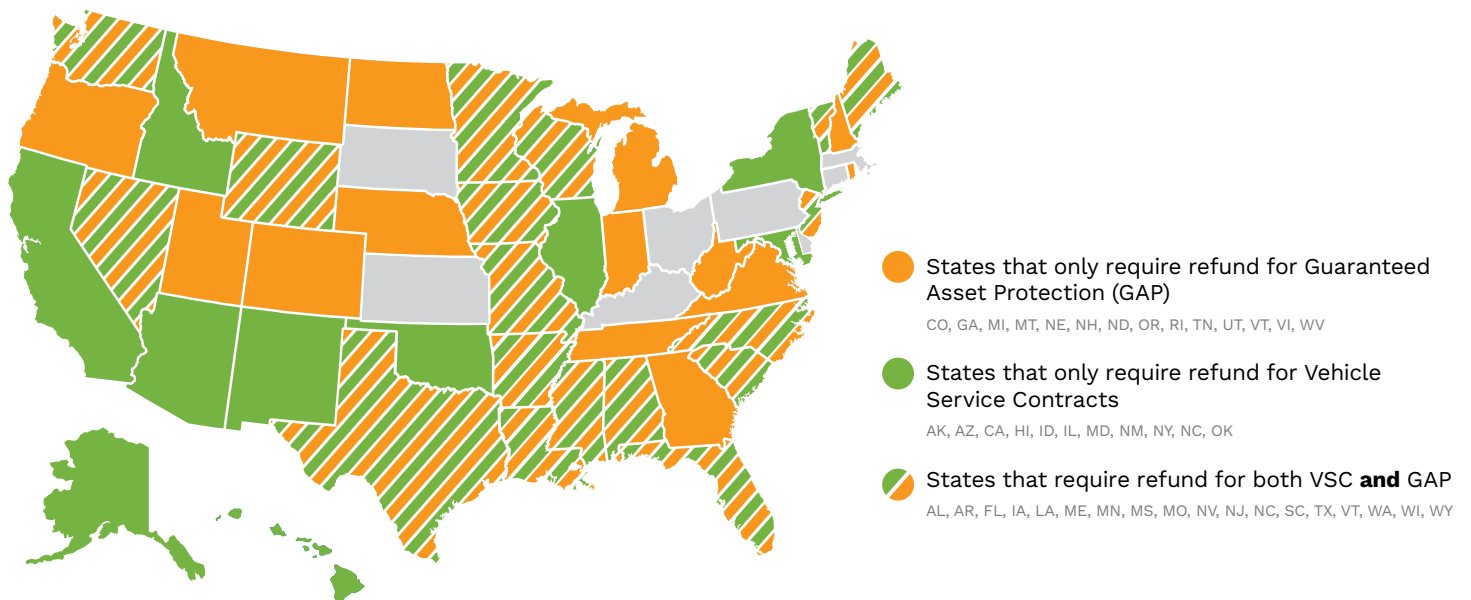
Ensuring Compliance

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, how 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 timeframe 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.

42 states¹ require that a refund be provided in the event of cancellation of a Vehicle Service Contract (VSC) **OR** GAP waiver contract.



Express Recoveries: Taming the Process

There is an expectation for lenders to have systems 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 full-service solution to help you remain in compliance with your F&I product cancellation and refunds.

Our services include:

- A dedicated service team and platform to initiate the cancellation process with each service provider and the applicable selling dealership.
- 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.