

READING & RESPONSE

JULY 2007

DEALERS OPEN LOT-GARAGE PHYSICAL DAMAGE

By Larry Hecht, Hecht & Hecht Insurance Agency Inc.

Here we are again talking about dealer coverage for dealer vehicles that are in inventory and for sale. There continues to be misunderstandings about what is covered, what is not covered and how much may or may not be covered. The answer is not totally cut and dry. Each policy and each insuring company may have different answers for each situation.

We will attempt to summarize what may be covered with Dealers Open Lot insurance. Each dealer must read their own policy and see what it says or discuss in some detail with their insurance agent or call us for further clarification.

In general Garage Physical Damage or Dealers Open Lot (DOL) will provide coverage for loss or damage to your autos in inventory. Coverage is divided into two parts. Collision pays, subject to the deductible, for the damage to “covered autos” collision with another object or its overturn.

The second part of the coverage provides coverage for “other than collision loss” Companies give a choice. You can purchase the broadest “other coverage” known as Comprehensive. This provides coverage, subject to a deductible, for all other perils not covered by collision. Some companies offer only a more limited known as Specified Causes of Loss. If you have purchased this coverage, and subject to your deductible, the company will pay for a “covered auto’s” damage only if the cause of loss is specifically described as being covered. These “covered” perils may include the following: Fire, lightning or explosion; Theft; Windstorm, hail, earthquake; Flood; Mischief or Vandalism; the sinking, burning, collision or derailment of any conveyance transporting the “covered auto”.

What vehicles are covered vehicles? This, too, depends on each insurance company’s definition of a “covered auto.” It can be limited to a dealer’s inventory, which may or may not include consignments. It may include other dealer-owned vehicles. Also, it may include personally owned autos of the owners. How broad or narrow the definition of “inventory” is depends again on each insurance company’s definitions.

Another often confusing provision of all Dealer Open Lot insurance coverage is how much will be paid. Many dealers think that when they have say \$25,000 or \$50,000 worth of inventory insurance that, if a claim arises and as long as it is less than the amount of insurance they are carrying, they will collect the amount of their claim less, maybe, their deductible. Actually, this is not the case.

The most that will be paid for a loss to any single covered auto is the lesser of: the actual cash value of the damaged or stolen property at time of loss, the wholesale value of the property, the cost of repairing or replacing the damaged or stolen property or the limit indicated on the policy as the most that will be paid for any single auto.

If your dealer insurance is written on a non-reporting basis, which is true for the majority of non-franchised dealer insurance policies, there is a co-insurance clause that must also be considered.

When a loss occurs the total value of a dealers inventory must be evaluated. If on the date of loss your “covered” inventory is less than or equal to the amount of dealer inventory listed as covered on the dealer policy, you will be in compliance and your claim will be adjusted according to the terms of your policy. On the other hand, if your inventory at the time of loss exceeds the amount of insurance you have listed on your insurance policy, the adjuster will pay only a percentage of what the insurance company would normally be obligated to pay.

Here’s how that percentage is determined. The adjuster will divide the limit of insurance shown on your insurance policy by the total value of your “covered autos” wholesale value as of the date the loss occurred.

Here is an example of how this works.

When you have not enough insurance:

If the value of inventory on the date of claim is	\$100,000
If the amount of insurance on policy is	50,000
The deductible is	1,000
The maximum paid per auto is	25,000
The amount of loss is	35,000

Here’s the math:

1. $50,000 \div 100,000 = .50$
2. $35,000 \times .50 = 17,500$
3. $17,500 - 1,000 = 16,500$

When you have adequate insurance and inadequate insurance per vehicle:

If the value of inventory on date of claim is:	\$100,000
If the amount of insurance on the policy is	100,000
If the deductible is	1,000
If the maximum paid per vehicle is	25,000
If the amount of the loss is	35,000

Here's the math:

1. $100,000 \div 100,000 = 1.00$
2. $35,000 \times 1.00 = 35,000$
3. $35,000 - 1,000 = 34,000$
4. maximum per loss = 25,000

When you have enough insurance and enough per vehicle:

If the value of the inventory on the date of claim is	\$100,000
If the value of insurance listed on the policy is	100,000
If the deductible is	1,000
If the maximum per vehicle listed in the policy is	40,000
If the amount of loss is	35,000

Here is the math:

1. $100,000 \div 100,000 = 1.00$
2. $35,000 \div 1.00 = 35,000$
3. $35,000 - 1,000 = 34,000$

So you see, in example one, the dealer would receive a settlement of \$16,500 because he was only insured to 50% of the correct value of his actual inventory. In example 2, although he was properly insured to value of his actual inventory, he exceeded the maximum amount paid for any single loss, so he is limited to \$25,000. In the last example he was both insured adequately to his actual inventory and the maximum available to be paid for any single loss was greater than the actual loss, so \$34,000 is paid.

Some dealers only have Garagekeepers legal liability on their dealer policy. This is not in any way to be confused with Dealers Open lot insurance. It is a different coverage and does not provide any insurance coverage for inventory autos. And, with most dealer insurance policies, it does not cover consigned autos.

Although this is another topic, it is often confused. This coverage is written on dealer insurance to cover a dealer who has a customer car for some reason and a covered event happens while the dealer has the customer vehicle in his care, custody or control. Examples might be that the dealer is test driving and has not purchased the vehicle yet. Or he decides to put tires on the car the week after it is sold to a customer. Or it might mean that the dealer does some repair or service work and he has cars from customers on the lot. In these examples the dealer could damage a vehicle belonging to a customer. Since these are not owned vehicles, they would not be covered by Dealers Open Lot insurance.

Every insurance policy is different. And each insurance company can write insurance coverage in different combinations. Know what you have. It doesn't help after a loss has already occurred to say, "well, I meant for it to be another way" or "I thought I had that".

What is written in the insurance policy is what you have and how your claim will be settled.

It is your responsibility to read and understand the coverage you have purchased. All insurance agents and all insurance companies are not created equal. If we can help you understand your insurance coverage we are most happy to be of assistance. Hecht and Hecht has been writing garage insurance since 1974. We are here to serve all your dealer needs. We can be reached by email info@hechtinsur.com or 503-542-1131 or 800-609-0979.

LLR

By: NIADA General Counsel Keith Whann

Gasoline prices have steadily increased to over the \$3 a gallon mark as tourists prepare for the summer vacation season and Congress continues to address a number of legislative initiatives that may impact our industry.

· Federal Legislative Developments

President Bush is asking Congress for changes to the tax code that will raise revenue without raising taxes, commonly being referred to as closing the "tax gap". The Administration wants to go after the 'hidden income' of persons conducting or engaging in business who do not report or pay taxes on the income. To those of us in the motor vehicle industry who have dealt with Curbstoners for years, this sounds all too familiar, as it appears Curbstoning has now gone global. The focus is mainly on credit card transactions at this time, and it is estimated the change could generate approximately 10.7 billion dollars in tax revenue over the next decade.

While on the topic of finances, the House is currently addressing legislation pertaining to Industrial Loan Companies. House Financial Services Chairman Barney Frank said at a Committee hearing he expects the House to pass H.R. 698, a Bill that would prevent commercial businesses from owning industrial loan companies, which are regulated on the state level.

David Quam, the Director of Federal Relations for the National Governors Association, appeared before a Subcommittee of the Committee on Homeland Security and Government Affairs, to address the administrative realities of the Real ID Act. Mr. Quam recommended that, in addition to allowing adequate time for the Act's implementation, they allow for transition to electronic verification, recognition of state innovations that meet the objectives of the Act and provide adequate federal funding to implement the law's mandates.

Legislators have also been trying to arouse support for a Bill to crack down on price gouging at the gasoline pump. Oil companies are going on the offense to oppose any such measure claiming that it would worsen the impact of oil and gasoline shortages in emergency conditions.

Current negotiations regarding Corporate Average Fuel Economy standards are being delayed due to a dispute over certain vehicle classifications. The present dispute centers around the viewpoint of several Senators who want light trucks included with passenger vehicles to meet the Mileage Per Gallon standards, while others wish to classify them separately for CAFE purposes.

· Federal Regulatory Developments

The FTC has approved the filing of comments by the Bureau of Competition and others regarding Connecticut Senate Bill 1136 which regulates wholesale and retail gasoline prices within the State and would mandate that retailers sell "gasoline based on the actual prices it paid" while explicitly forbidding retailers from raising the retail price "in anticipation of market based price increases" and prohibit zone pricing, amongst other things.

· Case of the Month

Our case of the month involves a fact pattern that is probably familiar to most of you in the industry. It involves the advertisement of a car on the Internet, the use of out-of-date paperwork in the deal, confusing practices in the F & I department along with various issues such as not knowing the difference between a service contract and a limited warranty or what menu-selling F&I products really means to your dealership.

Each of these activities could lead to a violation of various federal and state laws including state UDAP statutes. If this were the case then the consumer would be entitled to, at a minimum, rescission of the transaction and be awarded attorney fees or perhaps recover multiple damages. In this type of situation a class action lawsuit may not be far behind. Perhaps even more disturbing to you is the fact that a discussion about these activities should not focus on the negative, but the positive. A dealership that has an understanding of each of these areas can expect reduced legal exposure, improved customer satisfaction and increased profitability.

Who does the case involve and what is the outcome? The case involves every motor vehicle dealership today and the outcome depends upon you. Problems or profitability, it is up to you. To help make sure profitability is in store for your dealership, be sure to check out the sessions from the 2007 NIADA Annual Convention held June 13-16 in Nashville, Tennessee. Among the many sessions worth viewing, a number are related to this issue including: F&I: Profit Center Or Problem Area – The Choice Is Yours!, Selling Over The Internet: Is It Somewhere Over The Rainbow? and "Who Says Compliance is Easy? Me!"

Leedom to Host Special Finance Seminar

SARASOTA, Fla. (May 11, 2007) — Due to the economic pressures on the American consumer — high fuel prices, the decline of the U.S. housing market, huge borrowing concerns and a rise in bankruptcy filings — the automotive retail subprime market has grown dramatically in recent years.

Thousands of both independent and franchise retailers have seen the growing number of bruised credit customers and have taken action to provide special finance offerings to accommodate their credit needs. It is clearly one of the fastest-growing segments of the automobile market.

Automotive retail consultant, Chris Leedom, president of the nationally recognized Leedom and Associates, LLC, consultancy based in Sarasota, Fla., was one of the first in the country to prepare a curriculum to help dealer principals and their managers better understand this lucrative marketplace. Since 1995 more dealers have looked to Leedom to assist them in developing their special finance department than any other provider. Over the years, the award-winning Leedom and Associates Special Finance Seminar has come to be associated with success in the subprime automotive retail sector — generating more than \$500 million in gross profit for dealer attendees.

Leedom will lead this program four times over the coming summer and fall in Sarasota, Fla. Attendance is available on a very limited basis. The dates for the program are June 20, Aug. 15 and Sept. 19 and Nov. 14. The in-depth, one-day program covers an intensive investigation of the subject matter, including:

- **10 Keys for Dealer Success**
- **How to Select and Keep the Best Lenders**
- **Marketing and Advertising — What Works! What Does Not!**
- **Current Legal and Compliance Issues**
- **Industry Benchmarks for Success from the Leedom Proprietary Database**
- **Master Special Finance and the Internet!**
- **How to Drive Traffic and Set Appointments**
- **Inventory That Works for You!**
- **Deal Structure for Maximum Gross**

“Our program has been designed and updated to take full advantage of all that we have learned in more than 12 years of serving the needs of thousands of dealers with a focus on the non-prime sector of the automotive market,” Leedom said. “Dealers and their managers can take what we have learned and use it to meet the needs of their customers and enhance their bottom lines at the same time. This is at least a \$1 million opportunity for any dealer, any where in America”

Leedom is also the president of the Leedom Group, a collection of companies serving domestic automotive retailers with Twenty Group, training and consulting services, as well as capital lending to buy here-pay here dealers. He is the founder of the Independent Dealer Twenty Group program. He is also the publisher of *Dealer Business Journal*, a national automotive retail dealer advocacy publication, and is frequently featured as a key speaker at state and national conventions and is a recognized “coach” and adviser to more than 3,500 dealers. You may reach him via e-mail at chris@twentygroups.com

For more information about this dynamic and informative seminar contact Ron Shields at 800.966.8733 or ron@twentygroups.com.

Temporary Motorcycle Permits

OIADA proposed this temporary motorcycle permit to ODAC, which was eventually passed and soon to be available to dealers. Temporary Permits will be available in early August from the DMV Business Section. (Form Number 735-309).

READING & RESPONSE FORM

July 2007

- | <u>ARTICLE:</u> | <u>QUESTION</u> |
|---------------------|--|
| Hecht & Hecht | All dealer consignments are covered under your liability insurance.

(1) True _____ False _____ |
| LLR | Oil companies feel that a bill to crack down on price gouging at the gasoline pump would worsen the impact of oil and gasoline shortages in emergency conditions.

(2) True _____ False _____ |
| Leedom & Associates | Bruised credit customer financing is one of the fastest-growing segments of the automobile market.

(3) True _____ False _____ |
| Motorcycle Permits | New temporary motorcycle permits will be available in early August from the DMV Business Section.

(4) True _____ False _____ |
| Hecht & Hecht | Many dealers think that when they have say \$25,000 or \$50,000 worth of inventory insurance that, if a claim arises and as long as it is less than the amount of insurance they are carrying, they will collect the amount of their claim less, maybe their deductible.

(5) True _____ False _____ |
| LLR | Connecticut SB 1136 would mandate that retailers sell "gasoline based on the actual prices it paid" while explicitly forbidding retailers from raising the retail price "in anticipation of market based price increases"

(6) True _____ False _____ |
| Hecht & Hecht | Garage keepers legal liability insurance is the same as Dealers Open lot insurance.

(7) True _____ False _____ |

for July 2007 Continuing Education Packet # 7-07

My Name _____ (printed)
Dealership Name _____ Dealership # _____
Dealer License Expiration Date:(Month)_____ Year)_____
Signed: _____ Date _____

FAX TO: 503-364-7331 or mail to OIADA, 1475 Capitol St NE, Salem, Oregon 97301

NOW DROP DOWN AND SEE HOW YOU DID!

READING & RESPONSE FORM
July 2007

ARTICLE:

QUESTION

Hecht & Hecht

All dealer consignments are covered under your liability insurance.

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LLR

Oil companies feel that a bill to crack down on price gouging at the gasoline pump would worsen the impact of oil and gasoline shortages in emergency conditions.

(2) True X_____ False _____

Leedom & Associates

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Hecht & Hecht

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