

Insights

Competing with Dealer Financing

You can't beat the dealer on convenience. But you can change what borrowers know when they get there.

By the time a car buyer reaches the F&I (Finance and Insurance) office, the dealer has considerable advantages. The buyer is emotionally invested in the car and has spent hours at the dealership, and wants to drive home today. The F&I manager's job is to close financing, preferably at a rate that maximizes dealer profit.

This is where banks and credit unions lose auto loans. Not because their rates aren't competitive, but because they're not present in a decision made under pressure, with emotional investment, and with information asymmetry.

You can't put a loan officer in the F&I office, but you can influence what borrowers know before they get there. An informed borrower, one who has researched rates, understands their options, and knows what competitive financing looks like, negotiates differently than one who's encountering financing for the first time at the dealership.

That's where you compete.

Understanding the F&I Dynamic

To compete effectively, you need to understand what borrowers face in the F&I office and why it works against bank and credit union financing.

Dealer Incentives

F&I is a profit center. Dealers make money by marking up the rates they receive from lenders, and by selling add-on products like extended warranties and gap insurance. The F&I manager's job is to maximize this profit, which often means steering buyers toward financing that benefits the dealer, not necessarily financing that's best for the buyer.

Information Asymmetry

The F&I manager sees rates from multiple lenders and knows exactly what's available. The buyer typically doesn't. This lack of balance lets dealers frame options in ways that favor dealer-preferred outcomes while appearing to give the buyer choices.

Time Pressure

Buyers have invested hours in the dealership. They've test-driven, negotiated, and emotionally committed. They don't want to leave empty-handed. This creates pressure to accept whatever financing is presented rather than complicate the deal or delay the purchase.

Payment Focus

F&I conversations typically center on the monthly payment rather than the rate or total cost. "I can get you into this car for \$450 a month" sounds like a solution. The buyer doesn't always realize they're being quoted a higher rate or longer term that costs more in the long run.

Bundling and Complexity

F&I managers bundle financing with other products, present multiple options at once, and create complexity that favors their expertise. A confused buyer defaults to trusting the "expert," which is the F&I manager, not your institution.

What Informed Borrowers Do Differently

Borrowers who have researched financing before arriving at the dealership, even without formal pre-approval, behave differently in F&I.

They Have a Rate Benchmark

A borrower who has explored rates online knows what competitive financing looks like. When the F&I manager presents 8.9%, the borrower who has seen 5.9% elsewhere knows that's not a good deal. They may not have outside financing locked in, but they have knowledge that changes the terms of the negotiation.

They Understand Payment Manipulation

A borrower who has played with payment calculators understands how term length and rate interact. They're less susceptible to "I can get your payment down to" tactics that obscure unfavorable rates or extended terms.

They Know Alternatives Exist

Borrowers who believe dealer financing is the only option accept what's offered. Borrowers who know their bank or credit union offers competitive rates have mental alternatives, even if they haven't applied yet. This knowledge alone creates leverage.

They're More Likely to Walk Away

An uninformed buyer fears losing the deal. An informed buyer knows they can likely get the car and finance it elsewhere. This reduces the time pressure that dealers exploit and makes borrowers more willing to push back on unfavorable terms.

They May Actually Use Outside Financing

Some borrowers who research financing during the shopping process do apply before visiting the dealer. They arrive with actual pre-approval, not just rate awareness. Research-phase engagement may lead to pre-approval, even if your tools don't provide it directly.

How Research-Phase Engagement Competes at the Dealership

Your digital tools and marketing don't reach into the F&I office. But they shape what borrowers know when they get there.

Rate Visibility Creates Benchmarks

A borrower who has seen your 5.9% rate on their phone last week has a reference point. At the dealership, they're mentally comparing. "The credit union was around 6%. This offer is 9%. Something's off." That comparison doesn't happen without rate visibility during research.

Payment Exploration Builds Understanding

Borrowers who have explored payment scenarios, "60 months at this rate vs. 72 months at that rate," understand the trade-offs. They're harder to manipulate with payment-focused tactics because they've already thought through how payments work.

Educational Content Creates Skepticism

Content that explains how F&I works, how dealers profit from financing, and what to watch for creates appropriately skeptical borrowers. They're not adversarial, but they're not naive either. They ask better questions and push back on unfavorable terms.

Lead Capture Creates Follow-Up Opportunities

A borrower who saved a quote during research might not use it at the dealership. But after the dealership, when they're reviewing their new loan and realizing the rate seems high, they may remember that quote. If you've captured their information, you can contact them regarding refinancing.

What You Can't Overcome

Honest assessment: Some aspects of dealer advantage can't be neutralized through research-phase engagement.

Captive Promotional Rates

When Toyota offers 0% financing on a new Camry, no bank or credit union can compete on rate. These promotional offers are subsidized by the manufacturer to move inventory. The economics are different from traditional lending. Borrowers who qualify for promotional rates will, and should, take them.

Convenience at the Point of Sale

Signing everything at the dealership and driving home is convenient. Leaving to get outside financing and then returning is inconvenient. For some borrowers, convenience outweighs rate differences. You can narrow this gap through digital applications and fast approvals, but the dealer's point-of-sale convenience is structural.

Time-Pressure Capitulation

Some borrowers, despite knowing better, will capitulate to time pressure at the dealership. They're tired, they want the car, and they'll rationalize an unfavorable deal. Education helps, but it doesn't make everyone a disciplined negotiator.

Dealer Relationships and Steering

Dealers have incentives to steer financing toward their preferred lenders. Even informed borrowers may face friction when seeking outside financing, including slower processing, resistance, or bundled deals, which make it seem less attractive. This dealer behavior is real, and borrowers face it whether they're informed or not.

The Refinancing Capture

Not every loan can be won at origination. For borrowers who finance through dealers, even informed borrowers who got a bad deal under pressure, refinancing is your second chance.

Who Refinances

Buyers who accepted unfavorable rates at the dealer, especially those focused on payment rather than rate. Buyers whose credit has improved since the purchase. Buyers who realize, weeks later, that they're paying more than they should. These are refinancing candidates.

Research-Phase Engagement Feeds Refinancing

A borrower who explored your rates before buying but didn't use your financing at the dealership and remembers you had a better rate is a warm refinancing lead. They already know you're competitive. A follow-up message similar to, "Did you finance your new car? See if you could save," can capture loans lost at origination.

Make Refinancing Easy

The barrier to refinancing is inertia. The current loan works, but taking action requires effort. Streamlined applications, clear savings calculators, and fast funding reduce friction. The easier you make it, the more borrowers will actually follow through.

Target the Right Timing

Refinancing too early may not show enough savings to justify the effort. Refinancing too late means less remaining balance to refinance. The window is typically 6 to 18 months

after origination, enough time for the borrower to realize the rate is high, not so long that the opportunity has shrunk.

The Indirect Lending Question

One way to compete at the dealership is to be there, through indirect lending programs that put your financing on the dealer's menu of options.

How It Works

You establish relationships with dealerships and provide rate sheets. When a buyer needs financing, your rates are among the options the dealer can present. If your rate wins, you fund the loan. The dealer typically receives compensation, either a flat fee or the ability to mark up the rate within limits.

The Advantages

Indirect lending puts you in front of buyers you'd never reach otherwise, people who don't bank with you and wouldn't think to seek out your financing. It generates volume without acquisition marketing costs. And you're present at the moment of decision.

The Trade-Offs

Dealers may steer buyers toward financing with higher markups. You have limited control over how your products are presented. Rate competition from other indirect lenders can compress margins. And you're building a portfolio of borrowers with no relationship to your institution beyond the loan.

Is It Right for You?

Indirect lending is a strategic choice, not a universal answer. It works for institutions that prioritize volume and are comfortable with the margin and relationship trade-offs. It's less attractive for institutions focused on building deep customer relationships or maintaining rate control. It's a complement to research-phase engagement, not a replacement.

Measuring Dealership Competitiveness

How do you know if your research-phase efforts are affecting what happens at the dealership?

Rate Awareness Surveys

Ask customers who fund auto loans where they first learned about your rates. Did they research before buying? Did they consider you at the dealership? This qualitative data shows whether your visibility efforts are reaching borrowers.

Refinancing Volume From Recent Purchases

High refinancing volume from borrowers who recently financed through dealers suggests you're capturing loans post-purchase. This is both good, you're getting the loans, and a signal, you're not getting them at origination.

Lead-to-Funded Timing

If the research-phase leads fund quickly, within days of capture, they may be using your financing at the dealership or instead of it. If they fund weeks later, they may have financed elsewhere first and refinanced to you.

Competitive Rate Mentions

When borrowers apply, do they mention comparing your rates to dealer offers? This indicates they had your rates in mind during the purchase process, whether or not they ultimately used you at origination.

The Takeaway

The F&I office is structurally advantaged toward dealer financing. Time pressure, convenience, and information asymmetry all favor whatever the dealer presents. You can't change that reality.

What you can change is what borrowers know when they arrive. An informed borrower, one who has seen your rates, explored payment scenarios, and understands how dealer financing works, negotiates differently. They have benchmarks. They have skepticism. They have knowledge of alternatives.

Some of those informed borrowers will use your financing at the dealership. Others will

remember you when they realize their dealer rate was too high. Either way, research-phase engagement creates opportunities that invisibility doesn't.

You're not competing in the F&I office. You're competing in the weeks before it, shaping what borrowers know, so they're better equipped when the pressure arrives.