FTC Red Flags Rule

The Basics

The idea behind the Red Flags Rule is to require businesses that offer credit to establish policies to detect and thwart identity thieves. The primary goal of the Red Flags Rule in the dealership context is to prevent an identity thief from financing or leasing a vehicle in someone else's name.

With that said, however, the Rule applies to much more than just automobile finance or lease transactions. It applies to all consumer finance accounts and may apply to some business accounts throughout the dealership. Indeed, the first requirement under the Rule is for dealers to review all of the different types of accounts they offer to identify those that could be subject to identity theft. After dealers have determined each account type that could be at risk of identity theft, they must then figure out what indicators of identity theft may be relevant to those types of accounts, implement procedures to detect those indicators, determine what reasonable steps the dealer should take if they are detected, and then create a Program that administers and updates these and other steps on an ongoing basis.

The Virginia Automobile Dealers Association (www.vada.com), the Virginia Independent Automobile Dealers Association (www.viada.org) and the Washington Area New Auto dealers Association (www.wanada.org) all have information on the Red Flag Rule.

Additional information can also be found at the FTC's WEB site:

http://ftc.gov/redflagsrule

or at NADA's WEB site:

http://eseries.nada.org/scriptcontent/ProductDetail.cfm?pc=MEDPRL50E