

HOW TO BECOME AN
AUTO DEALER



LANCE SURETY
BOND ASSOCIATES, INC.

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1.

INTRODUCTION



The past few years have seen the auto dealership industry emerge with new strength. America's auto dealers repeatedly made record sales while consumer confidence has returned to pre-financial crisis stability. While the market has been showing signs of stabilizing and plateauing off, dealerships have used the growth in profits to further developed their Finance and Insurance (F&I) as well as Service and Parts departments. This has kept the dealership business a profitable enterprise and has been attracting entrepreneurial individuals wanting to try their luck in this niche.

Starting a dealership is not necessarily an easy feat, though. To open a dealership, individuals must set up a business in their state, often complete numerous licensing requirements as well as secure the necessary finances to acquire cars for their lot. There are also various legal conditions that dealers must follow in order to remain compliant. To successfully satisfy all of these requirements, future dealers must carefully research and plan before they act. This in itself requires a lot of time and there are few resources out there that outline the whole process of becoming an auto dealer to a sufficient degree.

For this reason, we have created the following e-book. It is intended to serve as a starting guide on how to open your own dealership. It begins by outlining the main considerations aspiring dealers need to take into account and by reviewing the benefits of being a dealer, as well as some industry trends and forecast. It then explores in detail all the requirements that you will need to fulfill when setting out to launch a dealership. These include common state business and licensing requirements and some basic information regarding getting a dealer license in each state.

Following up is a brief section devoted to regulatory compliance and how dealers can learn about all the laws they need to follow. Given the importance of [surety bonds for dealerships](#), a separate section is devoted to explaining what bonds are, how they work, and why dealerships often require them. Finally, we will provide you with ideas about financing your business and details on how to acquire cars for your lot.

Thinking about launching a dealership? Then this e-book is just for you! Read on!

2.

AUTO DEALER INDUSTRY OVERVIEW



WHY OPEN A DEALERSHIP?

Considerations

When considering whether to start a dealership, individuals must take into account various aspects that have implications for the whole of their dealership down the line. This includes the types of cars you intend to sell and whether, for example, to specialize in certain types of cars such as luxury cars, imports, trucks, etc.

Whether to include a service and parts department in your dealership is also an important consideration, since dealerships are increasingly making serious profits from these departments. There are no right or wrong answers to this, as it depends on what you want and what you feel comfortable with.

All of this will determine the course of action you will need to take when it comes to, possibly, making franchise agreements with car manufacturers and applying for financing in order to obtain the first cars for your lot. It is also important in light of the different regulations and laws you may need to comply with.

Experienced dealers typically advise newcomers to not start their own business right away. It is usually recommended that you obtain experience working at a dealership for a few of years before you set out and attempt to open your own. Such experience will help you gain the necessary skills and confidence to lead day-to-day operations. It will also help you figure out the intricacies of how to manage the dealership financially, how to market it, how to conduct sales successfully, and how to remain compliant throughout.

Benefits of becoming a dealer

The automotive retail industry is a central part of the U.S. economy. According to the National Automobile Dealers Association (NADA), new-car dealers created over 2.4 million direct and indirect jobs in 2017, and [contributed close to \\$22 billion](#) in state and federal income taxes.

Dealership compensation is [significantly higher](#) than in any other retail sector

and is also among the highest of any industry. For example, the median weekly earnings of dealership employees were almost 24% more than of the U.S. private sector workforce. Moreover, all of dealership employees, F&I managers, service and parts employees' weekly earnings increased to varying degrees on a yearly basis over the last few years.

All this makes the prospect of becoming an auto dealer an enticing one. For those who are entrepreneurial or have experience as salesmen or sales managers, being a dealer comes naturally and puts their business sense to use. Dealers, in particular owners, may also benefit from the fact of having a more flexible work schedule, though that largely depends on how you set up operations. Finally, being a dealer is a job for people who are comfortable and enjoy speaking to others.

Industry forecast

There are several trends in the auto dealer market that currently stand out, and which will shape the market in the years to come. All of these trends will require dealers to change how they do business, but also offer big opportunities. These trends are:



A slower market



**Changing
consumer mobility**



Electric vehicles



Digital transformation

As the market stabilizes and slows down, dealers will be faced with the question of how to keep operations profitable. To adapt to the slowdown and drop in sales, and keep a competitive edge, auto dealers can further expand their F&I and service and parts departments. This trend that has been gaining traction for a few years now.

A further trend that influences the industry is the way that personal consumer mobility is changing. Among other things, ride-sharing is expected to increasingly make a dent in car sales. This in itself may be viewed as a troubling prospect by dealers but it offers opportunities. Dealers now have the chance to ride this wave by establishing relations with drivers who offer ride-sharing, and offering them incentives. Ride-sharing automobiles will require increasingly more maintenance, for one. What's more, ride-sharing drivers will themselves become buyers of vehicles when seeking to upgrade their current vehicles in order to cash in greater fares. Both of these aspects then offer opportunities which auto dealers can seize upon.

Electric vehicles in themselves do not present a challenge to dealers, unless dealers rule them out as not likely to be sold. Yet, the market for electric vehicles is experiencing explosive growth and demand is sure to follow over the next few years. Those dealers that prepare for the advent of increased consumer interest in electric vehicles will create an advantage for themselves which will pay out significantly in the coming decade.

Finally, the dealership experience is changing. In the age of digital solutions and one-click buying, consumers are increasingly picky when it comes to making purchases. Here, too, dealers will have to follow suit in order to keep up with the times. Surveys have shown that a large percentage of consumers experience difficulty when shopping for a car. Many [report disliking the process](#) and wanting a better experience. Personalization, a smoother experience, and an increased online presence of dealers are important elements in the process of winning clients and making sales.

HOW DEALERSHIPS OPERATE

In terms of operations, a typical day at a dealership includes talking and negotiating with prospects, taking care of administrative or paperwork such as invoices, and managing employees. Given the strong sales culture at dealerships salespeople in particular must have good interpersonal communication skills as they may spend the majority of the day speaking to prospects.

Another important aspect of dealership operations is the proper marketing of the dealership. While dealerships typically run advertisements for local customers, a great deal of business is generated through referrals by former customers. This means that a dealership's efficiency and performance is strongly related to the quality of its service.

The main source of income for dealerships is from the sale of vehicles. To make a profit, new car dealers will sell vehicles above the invoice price - typically at the so-called "manufacturer's suggested retail price" (MSRP). At times dealers may reduce this price as far down as their invoice price or even lower in order to entice buyers. To offset the lower profit made, new vehicle dealers may have agreements with manufacturers to receive incentives or so-called "holdback". Holdback is an amount of money paid to a dealer by a manufacturer for every new vehicle sold. Holdback is typically a percentage of the invoice price or the MSRP price, or can be a fixed amount.

Used car dealers will typically obtain used cars through wholesale dealers, at auctions or even through individuals. Sometimes they will buy vehicles that are broken down but can be repaired. They will then repair the vehicle and put it up for sale to make up for the money they spent on obtaining and repairing it, as well as make some profit off of it.

A second way in which dealerships make money is through maintenance - routine checks, as well as repairs and replacement parts. Consumers are typically billed at a flat rate for maintenance or if the vehicle has a warranty - the manufacturer pays for the warranty. Alternatively, a dealer may sell maintenance plans, different warranties, and forms of protection through their F&I department. All of the above are the main ways in which a dealership makes money.

MOST COMMON TYPES OF DEALER LICENSES

Dealer license types are usually defined in several broad categories such as new, used, wholesale, etc. Though there are significant overlaps, definitions of license types differ from state to state. In some states new car dealers can only sell new vehicles retail, whereas in others new dealers can also sell used vehicles or sell vehicles retail, wholesale and on consignment.

Another important consideration when picking your license type is to clarify whether you can have several licenses at once. Some states specifically do not allow licensees to have several dealer licenses, whereas others do. In case you plan on expanding your dealership over time to cover more types of vehicles, make sure your plans are in alignment with state laws.

When you apply for a license in your state, you will need to find out what your license will allow you to do and what not. That said, the most common license types for auto dealers in the U.S. are:



New Vehicle Dealer

Such dealers typically sell new vehicles retail which they get from manufacturers. This type of licenses may sometimes also be called a “franchise dealer license”. New dealers in some states can also sell used vehicles as well as sell wholesale, and on consignment.



Used Vehicle Dealer

These dealers typically only sell used vehicles retail, wholesale or on consignment.



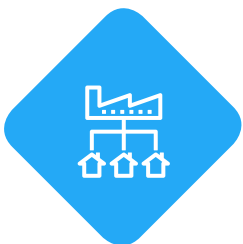
Wholesale Dealer

Wholesale dealers only trade with other licensed dealers. They cannot sell vehicles to the public.



Broker

This type of license allows you to work as a broker and help people find a particular vehicle, as well as assist them or arrange the purchase of the vehicle.



Distributor

Like vehicle manufacturers, distributors cannot sell vehicles to the public. Instead, they can franchise licensed dealers who will then sell vehicles retail.



Motorcycle and Recreational Vehicle Dealer

These types of licenses are usually also issued by the state Department of Motor Vehicles (DMV), though they are not part of the focus of this e-book.



Auto Recycler

Technically, recyclers are not vehicle dealers, since they buy vehicles in order to dismantle them, and sell off their parts and accessories.

Once you've decided on the type of dealership you wish to open and the respective type of license you'll need, you can start covering the various business and licensing requirements in your state. See the next section for an overview of these requirements!

3.

LAUNCHING YOUR DEALERSHIP



BUSINESS REQUIREMENTS

State requirements to open a business

To launch any business in any state, you typically need to comply with a set of business registration requirements. These requirements are different from the licensing requirements that you must complete in order to obtain your dealer license. Most commonly, to register a business, you will need to:

Choose a [business structure](#) and name, obtain a certificate of formation or incorporation, usually from the Secretary of State

Apply for an [Employer Identification Number](#) (EIN) from the IRS

Obtain a state tax ID number - while your EIN number may also work as a tax ID, some states require a separate tax ID number

The above requirements are usually all you need to comply with to register a business entity in a state. While some states may need you to obtain insurance policies already at this stage, this is usually included at the later stage of applying for your license.

Cost of opening a dealership

The cost of launching a dealership varies greatly depending on several different factors. The state in which you are based plays an important role in the amount of upfront costs you'll need to open shop. Certain states have higher costs associated with registering and licensing a business than others.

Another important aspect of launching your business is what you choose with regards to the type of license you will be applying for. If you apply for a new dealer license, then the costs associated with obtaining cars for your lot (i.e. inventory) will be significantly higher than if you will be offering used cars. This choice possibly creates the largest difference with regards to the cost of opening a dealership. Whether to include a service department or not is consideration which can also increase your costs, though it is likely to pay off fast once you get rolling.

In other words, there is no single reliable forecast regarding the costs associated with opening a dealership. A common figure cited by various online resources and by dealer communities is around \$100,000+ for a new car dealership. Yet, there are dealers out there claiming to have started their used dealership for as little as \$10,000, and having worked their way up from that.

Here is a list you could use when roughly assessing the costs associated with opening your dealership:

- ◆ **Registering your business entity**
- ◆ **Buying or leasing a dealership location**
- ◆ **Getting insurance policies**
- ◆ **Obtaining a dealer surety bond**
- ◆ **Applying for your dealer license**
- ◆ **Paying a franchise fee (if you operate a franchise)**
- ◆ **Getting basic office equipment for your dealership**
- ◆ **Paying for legal and accounting consultations**

- ◆ **Buying cars for your lot (your so-called “floorplan”)**
- ◆ **Setting up a service and parts department**
- ◆ **Payroll expenses for at least the first few months**
- ◆ **Marketing and advertising expenses**
- ◆ **Other**

TIP:

In certain instances, you may be able to [buy someone’s dealership](#) and take over. This scenario may possibly reduce some of the costs above, though this would depend on the specific case.

Finally, when considering your costs, you may also want to think about [creating a business plan for your dealership](#). A business plan will help you determine how you will finance and lead your business. The more you put into it, the more it is likely to help you when launching your business to steer it in the right direction. Moreover, a detailed business plan is a must if you intend to seek financing from a bank or an investor.

LICENSING REQUIREMENTS

On top of the requirements to register a business entity, in most states you will be required to obtain a dealer license in order to sell cars. As with registration requirements, licensing requirements vary from state to state, though the ones listed below are frequently part of the licensing process.

Pre-licensing training and examination



Several states, such as Florida, Oregon, and California require dealers to obtain pre-licensing training, as well as yearly continuing education once they are licensed. Training and continuing education are typically provided by DMV-approved education providers in the state. Sometimes dealers must also pass a test or exam as part of the application process.

Business location



You will need to secure a business location and attach proof of ownership or a lease to your license application. Dealers are frequently required to have an office space that's separate from their lot, display a business sign with particular dimensions prominently, have a landline, as well as spend at least a number of hours weekly or daily in their dealership location. There may also be requirements in place regarding the size of your car lot and the minimum number of vehicles it accommodates.

Zoning requirements



Your business location will also need to comply with the municipal or county zoning requirements. Contact your local zoning office or department to inquire about the zoning requirements. You may be required to take several photographs of your business location as part of fulfilling this requirement. These photographs will need to show your office building and lot, your business signage, the interior of your office, and possibly even landscape photographs of the whole of the property.

Insurance

You will likely be required to secure one or a number of insurance policies as part of your application process. Typically, dealers must post liability insurance that covers bodily injury, accident and property damage. The limits of such insurance are determined on a state level, and you will find out more about the specific insurance you need through your state DMV.



Criminal background check

Applicants for a dealer license must also undergo a criminal background check. You will likely need to submit a set of fingerprints through a state-approved fingerprinting service and attach the receipt to your license application.



Some states have legislation that limits people who have a criminal background to obtain a dealer license. Such limits are typically in place for persons who have been dealers before, were found to have violated state laws, and had their license revoked. Previous violations and crimes that may lead to a dealer application being denied include odometer tampering, title forgery as well as convictions relating to theft and fraud.

Surety bond

All states require applicants for a dealer license to post an auto dealer surety bond when applying, though sometimes bonds are required only of particular license types. The surety bond is a form of guarantee which you provide that you will comply with state laws and conduct business honestly. Should you violate the specific conditions of the bond agreement and cause losses or damages to your customers or the state, a claim can be made against the bond.



To learn more about auto dealer bonds, see [Section 4. Auto Dealer Surety Bond](#).

Inspection

To make sure that applicants comply with the licensing requirements, inspections of the dealership location are frequently a part of the license application process. Typically, such inspections are conducted either after an applicant submits their application or earlier. An inspection will typically examine whether the license applicant has complied with all the requirements regarding signage, location, office and lot size, etc. If an inspection concludes that the applicant has not met the requirements, their application may be rejected.



Odometer statements and Warranty forms

In some states, such as NY, dealers are required to obtain odometer disclosure statements and warranty forms as part of their application process. In NY these forms are part of the dealer starter kit and must be paid for. Usually these are not paid for, but obtaining them in one way or another may be a licensing requirement in some states.



Application



Your application form details your compliance with all of the above requirements. It also includes more general information, such as details about your personal details, details about your business registration, information about any salespersons you will be employing, etc. Some states require you to submit print and submit your application along with all supporting documents by mail, whereas many others have online application platforms.

NOTE:

Many states require a separate salesperson application.

Fees






Finally, to complete the application process, you will need to pay an application and/or licensing fee. Fees vary greatly between states, though on average they range between \$100 and \$300. Once you pay these fees, your application will be reviewed by your DMV, and you can expect to hear from them within a couple of weeks whether you have been approved for a license. Sometimes, if a license application is denied, applicants are given the option to remove any faults or omissions found in their application and to re-submit it to the DMV.

STATE LICENSING REQUIREMENTS

See the table below to get a basic sense of what kind of licensing requirements you can expect to meet in the state you plan on doing business in. The information provided in the table does not exhaust the licensing requirements in these states.

Bond amounts listed in the table are accurate as of the date of publishing of this e-book. States may change requirements from time to time, so it is important to consult your local DMV or licensing authority for the most accurate information.

STATE	AUTO DEALER LICENSING REQUIREMENTS
 <p>ALABAMA</p>	<p>License: Yes Licensing authority: Alabama Department of Revenue Fees: \$25 for all dealer license types Bond: \$25,000 Other: -</p>
 <p>ALASKA</p>	<p>License: Yes Licensing authority: Alaska Division of Motor Vehicles Fees: \$50 Bond: \$50,000 Other: -</p>
 <p>ARIZONA</p>	<p>License: Yes Licensing authority: Arizona Department of Transportation Fees: \$15 filing, \$22 criminal records check (per individual), \$100 license, \$50 branch office (if applicable) Bond: \$100,000 - new, used and public consignment auction dealers; \$25,000 - broker, wholesale auto auction and wholesale motor vehicle dealers; \$20,000 - automotive recyclers Other: -</p>



ARKANSAS

License: Yes

Licensing authority: For franchise/new car dealers - Arkansas Motor Vehicle Commission (AMVC); for used car dealers - Arkansas Department of State Police

Fees: \$250

Bond: \$25,000

Other: -



CALIFORNIA

License: Yes

Licensing authority: California Department of Motor Vehicles

Fees: \$175 application fee, \$300 New Motor Vehicle Board Fee per location, \$70 per branch location, \$71 per dealer plate

Bond: \$50,000 for new and used car dealers; \$10,000 for motorcycle, ATV and wholesale-only dealers

Other: Dealer training and examination required; Seller's permit required of dealers



COLORADO

License: Yes

Licensing authority: Colorado Motor Vehicle Dealer Board

Fees: \$500+ (varies from one licensing period to the next)

Bond: \$50,000

Other: Pre-license requirements include: \$100,000 minimum net worth, credit score of at least 701, passing a background check



CONNECTICUT

License: Yes

Licensing authority: Connecticut Department of Motor Vehicles

Fees: \$140 application fee, \$700 new car dealer license fee, \$560 used car dealer license fee, \$140 dealer plate

Bond: \$50,000

Other: Sales tax permit required



DELAWARE

License: Yes

Licensing authority: Delaware Division of Motor Vehicles

Fees: \$100 license fee, \$10 plate fee

Bond: \$25,000

Other: -



DISTRICT OF COLUMBIA

License: Yes

Licensing authority: DC Department of Motor Vehicles

Fees: \$70 application fee

Bond: \$25,000

Other: Applicant must complete a Clean Hands Self-Certification Form that they do not own more than \$100 in fines or penalties to the DC government



FLORIDA

License: Yes

Licensing authority: Florida Department of Highway Safety and Motor Vehicles

Fees: \$300 license fee, \$75 yearly renewal fee

Bond: \$25,000

Other: Must pass a pre-licensing dealer training class



GEORGIA

License: Yes

Licensing authority: Georgia Department of Revenue, Motor Vehicle Division for franchise/new car dealers; Georgia Secretary of State / Used Motor Vehicle Dealer Board for used ("independent") car dealers

Fees: \$170 application fee for used car dealers, \$62 master license plate fee, \$25 annual franchise fee

Bond: \$35,000 for used car dealers

Other: Used car dealer license applicants must attend Board-approved pre-licensing seminar



HAWAII

License: Yes

Licensing authority: Hawaii Motor Vehicle Industry Licensing Board

Fees: Vary widely depending on location and year of application

Bond: For used car dealers - \$25,000 for selling <60 units/month, \$100,000 for selling 60+ units/month;

For new car dealers - \$50,000 for selling <10 units/month, \$200,000 for selling 10+ units/month

Other: Applicant must submit a current financial statement



IDAHO

License: Yes

Licensing authority: Idaho Transportation Department

Fees: \$190 initial licensing fee, \$300 Idaho Consumer Asset Recovery Fund (ICAR) fee, \$26 salesman ID card, \$20.74 dealer plates

Bond: \$20,000 retail dealers, \$40,000 for wholesale-only dealers, \$10,000 for motorcycle, ATV, utility type vehicle, truck campers, and snow machine dealers

Other: Applicants must pass 8-hour pre-licensing class and closed-book written examination



ILLINOIS

License: Yes

Licensing authority: Illinois Secretary of State

Fees: Annual fee varies between \$500 and \$1,000

Bond: \$50,000

Other: First-time used car dealer applicants must pass an 8-hour training course



INDIANA

License: Yes

Licensing authority: Indiana Secretary of State, Auto Dealer Services Division

Fees: \$30 dealer or auction license, \$35 manufacturer or distributor license, \$40 manufacturer/dealer initial plates

Bond: \$25,000

Other: -



IOWA

License: Yes

Licensing authority: Iowa Department of Transportation

Fees: \$70

Bond: \$75,000

Other: Applicants for a used car dealer license must pass an 8-hour pre-licensing course



KANSAS

License: Yes

Licensing authority: Kansas Department of Revenue

Fees: \$75

Bond: \$30,000

Other: Applicant must pass a Kansas tax clearance check, county treasurer must verify applicant does not owe personal property taxes, applicant must secure three credit references



KENTUCKY

License: Yes

Licensing authority: Kentucky Motor Vehicle Commission

Fees: \$100 dealer license fee, \$20 salesperson license fee, \$20 criminal background check fee

Bond: Bond amount is determined by the Commission and may be up to \$100,000

Other: -



LOUISIANA

License: Yes

Licensing authority: Louisiana Motor Vehicle Commission for new car dealers, Louisiana Used Motor Vehicle Commission for used car dealers

Fees: \$400 used car dealer license application fee, \$25 salesperson license, \$35 criminal background check fee

Bond: \$50,000

Other: Applicants must pass an Educational Training Seminar



MAINE

License: Yes

Licensing authority: Secretary of State, Bureau of Motor Vehicles

Fees: \$150 initial license fee, \$20 plate fee

Bond: \$25,000 for <50 vehicles sold/year, \$50,000 for 51-100 vehicles sold/year, \$75,000 for 101-150 vehicles sold/year, \$100,000 for 151+ vehicles sold/year

Other: -



MARYLAND

License: Yes

Licensing authority: Maryland Department of Transportation, Motor Vehicle Administration

Fees: \$225 for new, used and wholesale dealer license application, \$67.50 salesperson license

Bond: Depending on volume of sales - \$15,000-\$150,000 for used and wholesale car dealer license, \$50,000-\$300,000 for new car dealer license

Other: Applicants must attend a Business Licensing Orientation Class



MASSACHUSETTS

License: Yes

Licensing authority: Licenses are issued on a municipal level

Fees: Fees are set by the municipality but typically don't exceed \$200

Bond: \$25,000

Other: -



MICHIGAN

License: Yes

Licensing authority: Michigan Secretary of State

Fees: \$75 for all dealer licenses

Bond: \$10,000

Other: -



MINNESOTA

License: Yes

Licensing authority: Minnesota Department of Public Safety (DPS)

Fees: \$285

Bond: \$50,000

Other: -



MISSISSIPPI

License: Yes

Licensing authority: Mississippi Department of Revenue, Motor Vehicle Licensing Bureau

Fees: \$100

Bond: \$15,000

Other: Applicants must pass an 8-hour educational seminar



MISSOURI

License: Yes

Licensing authority: Missouri Department of Revenue, Motor Vehicle Bureau

Fees: \$150 dealer license fee, \$50 for first four plates

Bond: \$50,000

Other: First-time used car dealer applicants must complete dealer education training



MONTANA

License: Yes

Licensing authority: Montana Department of Justice, Motor Vehicle Division

Fees: \$30 new, used and wholesale dealers license fee, \$500 auto auction dealer license fee, \$35 per dealer plate

Bond: \$50,000

Other: -



NEBRASKA

License: Yes

Licensing authority: Nebraska Motor Vehicle Industry Licensing Board

Fees: \$225

Bond: \$50,000

Other: -



NEVADA

License: Yes

Licensing authority: Nevada Department of Motor Vehicles

Fees: \$126 license application fee, \$36.25 fingerprint processing fee

Bond: \$100,000 car dealer license bond, \$50,000 motorcycle, horse and utility trailer dealer bond

Other: -



NEW HAMPSHIRE

License: Yes

Licensing authority: New Hampshire Division of Motor Vehicles

Fees: \$125

Bond: \$25,000

Other: Upon approval, prior to issuance of plates, retail dealers must take a dealer/title review class of state laws and rules



NEW JERSEY

License: Yes

Licensing authority: New Jersey Motor Vehicle Commission

Fees: \$257.50

Bond: \$10,000

Other: Applicants must pass an exam before they are issued a license



NEW MEXICO

License: Yes

Licensing authority: New Mexico Motor Vehicle Division

Fees: \$50

Bond: \$50,000 for auto dealers, \$12,500 for motorcycle dealers

Other: Applicants must pass a pre-licensing education class (PLE) provided by the New Mexico Independent Auto Dealers' Association



NEW YORK

License: Yes

Licensing authority: New York State Department of Motor Vehicles

Fees: \$487.50 application and business fee, \$260 MV-50 fee

Bond: For franchise/new vehicle dealers: \$50,000; For used vehicle dealers selling 50 or fewer vehicles/year: \$20,000, for dealers selling 50 or more: \$100,000

Other: -



NORTH CAROLINA

License: Yes

Licensing authority: North Carolina Division of Motor Vehicles (NCDOT), License and Theft Bureau

Fees: \$90 dealer license fee, \$20 salesperson certificate fee, \$36 fee per plate (for the first five plates)

Bond: \$50,000 for first salesroom, \$25,000 for every following salesroom

Other: Applicants for a used car dealer license must attend a 12-hour licensing course approved by the DMV



NORTH DAKOTA

License: Yes

Licensing authority: North Dakota Department of Transportation (NDDOT), Motor Vehicle Division

Fees: \$100 dealer license fee, \$100 initial inspection fee, \$20 for additional dealers plates (first one is free)

Bond: \$25,000

Other: -



OHIO

License: Yes

Licensing authority: Ohio Department of Public Safety, Bureau of Motor Vehicles

Fees: \$150 initial application fee for Title Defect Rescission Fund, \$50 dealer license permit, \$50.25 dealer master plate

Bond: \$25,000 for used motor vehicle dealers

Other: Applicants for used motor vehicle dealer license must pass a training course prior to applying



OKLAHOMA

License: Yes

Licensing authority: Oklahoma Used Motor Vehicle and Parts Commission Motor Vehicle Commission (UMVPC)

Fees: \$300 franchise dealer license fee, \$600 wholesale and used motor vehicle dealer license fee, \$200 franchised used motor vehicle dealer license fee

Bond: \$25,000

Other: Applicants for a used or wholesale car dealer license must attend a pre-licensing education program



OREGON

License: Yes

Licensing authority: Oregon Department of Transportation, Driver and Motor Vehicle Services

Fees: \$1,187 original dealer certificate fee

Bond: \$50,000

Other: License applicants must pass 8 hours of education prior to application (certain applicants are exempt)



PENNSYLVANIA

License: Yes

Licensing authority: State Board of Vehicle Manufacturers, Dealers, and Salespersons

Fees: \$65 initial dealer license fee

Bond: \$20,000

Other: -



RHODE ISLAND

License: Yes

Licensing authority: Rhode Island Division of Motor Vehicles

Fees: \$301.50

Bond: \$50,000

Other: -



SOUTH CAROLINA

License: Yes

Licensing authority: South Carolina Department of Motor Vehicles (SCDMV)

Fees: \$50 dealer license fee, \$20 per plate

Bond: \$30,000

Other: Non-franchise motor vehicle dealers must attend 8-hour pre-licensing course



SOUTH DAKOTA

License: Yes

Licensing authority: South Dakota Department of Revenue, Division of Motor Vehicles

Fees: \$300 dealer license fee, \$101 dealer license plates

Bond: \$25,000

Other: -



TENNESSEE

License: Yes

Licensing authority: Tennessee Department of Commerce, Motor Vehicle Commission

Fees: \$400 dealer license fee, \$35 salesperson license fee

Bond: \$50,000

Other: -



TEXAS

License: Yes

Licensing authority: Texas Department of Motor Vehicles (TxDMV)

Fees: \$700 General Distinguishing Number fee, \$90 per dealer license plate fee

Bond: \$25,000

Other: -



UTAH

License: Yes

Licensing authority: Utah State Tax Commission, Motor Vehicle Enforcement Division (MVED)

Fees: \$127 dealer license fee, \$12 per dealer plate, \$20 fingerprint fee

Bond: \$75,000

Other: License applicants must attend an 8-hour training seminar



VERMONT

License: Yes

Licensing authority: Vermont Agency of Transportation, Department of Motor Vehicles

Fees: \$503 dealer registration fee, \$55 additional plates fee

Bond: \$20,000 for <20 vehicles sold/year, \$25,000 for 25 to 100 vehicles sold/year, \$30,000 for 101 to 250 vehicles sold/year, \$35,000 for 251+ vehicles sold/year and for first-time applicants

Other: -



VIRGINIA

License: Yes

Licensing authority: Virginia Motor Vehicle Dealer Board

Fees: \$600

Bond: \$50,000

Other: Applicants must pass a dealer/salesperson qualification test; Dealer-operators of independent dealerships must pass a training course before taking the test



WASHINGTON

License: Yes

Licensing authority: Washington Department of Licensing

Fees: \$975

Bond: \$30,000

Other: Used-only vehicle dealers require a Certificate of Dealer Education from the Washington State Independent Automobile Dealers Association



WEST VIRGINIA

License: Yes

Licensing authority: West Virginia Division of Motor Vehicles

Fees: \$250 dealer license fee, \$150 recovery fund fee

Bond: \$25,000

Other: -



WISCONSIN

License: Yes

Licensing authority: Wisconsin Division of Motor Vehicles

Fees: \$40 dealer license fee, \$150 for first two plates, \$10 per additional plate

Bond: \$25,000 for wholesale dealers, \$50,000 for retail dealers

Other: -



WYOMING

License: Yes

Licensing authority: Wyoming Department of Transportation

Fees: \$100 license fee for dealers that sell 12+ vehicles/year, \$25 license fee for dealers that sell <12 vehicles/year, \$39 fingerprinting fee, \$125 full use plates fee

Bond: \$25,000

Other: -

STATE AND FEDERAL LAWS

It has frequently been noted that dealers are disproportionately affected by regulatory compliance costs. For example, a [study performed by the Center for Automotive Research](#) (CAR) in 2014, notes the many types of federal regulations that franchised dealers must comply with, and can be liable under. Ultimately, as the study points out, regulatory compliance costs are passed on to consumers in the form of higher prices. Unfortunately the degree of regulatory burden for auto dealers is far from perfect and is only slow to change. Meanwhile, dealers must continue to comply in order to remain active and grow their businesses.

Appendix A of the study performed by CAR provides an extensive list of the various federal regulations that auto dealers need to comply with at one time or another. Though some of these regulations have been overturned or revised since the study, it is a good source of general information for dealers. Looking at this list, the best way for you to understand the compliance requirements for each of these regulations is to look up the federal agency or commission that enforces them. For example, the website of the [Federal Trade Commission](#) is a good source of information regarding the specific regulations enforced by the Commission, such as the [Used Car Rule](#), the [Credit Practices Rule](#), the [Privacy Rule](#), and others.

Apart from the federal regulations, dealers must also contend with state laws and regulations that define the specifics of selling cars. Here, too, you need to carefully study the laws in order to know how to comply with them. For dealers who need to pass a training or education course during their licensing process, state laws may be part of the education curriculum.

New dealers can generally benefit from joining a dealer association or organization which can provide them with specific information and training regarding regulatory compliance. The [National Automobile Dealers Association](#) is certainly one of the best sources for such training. It offers online courses, webinars, and workshops that explain the different types of regulations that apply to dealers, and how to follow them.

Many states also have their own car dealer associations which, too, offer regulatory compliance training. Make sure you explore what kinds of options you have in your home state to learn more about how to follow regulations. Possibilities to network with fellow dealers are also a great way to learn about the ins and outs of following the law, and avoiding unnecessary penalties or fees.

4.

AUTO DEALER SURETY BOND



WHY DO YOU NEED AN AUTO DEALER BOND?

[Auto dealer surety bonds](#) are three-party agreements between:



The party obtaining
the bond
(the auto dealer)



The party requiring
the bond
(the state DMV)



The party issuing and
backing the bond
(the surety company)

Surety bonds are an important part of the dealer licensing process in all states. They are issued by surety companies that vouch for the dealer, and guarantee that they back the bond financially up to its full penal sum (or bond amount).

Dealer license applicants require these bonds as a guarantee to the state and the public that they will conduct business in compliance with state laws. This includes conducting business honestly and according with best business practices. A frequent condition in dealer bond agreements is that they only come in effect if a dealer causes a loss to anyone due to engaging in fraud, cheating or misrepresentation. Another frequent condition is that the bond also protects the state from being held liable as a result of any damages or losses suffered by anyone due to such behavior by a dealer.

In other words, surety bonds are like insurance but for the clients of the dealer, and for the state. If a dealer does engage in any actions that cause a loss, the party that suffers such loss can file a complaint with the state licensing authority.

Once the complaint is reviewed and if the licensing authority determines that a dealer's actions constitute a violation, the dealer may be contacted to remediate the situation, they may be penalized or a claim may be filed against their bond.

When a claim is filed against their bond, the surety that backs the bond is notified. It will then typically investigate the claim and, if it determines it to be a legitimate one, extend compensation to claimants. Depending on the losses suffered by claimants, compensation extended under a bond claim can be as high as the full amount of the bond. Any losses that exceed the maximum bond amount cannot be covered by the surety bond.

Once a surety covers a claim and extends compensation things may be finished for the claimant but the auto dealer is still liable. Under any bond agreement, the bonded party is liable for any losses or damages it causes. So, even if the surety covers a claim, the auto dealer remains the responsible party. In other words, the auto dealer must then reimburse the surety in full for any compensation it has extended.

COST OF GETTING BONDED

The cost of obtaining a surety bond is equal to a percentage of the full amount of the surety bond. That percentage is determined by the surety when a dealer applies for a bond. Sureties typically consider the following financial indicators of an applicant when setting a rate for them:



Personal credit score



Business and personal financial statements



Assets and liquidity



Personal resume and industry experience

Of the above factors, personal credit score is the most important one. The higher an applicant's credit score is, the lower their bond cost is likely to be. Applicants with a credit score of 700 FICO, for example, are typically offered the lowest quotes on their bonds.

The reason why sureties consider personal credit so central is that they have found a correlation between applicants' credit scores and the likelihood of them triggering a claim. The higher an applicant's score, the less likely they are considered to give rise to a claim, and the lower their surety premium will be. Luckily, bond cost is not fixed. Dealers that take action and improve their credit score are likely to find that when they renew their bond they are given more options and better rates on their bond.

Your bond cost is also determined by your choice of surety agency. While it is surety companies that issue the bonds, these companies don't work directly with the public. Instead, to apply for a bond, you must contact a surety agency which will offer you rates from the various companies it is partnering with. Different agencies work with different companies. Yet, the companies themselves are not the same.

An indicator that you are working with a good agency is that it partners with A-rated and T-listed companies. The former means that the company has been rated with at least an "A" from the A.M. Best Company - a U.S. rating agency that issues financial-strength ratings of companies within the insurance industry.

An "A" or "A+" rating means that this company is considered excellent and highly reliable. The latter (T-listed) is an indicator that the company has been vetted and accepted by the Department of Treasury to issue bonds on federal projects. For a company to be listed like this means that it has been carefully scrutinized by the department.

Lance Surety Bonds works only and exclusively with such companies. We have access to a wide variety of markets, thanks to our partners, and are able to accommodate the needs of all bond applicants. Applicants with high credit scores can get exclusive rates on their bonds, whereas applicants with lower scores are offered rates that are tailored to their specific circumstances. Want to know how

much it would cost to get bonded? Complete our bond form, and we will provide you with a free quote!

Get a **FREE** quote today!

APPLY NOW

HOW TO AVOID SURETY BOND CLAIMS

Auto dealer bonds are always issued for the benefit of dealers' clients as well as the state that the dealer operates in. Claims against dealers bonds arise due to dealers' actions that cause losses or damages to their clients or, in some way, to the state. Apart from consumers, other parties may at times also be eligible to file a claim against a dealer's bond. These include:

- ◆ **Sellers of vehicles such as other dealers, individuals, consignors, auctions, etc.**
- ◆ **Creditors and floor planners**
- ◆ **Retail lenders that finance consumers**

Under certain circumstances all of these parties may have a cause to file a claim against a dealer's bond. For example, if a dealer does not pay for cars it acquires from a seller, the seller may be allowed to file a claim. If a dealer breaches their contractual obligations toward creditors the latter, too, may have a cause to file a claim for compensation.

When it comes to consumers and the state, common action on behalf of dealers that give rise to claims include:

- ! Failing to report the sale of a vehicle**
- ! Failing to pay sales taxes or any fees required under state law**
- ! Failing to provide a valid title as contracted**
- ! Failing to pay for a vehicle or write invalid checks**
- ! Odometer tampering**
- ! Providing false information regarding a vehicle's condition during a sale**
- ! Committing fraud relating to the financing**
- ! Selling a stolen vehicle**
- ! Failing to pay for purchased warranty**
- ! Failing to honor written warranty**

All of the above actions can reasonably be expected to give rise to a claim against a dealer's surety bond. Typically, surety bond agreements for dealers specifically state the obligations of the dealer as well as the instances in which a claim may be filed against their bond. Often, a more general condition is included which states that a claim can be filed by any person that has experienced a loss due to a dealer's actions.

Given the high amounts for many auto dealer bonds and the possibility of having to cover a claim of the full amount of the bond, it is highly undesirable for dealers to give rise to claims. Beyond bearing the costs of covering claims, dealers may also suffer reputational damage as a result of having a claim made against their bond. Last but not least, bond claims can at times take a lot of time to be settled which is yet another loss for the dealer.

Due to all of this, it is always best to comply with the conditions of the bond agreement, and with all applicable laws. Moreover, dealers who work with good sureties can always expect to get adequate support, advice and guidance in instances in which they have given rise to a claim.

Sureties have extensive experience with managing bond claims, and are often capable of providing solutions that mitigate the harm and help resolve an issue

before it becomes a claim. If you are ever faced with a bond claim, make sure to stay in close contact with your surety and to provide any documentation the surety may request.

5.

HOW TO FINANCE YOUR AUTO DEALERSHIP

Financing your dealership is possibly the greatest challenge you will be faced with when starting the business. As mentioned in subsection [ii. Cost of opening a dealership](#), the cost for opening a dealership is commonly set around \$100,000, though some dealers do start out smaller and build up. Considering this figure to be accurate, typically new dealers cannot finance their dealership out of their own pocket. For this reason they need to seek out financing.

New dealers will frequently finance their business through a bank. Floorplan financing, or inventory financing, is a short-term loan that you obtain from a bank. These loans are used to buy inventory from wholesale or auction dealers, and manufacturers. The inventory itself also serves as collateral for the bank if someone default on their loan. This is one of the ways you can obtain financing from a bank. There are also other loan options that you may be offered. Regardless of the type of loan you are getting from a bank, you will most definitely be required to present a detailed business plan when obtaining such financing.

NOTE:

Under certain circumstances you may also be eligible to apply for lending from one of the lenders that work with the SBA. Have a look at the [SBA Lender Match](#) program to determine if you may be able to get a loan there.

6.

HOW TO ACQUIRE CARS FOR YOUR LOT



New or franchise vehicle dealers will obtain their cars directly from a manufacturer or a manufacturer representative. To obtain cars, you must contact the manufacturer and apply to become a franchisee. The process of becoming a franchisee can be quite long and will usually require you to make extensive financial disclosures to the manufacturer. They require these disclosures to determine your ability to open and maintain a franchised dealership.

If you are approved by the manufacturer, you will sign a franchise agreement which will state the terms under which you can represent the manufacturer and sell their vehicles. Along with the franchise agreement, you will need to pay a yearly franchise fee which varies widely from manufacturer to manufacturer. You will then be able to obtain cars from the manufacturer according to the terms of your agreement.

Used or independent vehicle dealers operate differently. Typically these dealers will obtain their cars from other dealers, such as new vehicle dealers who have used car trade-ins, wholesale dealers, at auctions or even from private individuals. Some used car dealers also obtain cars that are broken down and require repair. They then repair the cars and sell them at a higher price. Unlike new vehicle dealers, used car dealers may need to make use of advertisement to attract sellers from either of the above categories and actively look for opportunities to buy used cars.

7.

CONCLUSION



Starting a car dealership entails quite a lot. Yet, given the stable U.S. market and the expanding ways in which dealers can offer their services to the public, becoming an auto dealer can also be a lucrative endeavour, even if a stressful one at times.

Newcomers are often wondering what they need to do to become an auto dealer, and what the best course of action is for their business. While the latter largely depends on what they want from the business, there are specific practical steps, such as those related to getting registered and licensed, that are a matter of being informed. In offering this e-book to you, we hope that we have helped you with figuring out what you need to do practically to become an auto dealer - from figuring out the types of dealer licenses to successfully applying for and obtaining your dealer license. We also hope that we have been able to provide you with certain guidelines and pointers for you to take into account when you are planning the direction in which you'd like to develop the business.

Finally, when you do come to the point of requiring an auto dealer surety bond, we at Lance Surety Bonds will be more than happy to help you get bonded!

 Get a **FREE** online quote today!

APPLY NOW

ABOUT THE AUTHOR

Victor J. Lance is the President of Lance Surety Bond Associates, Inc.

Victor began his professional career serving as an officer in the U.S. Marine Corps. He served as a logistics officer during a combat tour to Afghanistan, and during a subsequent tour to Iraq was the officer in charge of an Iraqi Police Transition Team. Later, he was assigned to the University of Michigan in Ann Arbor, serving as Assistant Professor of Naval Science and Marine Officer Instructor. During this time, he taught a series of undergraduate military history courses covering the evolution of warfare in past and present conflicts.



As president of Lance Surety, Victor now focuses on educating and assisting small businesses throughout the country with various license and bond requirements. Some of his industry-related articles have been published on Forbes, Entrepreneur and The Washington Post. Over the years, Victor has worked with hundreds of auto dealers from across the country and has helped them get bonded.

Victor holds a bachelor degree in Business Administration from Villanova University and a Masters in Business Administration (MBA) from the University of Michigan's Ross School of Business.

ABOUT LANCE SURETY BONDS



LANCE SURETY
BOND ASSOCIATES, INC.

Lance Surety Bond Associates, Inc. is a surety bond agency based out of southeastern Pennsylvania that is able to write all surety bond types in all 50 states. We are dedicated to servicing all of our customers' surety bonding needs throughout the country and guarantee competitive rates, timely responses, and unparalleled customer service.

We're able to write all types of commercial and contract bonds, utilizing a state-of-the-art online application system for all commercial bond types, making the application process fast and easy; most bonds are instantly approved online!

Through our vast network of markets, we can offer customers with a number of specialty programs for certain bond types including auto dealer bonds and other bond types. Additionally, we have exclusive programs that can assist customers with poor credit in getting the bonds they need.

If you have any questions about getting an auto dealer bond in any state, **call us at 877.514.5146!** Our bond professional will be there to answer all of your bond-related questions. If you want to get a free quote on your bond, complete our bond application form and we will get in touch with you shortly!

Get a **FREE** online quote today!

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