

Car Leases

Don't lease a car for lots of reasons; if you already have and must end it early, here are your options; if you still plan to lease, here's some guidance:

When you walk into a car dealership, the salesman might tell you about how you can lower your monthly payments by leasing and also how you will not have to worry about selling or trading in the leased car in the future. What should you do?

Almost always, leasing is not a better deal and not less hassle. Negotiating a lease is more complicated than buying a car because often the terms and price calculations are confusing or not fully disclosed. A unique reason for military shoppers not to lease is that the leases specifically forbid taking the car overseas. Many leases require permission to move the car to another state and to pay the costs of re-registering or re-titling in the other state. Tax laws allow businesses and self-employed individuals who lease a car for business use to take write-offs for the car's use and maintenance. Not so with employees such as military personnel. Also, the lemon laws generally don't apply to leased cars, and repairs not covered by the manufacturer's warranty are borne by the lessee.

It is very easy to be fooled into signing up for a bad lease, and very difficult to know whether you are getting a good deal. Some service members who thought they bought a new car are shocked when the legal assistance attorney points out they signed a lease. Even if your monthly payments are less, it may be a worse deal than buying the car on credit. Remember that after making all the payments, you will still not own the car at the end of the lease unless you then chose to buy it.

Some service members have learned a terrible truth: If you terminate the lease early for any reason, your liability may also be astronomical. Car leases are the single most financially devastating but avoidable transactions. **(However, the new Servicemembers' Civil Relief Act may provide relief. See #11 below.)**

Higher Insurance:

Many consumers are unaware that most leases require higher insurance limits than are usually required by the lender on a financed purchase. The shocking discovery of a very high insurance cost may make the lease unaffordable. However, seldom do dealers reveal this increased insurance cost when discussing the "benefits" of leasing.

Mileage Limitations:

Most leases provide a 12,000 or 15,000 annual mileage limitation with penalties from 15 to 30 cents for every excess mile. Many consumers are unaware of the limit, their own mileage requirements, or the penalties.

Purchase Option:

Consumers often misunderstand their ownership options on lease termination. Leases have many variations of purchase options. Some leases even allow the dealer the option not to sell the car at the stated price if the car has a higher value at end of term. A salesman may falsely explain that the residual or option price is the amount the consumer will receive from the dealer if the car is turned in at lease end. So, instead of increasing the cost of the contract, the stated residual amount appears to be the equity the consumer will have in the vehicle.

Early Termination Penalties:

Salesmen frequently tout the virtues of leasing by falsely claiming, "You can turn the car in at any time. It's like renting." On this false premise, cars are leased to the uninformed shopper just wanting to "try out" a particular car for a short period of time. Generally, leases cannot be terminated before their stated term without substantial charges, sometimes as much or more than

it would have cost to keep the lease for full term. **(But see #11 below re Servicemembers' Civil Relief Act)** What is reflected in the charges is the rapid drop in the value of the car and lost profits.

Lack of Consumer Protection:

In California, unlike a financed purchase, there is no right to reinstate a lease if a consumer falls behind in payments and the car is repossessed. If you are still thinking of leasing a car because you think you can't afford a regular car payment, don't. Leasing is fleecing. Buy a less expensive car. Leases are not for people with exceptionally tight budgets or marginal credit. Forget the promises in leasing ads.

SELECTED OPTIONS WHEN YOU MUST END LEASE EARLY (ALL BUT ONE HURTS)

1. Advertise and sell the lease like you would a used car. Buyers must be approved by the leasing company. If they fail to make their payments, you still may be legally on the hook.
2. Buy the car. Compare the company's price with prices you obtain from your insurance company, bank, credit union, or a library. Then negotiate. You can turn around and sell or ship the car overseas.
3. Advertise and sell the car yourself with authorization from the company.
4. Voluntary surrender (repossession). The leasing company sells the car at an auction. You still owe the likely substantial deficiency and will suffer the blotch on your credit record for seven years.
5. Trade down to an older, smaller, or less expensive car. You'll probably still owe more than the new leased car is worth because most of the car's depreciation occurs in the first two years. If you trade the lease for a buy, at least you can ship the car overseas.
6. If you are transferring soon, request the dealer to sell the lease or sell outright (not as a repossession), or see option 11 below.
7. If you are transferring overseas and can't resolve the lease, give a power of attorney to a trusted person to accomplish any of options 1-6, or see option 11 below.
8. Get a loan from a family member. Swallow your pride if you must.
9. Particularly if your move is an overseas deployment, make a patriotic pitch to minimize your losses; companies vary in attitude. But see option 11 below.
10. Convince the lender to waive the no-shipment-overseas provision. The applicable transportation regulation [DoD 4500.34R, ch 8, para 8001, b(10)] permits shipment if you provide written authority from the leasing company. Consider your obligations should the lease expire while you are overseas.

11. Section 305 of the new Servicemembers Civil Relief Act allows the termination of automobile leases (for business or personal use) by service members and their dependents. Pre-service automobile leases may be canceled if the service member receives orders to active duty for a period of 180 days or more. Automobile leases entered into while the service member is on active duty may be terminated if he or she receives PCS orders to a location outside the continental United States or deployment orders for a period of 180 days or more. See sample request at the end of this Webpage.

When You Do Lease Don't Get Taken For a Ride

Leases run from two to six years. Don't sign a lease for longer than you expect to drive the car because of the early-out penalty payments. You only want to keep the car for part of its useful life then return it to the leasing company with no further responsibilities. What you pay for just the time you use the car. That is the amount the vehicle would depreciate over the period of the lease, plus interest and fees.

Leasing a car that holds its resale value may equate to lower-than-purchase-price payments. Lease payments for a vehicle that depreciates more rapidly, however, will be high to make up for the lower anticipated resale price.

Before signing, read the contract carefully. Note whether it is a closed-end or open-end lease. The closed-end permits you to either purchase the car at a pre-determined price or just turn it in at the end of the lease term. The closed-end requires a determination of the actual depreciation

of the car at the end of the term. If the car is worth as much or more than the pre-determined amount, you owe nothing. But if the car is worth less, you pay the difference. Open-ended leases typically carry less monthly payments because you gamble on the value of the car at the end of the lease.

Federal Reserve rules require lessors to make it easier to find out how much the lease will cost. You'll better be able to decipher lease jargon such as "capitalized cost" (the lease equivalent of the sales price) and "residual value" (the car's estimated worth at the end). A consumer guide that helps, Keys to Vehicle Leasing, can be downloaded from the Web (www.ftc.gov or www.bog.frb.fed.us). You can also order the free brochure at 202-452-3244. It will have the new disclosure form and familiarize you with the basics of leasing. One commercial web site (www.leasesource.com) has sample contracts and software to compute the lease equivalent of an annual interest rate, a number not on the disclosure form.

Choose three leasing companies. Compare rates and terms for the same car. Pick a lease term of less than four years. Find a specific car that meets your needs. Note the manufacturer's list price on the window sticker, not the dealer's sticker. You want a quote without insurance or a maintenance agreement and based on your annual expected mileage. The quote should include tax, dealer prep, and all other charges. Don't put down more than one month's security deposit. Be reluctant to pay over 10 cents per mile excess mileage charge and an "origination fee" which is just extra profit. Then bargain with the leasing company with the lowest quote. Don't accept any unexplained variation in your quoted payment.

Sources: A Consumer Guide to Vehicle Leasing (Federal Trade Commission); 12 Code of Federal Regulations 213; National Consumer Law Center's Truth in Lending & Unfair and Deceptive Practices; NCLC's Consumer Pamphlet "Should You Buy or Lease Your Car?" Don't Get Taken Every Time (Remar Sutton)