

# FTC Consumer Alert

Federal Trade Commission ■ Bureau of Consumer Protection ■ Office of Consumer and Business Education

## Look Before You Lease

To lease or to buy? That's the choice you face when mulling over makes and models and deciding which car deal best meets your needs. Leasing a car is not the same as buying one. When you buy, you own the car. When you lease, you pay to drive someone else's vehicle. Leasing can involve lower monthly payments than a loan. However, at lease end, you will have no ownership or equity in the car.

Many dealers and other lessors offer vehicle leases. Before you decide whether to lease or buy, the Federal Trade Commission (FTC) reminds you: don't be dazzled by so-called deals. Ask questions, nail down the details, read the fine print, and shop around.

If you're thinking of leasing, the FTC offers these shopping tips:

1. Shop as if you're buying a car. Negotiate all the lease terms, including the price of the vehicle. Lowering the lease price will help reduce your monthly payments. Get all the terms in writing.
2. Learn the language of leasing:
  - In a *closed-end lease*, you return the car at the end of the lease and "walk away," but you're still usually responsible for certain end-of-lease charges, such as excess mileage, wear and tear, and disposition.
  - In an *open-end lease*, you pay the difference between the value stated in your contract and the lessor's appraised value at the end of the lease.
  - *Lease inception fees* are payments you must make when the lease starts, and may include a down payment, security deposit, acquisition fee, first month's payment, taxes and title fees. Ask for a list of all charges due at lease inception. You may be able to negotiate some or all of the terms.
  - The *capitalized cost* is the price of the car for leasing purposes plus taxes and extra charges like service contracts and registration fees.
  - The *capitalized cost reduction* is similar to a down payment. If you're trading in a car, make sure the dealer applies the trade-in value to the price your lease is based on. The trade-in credit may reduce your down payment or monthly payments.
3. Ask whether extra charges will be assessed for excessive mileage, wear and tear, disposition and early termination, and find out the amount of these charges. Most leases allow you to drive 12,000 to 15,000 a year; if you put on more miles, expect a charge of 10 to 25 cents for each additional mile. You may think the ding in the door or coffee stains on the upholstery are normal wear and tear; to the lessor, it may be significant damage. Check out penalties for an early return; expect to pay a substantial charge if you give the car up before the end of your lease.
4. Make sure the manufacturer's warranty covers the entire lease term and the number of miles you're likely to drive.
5. Consider "gap insurance" to cover the difference — sometimes thousands of dollars — between what you owe on the lease and what the car is worth if it's stolen or totaled in an accident.
6. Before you sign the deal, take a copy of the contract home and review it carefully away from any dealer pressure. Be alert for any charges that were not disclosed at the dealership, like conveyance, disposition, and preparation fees.
7. Federal law requires lessors to provide lease cost information before you sign the lease. Take a copy of the attached form to the dealer and ask them to complete it. Some dealers may be willing to provide the information during your shopping process. If the dealer declines, consider shopping elsewhere.

For more information about buying or leasing a car, visit the FTC's Web site at [www.ftc.gov/autos](http://www.ftc.gov/autos).

May 2003

## Federal Consumer Leasing Act Disclosures

Date \_\_\_\_\_

Lessor(s) \_\_\_\_\_

Lessee(s) \_\_\_\_\_

<b>Amount Due at Lease Signing or Delivery</b> (Itemized below)* \$ _____	<b>Monthly Payments</b> Your first monthly payment of \$ _____ is due on _____, followed by _____ payments of \$ _____ due on the _____ of each month. The total of your monthly payments is \$ _____.	<b>Other Charges</b> (not part of your monthly payment) Disposition fee (if you do not purchase the vehicle) \$ _____ _____ Total \$ _____	<b>Total of Payments</b> (The amount you will have paid by the end of the lease) \$ _____
---	---	---	---

**\* Itemization of Amount Due at Lease Signing or Delivery**

Amount Due at Lease Signing or Delivery:	How the Amount Due at Lease Signing or Delivery will be paid:
Capitalized cost reduction \$ _____	Net trade-in allowance \$ _____
First monthly payment _____	Rebates and noncash credits _____
Refundable security deposit _____	Amount to be paid in cash _____
Title fees _____	_____
Registration fees _____	_____
_____	_____
Total \$ _____	Total \$ _____

**Your monthly payment is determined as shown below:**

<b>Gross capitalized cost.</b> The agreed upon value of the vehicle (\$ _____ ) and any items you pay over the lease term (such as service contracts, insurance, and any outstanding prior credit or lease balance) .....	\$ _____
If you want an itemization of this amount, please check this box. <input type="checkbox"/>	
<b>Capitalized cost reduction.</b> The amount of any net trade-in allowance, rebate, noncash credit, or cash you pay that reduces the gross capitalized cost .....	-
<b>Adjusted capitalized cost.</b> The amount used in calculating your base monthly payment .....	=
<b>Residual value.</b> The value of the vehicle at the end of the lease used in calculating your base monthly payment .....	-
<b>Depreciation and any amortized amounts.</b> The amount charged for the vehicle's decline in value through normal use and for other items paid over the lease term .....	=
<b>Rent charge.</b> The amount charged in addition to the depreciation and any amortized amounts .....	+
<b>Total of base monthly payments.</b> The depreciation and any amortized amounts plus the rent charge .....	=
<b>Lease payments.</b> The number of payments in your lease .....	÷
<b>Base monthly payment</b> .....	=
<b>Monthly sales/use tax</b> .....	+
_____ .....	+
<b>Total monthly payment</b> .....	=\$ _____

**Early Termination.** You may have to pay a substantial charge if you end this lease early. The charge may be up to several thousand dollars. The actual charge will depend on when the lease is terminated. The earlier you end the lease, the greater this charge is likely to be.

**Excessive Wear and Use.** You may be charged for excessive wear based on our standards for normal use [and for mileage in excess of \_\_\_\_\_ miles per year at the rate of \_\_\_\_\_ per mile].

**Purchase Option at End of Lease Term.** [You have an option to purchase the vehicle at the end of the lease term for \$ \_\_\_\_\_ [and a purchase option fee of \$ \_\_\_\_\_ ].] [You do not have an option to purchase the vehicle at the end of the lease term.]

**Other Important Terms.** See your lease documents for additional information on early termination, purchase options and maintenance responsibilities, warranties, late and default charges, insurance, and any security interest, if applicable.

[The following provisions are the nonsegregated disclosures required under Regulation M.]

Description of Leased Property				
Year	Make	Model	Body Style	Vehicle ID #

**Official Fees and Taxes.** The total amount you will pay for official and license fees, registration, title, and taxes over the term of your lease, whether included with your monthly payments or assessed otherwise: \$ \_\_\_\_\_.

**Insurance.** The following types and amounts of insurance will be acquired in connection with this lease:

\_\_\_\_\_

\_\_\_\_\_ We (lessor) will provide the insurance coverage quoted above for a total premium cost of \$ \_\_\_\_\_.

\_\_\_\_\_ You (lessee) agree to provide insurance coverage in the amount and types indicated above.

**Standards for Wear and Use.** The following standards are applicable for determining unreasonable or excess wear and use of the leased vehicle:

\_\_\_\_\_

**Maintenance.**

[You are responsible for the following maintenance and servicing of the leased vehicle:

\_\_\_\_\_ ]

[We are responsible for the following maintenance and servicing of the leased vehicle:

\_\_\_\_\_ ]

**Warranties.** The leased vehicle is subject to the following express warranties:

\_\_\_\_\_

**Early Termination and Default.** (a) You may terminate this lease before the end of the lease term under the following conditions:

\_\_\_\_\_

The charge for such early termination is:

\_\_\_\_\_

(b) We may terminate this lease before the end of the lease term under the following conditions:

\_\_\_\_\_

Upon such termination we shall be entitled to the following charge(s) for:

\_\_\_\_\_

(c) To the extent these charges take into account the value of the vehicle at termination, if you disagree with the value we assign to the vehicle, you may obtain, at your own expense, from an independent third party agreeable to both of us, a professional appraisal of the \_\_\_\_\_ value of the leased vehicle which could be realized at sale. The appraised value shall then be used as the actual value.

**Security Interest.** We reserve a security interest of the following type in the property listed below to secure performance of your obligations under this lease:

\_\_\_\_\_

**Late Payments.** The charge for late payments is: \_\_\_\_\_

**Option to Purchase Leased Property Prior to the End of the Lease.** [You have an option to purchase the leased vehicle prior to the end of the term. The price will be [\$ \_\_\_\_\_ / [the method of determining the price].] [You do not have an option to purchase the leased vehicle.]