



Legal Briefs

From the Fort Knox Legal Assistance Office

LEASING A CAR

Protect Yourself:

More and more often these days, consumers are deciding to lease a new car instead of buying one. Leasing has advantages but there are disadvantages too. Savvy consumers should know the pros and cons of a lease before agreeing to it. Remember: car dealers and car leasing companies are in business to make money. An educated consumer is a smart consumer.

Leasing instead of Buying:

What is a car lease? A car lease is a contract under which you obtain possession of a vehicle and in return you agree to make monthly payments for a set period of time. At the end of the period, you generally have the right to purchase the leased vehicle for a price less than the original sticker price. In a sense it is a rent-to-own agreement. The lease will usually require little, if any, money down, and the monthly payments are generally less than those for the purchase of the same vehicle. These features may alleviate a concern for consumers making ends meet on a tight budget. In addition, a leased vehicle normally will remain under warranty for the entire lease term, which may protect you against outrageous repair costs should something happen to the vehicle. The down side to the lease is that you are not acquiring equity (ownership) in the car. At the end of the lease term, if you do not purchase the vehicle at the predetermined purchase price, you walk away with nothing to show for all of the payments you made.

Buying a vehicle, on the other hand, may be a better option. Once you buy a car, even if you finance the purchase with a loan from a bank, credit union, or other financial institution, the vehicle is essentially yours. It's true, if you finance the purchase, the financial institution may hold on to the title as collateral or will require that your title show them as a lien holder. Every payment is part interest and part principal so you are acquiring equity in the car. With every payment, it is becoming more and more yours. At the end of the loan period, and with the last payment, the car will be completely yours. You can sell it, trade it in on another vehicle, or simply continue to drive it for as long as you choose.

Negotiating Terms and Conditions of the Lease Contract:

For consumers to determine whether leasing is an appropriate option for them, they need to understand some of the basic terms, calculations, and conditions, which constitute a lease. A lease is like any other contract. It requires negotiation and agreement. Don't let a dealer or leasing company get the best of you simply because you're not familiar with how a lease works.

First, the true purchase price of a leased vehicle is the "capitalized cost" or "cap cost." The cap cost is the figure that represents what the vehicle's "residual value" is at the end of the lease, plus the total of all payments made during the lease term minus interest paid as a part of those payments. It sounds complicated but it really isn't.

An example may help explain the concept. The sticker price of the car is \$15,000. You negotiate a cap cost equal to the sticker price (\$15,000). The dealer and you agree to a three-year lease term. Using a professional guide such as a "blue-book," the dealer determines the car will be worth \$9,000 in three years. The car's residual value is that \$9,000. The car will depreciate \$6,000 (\$15,000 - \$9,000) over the three years, and that is the base amount of what you will pay over the three year lease term. With \$6,000 divided by 36 (3 years equals 36 months), your monthly payment would be \$166.67. That's not the end of the story though. Interest, finance fees, and sales and ad valorem (property) tax will be added to that monthly payment. The total monthly payment will likely be over \$200.00.

In addition, the dealer or leasing company may require an up front security deposit (like a landlord for an apartment - to protect against damage or loss), an acquisition fee to cover dealer costs, a disposition fee to cover dealer costs at the end of the lease, and fees for damage exceeding ordinary wear and tear. Finally, most lease agreements have mileage limitations (perhaps only up to 15,000 miles per year). Excess mileage will prompt yet another fee.

Geographic Limitations - Military Members Beware:

Most lease agreements have geographic limitations too. Military members must be very careful not to sign a lease that prevents moving the vehicle out of state. PCS moves, even if pursuant to military orders, will not override such a lease provision. The car still belongs to the lessor and the lessor will want its collateral where it can get it - in the state where the vehicle was leased.

Also, lease agreements will not allow taking the vehicle overseas. There are virtually no exceptions to this prohibition. Most dealers and leasing companies consider anything outside the continental United States as overseas. Alaska and Hawaii are considered overseas. Military members have two options in this situation: 1) walk away from the lease and lose everything paid up to that point plus penalties and fees for early termination of the lease, or 2) somehow buy the car and pay-off the lease company. Keep in mind though most lenders will not allow financed vehicles to go overseas either, so the service member may be out of luck unless he or she can come up cash to settle the lease.

If you are a reservist called to active duty for a period of 180 days or more, and you entered into your lease agreement before you began military service, you may be able to cancel your lease under the Servicemembers Civil Relief Act (SCRA). Also, service members may terminate automobile leases entered into while the service member is on active duty if the service member receives PCS orders to a location outside the continental United States or deployment orders for a period of 180 days or more. (50 U.S.C. 535)

What Legal Assistance Can Do:

If you have any questions concerning these matters, please call the Legal Assistance Office for an appointment at (502) 624-2771 or visit our website at www.knox.army.mil/center/sja/. Our hours of operation are Monday, Tuesday, Wednesday and Friday, 0900 – 1600, and Thursdays 1300-1600. The Fort Knox Legal Assistance Office is located in Building 1310, Pike Hall at the corner of Knox and Third Street.
