

Car Leases

There are many different reasons servicemembers choose to lease a vehicle instead of buying one. Regardless of the reason, there are things you must understand about the leasing process to insure that you, the consumer, will not end up regretting your decision. This document is provided for information only and should not be considered legal advice.

What You Need to Know

Lease Terms:

Leases run from 2 to 6 years.

Higher Insurance:

Many consumers are unaware that most leases require higher insurance limits than are usually required by the lender on a financed purchase. These higher limits may make the lease unaffordable. However, some dealers do not 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, or the penalties if exceeded.

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 dealer may not clearly 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:

Dealers 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 consumer just wanting to "try out" a particular car for a short period of time or wish to have a newer car without a high price tag. 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.

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.

Options for Early Termination

If you have found yourself in a situation which requires you to terminate the lease prior to the end of lease date, here are some possible options:

- 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 may still be legally on the hook for fulfilling the lease requirements.
- Buy the car. Compare the lease price with resale price of the car, then negotiate.
- Advertise and sell the car yourself with authorization from the leasing company.
- Voluntary surrender the car. This will be viewed as a repossession. The leasing company usually sells the car at an auction. It is important to remember that you still owe the deficiency (price of lease minus the amount the leasing company resales the vehicle for). This repossession will be on your credit record for seven years.
- 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 are PCSing soon, request the dealer sell the lease or sell outright (not as a repossession), or see option 11 below.
- If you are transferring overseas and can't resolve the lease, give a power of attorney to a trusted person to accomplish any of the above options.
- Get a loan from a family member and pay the contract in full.
- Make a patriotic pitch to minimize your losses, particularly if your move is an overseas deployment; companies vary in attitude toward servicemembers. Refer to your rights under the Servicemembers Civil Relief Act (SCRA).
- 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.
- Section 305 of the Servicemembers Civil Relief Act allows the termination of automobile leases (for business or personal use) by service members and their dependents (if servicemember is listed on lease). Pre-service automobile leases may be canceled if the servicemember 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 PCS orders to a location outside the continental United States or deployment orders for a period of 180 days or more are received.

Be Informed

- 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 be able to better 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, *Leasing or Financing a Car*, can be downloaded from the Federal Trade Commission website located at <https://www.ftc.gov>.
- Compare at least 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.

Leasing a vehicle can be risky. If you would like to discuss this matter with a legal assistance attorney, visit our office in Building 358, Presidio of Monterey. Monterey, CA or call (831) 242-5083/5084 to schedule an appointment.