Don't Be Taken for a Ride

Guide to Auto Leasing

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Introduction

In recent years, the number of drivers who lease rather than buy their cars has increased tremendously. A large percentage of New Jersey residents now lease a vehicle. Unfortunately, as the number of leases has increased, so has the number of complaints of consumer fraud and deception.

New Jersey's Consumer Protection Leasing Act ("C.P.L.A."), N.J.S.A. 56:12-60 et seq., established what are perhaps the strongest motor vehicle leasing standards in the nation. The law ensures greater protection for New Jersey consumers by requiring lessors to disclose detailed information about crucial terms of their leases.

On October 1, 2005, the *New Jersey Streamlined Sales and Use Tax Agreement* became effective. This legislation made significant changes to the *New Jersey Sales and Tax Use Law* and changed the formula for calculating the tax on auto leases.

In addition, the Board of Governors of the Federal Reserve System has changed the federal leasing law. The federal leasing law, which took effect on January 1, 1998, incorporates many of the concepts embodied in New Jersey's C.P.L.A.

The C.P.L.A. requires the Division of Consumer Affairs ("Consumer Affairs") to educate consumers about leases. As part of its statutory obligations, Consumer Affairs has prepared this booklet. With the help of this booklet, the "Don't Be Taken For a Ride Guide to Auto Leasing," you can determine whether leasing or buying is right for you and, if you do lease, how to ensure that you will negotiate the best possible deal.

If you are considering leasing a vehicle, you should know that...

The most important right you have as a lessee is to be free from fraudulent practices. However, you should also realize that you have a right to receive important information that is accurate, including the material terms and conditions that will be a part of your lease, without having to endure undue sales pressure and confusing or mysterious language. The C.P.L.A. and the Consumer Fraud Act ("C.F.A."), N.J.S.A. 56:8-1 et seq., incorporate these rights for New Jersey consumers into law.

Why do people lease?

The lure of a lease is its monthly price. Consumers often find that they can lease cars at lower monthly payments than they would if they were purchasing. Advertisements of "no down payments," "low monthly payments" and "more car for your dollar," are naturally very appealing.

The United States Department of Commerce reports the average price of a new car is approximately $23,049. As a result, more consumers are leasing as an alternative to buying new vehicles.

Before you make up your mind and lease that fancy sports car or sport utility vehicle, ask yourself two basic questions:

1) "Will it be cheaper in the long run to buy or lease this vehicle?" and
2) "If I lease, how do I get the best deal?"

What is a lease?

A lease is basically a long-term rental agreement – more than 120 days – to drive a vehicle owned by someone else. You are paying for the right to drive that vehicle and are paying for the value of the car while you drive it. When the lease is over, you must give the vehicle back unless you have the option to buy it.

Before you sign the lease contract, take the time to review it carefully. Write down any questions that may arise during your review, and be sure to pose any questions you may have to the salesperson. Make sure you understand the answers to your questions before signing the contract. Also, be certain to get everything in writing. For example, if you're told that you can turn the car in early without having to pay an extra penalty, don't take the salesman's word for it, get it in writing and as a lease addendum signed by the dealer/lease company, not just on a blank piece of paper signed by the salesman. Usually, if it is not on the printed contract, it is not binding.

Under the C.P.L.A., you are given a one-day cooling-off period to review the lease contract. This innovative provision allows you to bring the unsigned agreement home to review the numbers and to determine whether that agreement is right for you. Not doing so could prove costly.

A lessor may suggest that you waive your right to review the contract; however, you might not want to do that. In fact, you should think long and hard before doing so. Remember, there are very few deals that are so good that they will not be available 24 hours later. The waiver has specific wording which is: I HAVE BEEN ADVISED THAT UNDER THE NEW JERSEY CONSUMER PROTECTION LEASING ACT, N.J.S.A. 56:12-60 et seq., I AM ENTITLED TO REVIEW THE LEASE CONTRACT FOR ONE 24-HOUR BUSINESS DAY BEFORE SIGNING. I CHOOSE TO WAIVE THAT RIGHT AND SIGN THE LEASE NOW. In addition, there is a form provided by the Division of Consumer Affairs that provides the essential elements of the lease disclosure.

How often do you purchase a new vehicle?

When you consider buying versus leasing, you need to ask yourself how long you plan to keep the vehicle. The average consumer buys a new vehicle every four years. If you are one of these consumers or if you trade in your car every two or three years, a good leasing deal may be better for you. If you tend to keep your car for a longer period of time, purchasing a vehicle may be better. The longer you drive a car on which payments are no longer due, the lower the average of your monthly costs are likely to be.

Example: A car priced for sale at $20,000 and with $20,000 financed will cost $555.56 a month for 36 months, $416.67 a month for 48 months or $333.33 a month over 60 months, plus interest costs. When leasing that same car, monthly payments are fixed at a lower amount because you are not paying off the entire purchase price and there is a residual value you have not paid – regardless of the length of the lease.

Another consideration is crucial. At some point, the owner of a car no longer makes payments and drives it for "free." When he or she goes to buy or lease another vehicle, he or she has the car which has been paid for in full as an asset to trade in towards his or her next purchase or lease. In contrast, when a consumer returns his or her leased vehicle, he or she has nothing to trade in towards the cost of a new lease or purchase.

What can you afford?

Many consumers are attracted to lease deals because of advertised low monthly prices. While everyone likes low prices, there may be additional, less-obvious costs associated with leasing. In the long run, these expenses may cost you more than buying the car. Lessors charge any number of fees at the beginning and end of the lease which may not appear when you purchase a vehicle. These fees add up and may make that "good" deal less appealing.

Do you put a lot of wear and tear on a car?

If you are rough on your automobile, then leasing is probably NOT for you. Lessors typically charge for "excess wear and tear." The C.P.L.A. helps you sort out what this phrase means, but if your cars tend to become scratched or dented, you can expect additional charges at the end of your lease. These repairs that need to be made become an out-of-pocket expense for you.

Understand the effect of trade-ins and down payments.

The key thing to remember is that any money you put down on your lease or any vehicle that you have used as a trade-in to reduce your monthly payments is money that you no longer have available to you, and money you will not get back at the end of the lease. While you are able to lower your monthly payment, you will not have that money to purchase another car at the end of the lease. You also will not have one car to trade in for another. At the end of the lease, whether you have put no money down or have put several thousand dollars down, the leasing company will charge you the same amount of money for the car should you choose to purchase it. The only thing you accomplish with a down payment or a trade-in is to lower your monthly payments and reduce the amount you have to pay in taxes.

Be on the lookout for special factory-subsidized lease deals.

To make a lease more attractive to consumers, car manufacturers may adjust the residual value (see page 15) or lower the finance charges on the vehicle being leased. Doing this allows them to offer leases through their companies at lower money factors (see page 13) than those offered by banks. They realize that consumers who lease vehicles from them do more repeat business than consumers who purchase vehicles. The dealer's profit is on the difference between the price the dealer paid for the vehicle and the price the dealer sells the vehicle to the leasing company for, as well as items such as service contracts, alarms and undercoating the car.

Balloon-Note Financing.

A form of auto financing that is similar to a lease that has gained in popularity is called "balloon-note" financing. It is structured like a lease in that the consumer makes payments on the vehicle for the term of the contract (usually a term of 24, 36 or 48 months). At the end of the contract a balance or a "balloon-note" amount remains.

The balloon amount is the value the financial institution determines the vehicle will be worth at that time. This is usually several thousand dollars. That value is the expected market value, which is normally determined using a residual guide in the same manner the residual value of a lease is computed. Thus the consumer only pays the amount the vehicle depreciates during the term of the contract. One difference between balloon-note financing and leasing is that the vehicle is owned by the consumer instead of a leasing company. It is considered a financed transaction so leasing regulations do not apply; however, financing regulations do apply. Another consideration is that, on a balloon-note transaction, the consumer pays sales tax on the entire purchase price of the vehicle. On a lease, the tax is only on the amount of the payments and other taxable items that you may pay for separately. However, there is no tax paid in the beginning on the residual value. Thus, if the consumer wishes to keep the vehicle at the end of the payment portion of the contract there is no additional sales tax due on a balloon-note vehicle, but on a lease there is tax on the residual purchase price.

Since the payment amount on a 48-month (or any term) balloon-note financed vehicle is significantly less than on an installment sales contract where the entire vehicle is paid off at the end of the contract, many consumers find it advantageous to finance this way. When trying to determine what is best for them, consumers should look into all aspects of the arrangements and choose what they feel is best for them. Consumers should also carefully consider every detail of a leasing agreement, such as the number of miles that will be driven as well as being responsible for any excess wear and tear when the vehicle is turned in.

In addition, federal law (signed in the summer of 2005) removes the vicarious liability from the leasing companies, which may cause reduced incentives on balloon-note financing. Consequently, there may be more incentives and lower rates directed toward leases, making balloon-note financing less attractive to consumers.

At the end of your balloon-note contract, you would in most cases have several options. You can pay the final balloon payment and keep the vehicle, refinance the balloon note into equal payments and keep the vehicle, or turn it in to the financial institution and pay the predetermined fee. Keep in mind the contract usually calls for a mileage limitation and condition qualifications, just as there are on a lease.

One of your primary considerations should be, once you have decided on the vehicle you want, to find out the particulars of the different financing and leasing plans available and then pick the one that best suits your needs. If you are not sure if you want a lease or a purchase with a balloon note, you can ask the dealer to compute the payments on each plan on the same vehicle with the same amount paid down. All things being equal, the balloon note should have slightly higher payments due to the higher amount of tax being paid up front. However, this is not always the case because the incentives in the balloon note deal may be different from the incentives in the leasing plan. It is important that all aspects of the program are explained to you by the dealer.

It is also important that the dealer explains to you, and you understand, that it is a balloon note and that the vehicle will not be paid off at the end of the contract. You need to fully understand all of your choices. It is also critical that you read and understand the contract and any associated paperwork prior to signing the paperwork.

Balloon-note financing is done predominantly by captive (manufacturer's) finance companies such as GMAC, Ford Motor Credit, Chrysler Credit, etc. Many larger banks such as Chase may also offer the plan. GMAC calls it "Smart Buy" and has a separate rider that must be signed in addition to the base contract. Ford's contract is called a "Simple Interest Balloon Contract," and DaimlerChrysler's contract is called "Fixed Value." Be cautious because in some contracts the only way you may be able to tell that it is a balloon note is by reading it carefully, especially in the section that spells out the number of payments and the amount of each payment. At that spot the contract should show an additional payment with the large balloon amount.

This is just one more way to obtain a vehicle, but remember that it is up to you to decide what is best for you. If you do not feel comfortable about how the dealer is explaining things or answering your questions, you do not have to lease or purchase the vehicle. It is O.K. to tell the dealer you need more time to do research or to think about whether or not balloon-note financing is the option for you. In addition, any different terms or arrangements should be noted in the contract and if they are not there, they must be on a separate form on the dealership's letterhead and this form must be signed by the dealership's management, not just by your sales representative. Obtaining a vehicle should be a comfortable and pleasant experience and in most cases if a deal feels too good to be true, it usually is.

O.K., so you think leasing is a good idea for you.

You have asked yourself all the right questions and the answers add up to the same conclusion: you want to lease. Now is the time to ask yourself two crucial questions. First, "How does the lessor calculate the monthly payment?" Second, "Can I get a lower monthly rate?" You can't answer the second question unless you know the answer to the first. Once you understand how the lessor sets the monthly rate, you can negotiate with the lessor on even footing.

Know the language of the industry.

The first step is to understand the key terms of the lease. Many of the terms in a lease have special meaning – particularly the key words. Before you negotiate your lease, you should learn these special definitions. You may know terms such as "down payment" and "MSRP," but you may not be familiar with others such as "cap cost" and "gap coverage." Once you have learned the terms used by lessors, you will be better prepared to negotiate your lease. The following glossary will help you to become more familiar with the terms used in leasing and, as a result, help you to be better prepared to negotiate your lease.

Auto Leasing Guide Glossary

Adjusted Capitalized Cost –

This is the amount used in calculating your base monthly payment. It is the Gross Capitalized Cost minus any Capitalized Cost Reduction.

"After-Sell" Items –

This is any product or service sold to the consumer by the dealership which is not otherwise standard equipment. These additions could be items such as a CD player, alarm system, life and disability insurance, extended service contracts, undercoating, etc.

Administrative Fee –

This term is also referred to as a bank fee or an acquisition fee. This is a fee charged by a leasing company to process a consumer's lease application. It is usually incorporated in the Gross Capitalized Cost. However, this amount may be paid up front as a separate charge.

Capitalized Cost, Cap Cost or Gross Capitalized Cost –

This is equivalent to the selling price. This is the starting point for calculating your lease costs and includes a dollar value for the car plus any additional charges such as:

- service contracts;
- additional equipment including a CD player, alarm system, undercoating, etc.; and
- any outstanding prior balance on a trade-in.

You do have the option to be provided with a separate list of the items included in this cost if they are not already listed in the contract. Also included is the seven percent New Jersey Use Tax which as of October 1, 2005, is calculated in a different way than it was in the past.

Capitalized Cost Reduction –

This is similar to a down payment. This can include amounts to be paid in cash, noncash credit, rebate and/or trade-in allowance. Since this reduces the monthly lease payments, it is taxable, except for the trade-in, which is not taxable. This is one way to reduce your monthly payment but it is not money that you will recover at the end of the lease. You are basically paying part of the monthly payments in one lump sum, thereby reducing the amount due each month.

Car Lease –

This is a form of renting a car for a longer term (over 120 days), as defined by New Jersey law. The vehicle is usually leased at a dealership. The vehicle and the lease are then purchased by a leasing company. The lease is memorialized in a written contract. There are two types of leases: closed-end leases and open-end leases.

Closed-End or "Walk-Away" Lease –

A lease where the lessee returns the car without owing any money at the end of the lease term except for excess mileage and wear and tear. "Open-End Lease" is the other type of lease and is defined here in the glossary. (See page 14 for the definition of "open-end lease.")

Depreciation –

The value that the vehicle loses during the lease term. It is the difference between the vehicle's capitalized cost and the vehicle's value when the lease expires (residual value).

Disposition Fee –

This is very important for consumers to understand before signing the lease. A "disposition fee" is defined also as a reconditioning fee, an end-of-term fee or a termination fee. It is a charge, usually no more than $500, that must be paid upon termination of the contract. If the consumer has made a security deposit, the disposition fee could be taken from that and the consumer will be billed for the remaining balance, if any remains.

Down Payment –

See "Capitalized Cost Reduction."

Early Termination –

There are two basic ways of pursuing the early termination of a lease. This can be done by paying the remaining amount on the lease and returning the car to the lease company, or by mailing the remaining lease payments as well as the purchase price and then buying the vehicle.

You may be able to negotiate a reduction of any of the unearned rent charge when you terminate your lease early. Read the contract carefully to understand how early termination charges will be calculated. Remember, if you default on the lease, the charges can be substantially more, depending on the contract.

Excess Mileage Charge –

Some leases charge from 10 to 30 cents a mile for any miles over the agreed amount in the contract. For example, .20 x 10,000 miles over the allowable miles = $2,000 due at the end of the lease. Check for a "per-mile charge" in writing and be realistic about your mileage before you sign the contract. The contract allows for a standard number of miles, but you do have the option to purchase additional miles. You may want to consider padding the miles that you expect to use since it is less expensive to contract for the additional miles before the contract is signed, than to pay a charge that is calculated per mile after the lease is terminated. Determine the amount that you will be charged over the mileage that you have agreed to in the contract.

Gap Coverage or Gap Insurance –

This is a special type of coverage offered to consumers who lease automobiles. It is intended to protect consumers, if the leased vehicle is lost or stolen, for the difference or "gap" between the consumer's actual outstanding lease obligations and the amount of coverage a consumer's auto insurance policy provides. Typically, auto insurance policies pay only the market value at the time of the loss of a vehicle, while leases frequently require the lessee to pay all of the leased obligations. The difference could be thousands of dollars. This coverage may be included in the lease agreement. Check to see if the coverage is already provided so that you do not pay for it twice. Gap coverage is not required by law and technically is not "insurance."

Inception Fees –

This refers to any and all fees that must be paid up front by the consumer at the time of delivery. Look for this under "Amount Due at Lease Signing or Delivery" on the face of the contract.

Lease Contract –

A lease contract is the written document which sets forth all of the terms of the entire lease transaction, and it is typically signed and a copy is issued to the consumer when he or she picks up the vehicle.

Lease Rate –

This is the equivalent of the interest rate on a purchase.

Lease Term –

This is the number of months the lessee will rent a vehicle.

Lessee –

This is the person who will lease a vehicle.

Lessor –

The lessor is the owner of the vehicle that will be leased.

Maintenance Agreement –

This is a contractual agreement arranged by the dealer with the lessee for routine maintenance services, such as oil filter and oil changes, tire rotation and chassis lubrication. It is typically an after-sell item that requires an additional fee incorporated in the overall lease price or capital cost. You can negotiate the cost of the maintenance agreement with the salesperson.

Manufacturer's Suggested Retail Price or "MSRP"–

This is the list price of the vehicle or the window sticker price. On new vehicles this is found on the "Monroney Label" that is usually attached to a window on the vehicle. You should make sure you get a copy of it, if not the original, when you take possession of the vehicle.

Money Factor –

It is similar to an interest rate on a car loan when purchasing a vehicle. State and federal law do not require lessors to disclose this key term of your contract, but it is an important factor that affects the amount of your monthly payment. The higher the money factor, the higher your monthly payment will be. The figure is typically negotiable, so have the dealer get you the lowest rate. The money factor is not expressed in an annual percentage rate, so you need to know how to calculate it. The money factor typically appears as a decimal of four or more digits that, when multiplied by the number 24 (no matter what the term of the lease), will give you a good sense of what your annual interest rate will be. The closer the four-digit decimal is to .0000, the lower the monthly payment will be. The better your credit rating is, the lower you should expect the money factor to be.

Example: <u>24 x .0045= 10.8%</u> or <u>24 x .0065=15.6%</u>

Motor Vehicle Fees –

These are the actual fees the dealer pays the State to title and register the vehicle. Keep in mind that you are required to pay the yearly registration fees up front for the number of years in your contract, up to four years. If your lease is scheduled to end mid-year such as with a 30-month lease, you would be required to pay for three years of registration fees. These fees can be paid up front or incorporated into the gross capitalized cost of the lease. In addition, there is a $1.50 fee for each tire which, including the spare, would total $7.50. Also, as of July 15, 2006, there is a 0.4% surcharge on new vehicles on which the sale price of the vehicle is $45,000 or more. In the case of a lease it will be the gross capitalized cost of the vehicle. This surcharge will also be added on if the average E.P.A. gas mileage is less than 19 miles per gallon (MPG). This figure is obtained by adding the city and highway mileage on the window sticker and dividing by two. This applies to any vehicle registered as a noncommercial vehicle. This money is collected up front by the dealer and submitted to the New Jersey Division of Revenue. The only exception will be if the average MPG is over 40 or the vehicle is certified as a "zero emission vehicle."

Open-End Lease –

This is a lease in which the lessee's liability at the end of the lease term is based on the difference between the residual value of the leased vehicle and its realized value (the amount for which the car can be sold). This type of lease is not usually used for consumer leasing. It is used mostly by businesses when leasing a large number of vehicles at one time.

Price Quote –

The price may truly be a good one or it may appear competitive because it does not include all of the other costs. Also, the cost of the vehicle is negotiable so if you can get the dealer to lower the cost, it will lower your monthly payment. After you negotiate your best deal, make sure that you get a breakdown of any additional charges such as bank fees, taxes, documentary fees or motor vehicle fees. You can then shop and compare the overall cost of each deal.

Purchase Option at the End of the Lease Term –

This is the price stated in your contract for which you may purchase the vehicle at the end of the lease term, and it is usually based on the residual value. If you do not have the option to purchase the vehicle, it should be stated in the lease.

Refundable Security Deposit –

This amount is used to cover any damage or outstanding charges due when the lease term expires. There is no requirement for the lessor to pay interest on the money held.

Rent Charge –

When a consumer purchases a vehicle, this is referred to as a finance charge. This is the amount charged in addition to the depreciation and any amortized amounts.

Residual Value –

This is the value of the vehicle at the end of the lease. It is used in calculating the base monthly payment. This value is usually nonnegotiable and is based on a percentage of the MSRP as calculated by industry guidebooks which may vary between different leasing companies. Sometimes leasing companies keep this number a little high because the higher the residual, the lower your monthly payment and the more attractive and affordable the deal. However, if you plan to purchase the vehicle at the end of the lease, the higher residual would generally make the purchase price higher.

Retail Order Form –

A retail order form may be called a Retail Buyers Order (R.B.O.) and is an agreement executed by the seller and purchaser or, as in this case, the lessor and lessee, which memorializes in writing the negotiated selling price or negotiated monthly lease payments along with various other material terms of the deal. The lease contract should agree with the terms of the retail order form and if during the course of negotiations the terms change, an updated retail order form should be completed prior to the execution of the final lease contract. Of course, you should be given a copy when you sign it.

Sales Tax or Use Tax –

As noted previously, the New Jersey tax law regarding leases changed dramatically effective October 1, 2005. By making these changes, New Jersey fell in line with 40 other states, making the provisions the same in 41 states. Previously, in New Jersey, taxes on leases were almost always calculated on the difference between the Gross Capitalized Cost and the Residual Value. For example,

if the Gross Capitalized Cost is $25,000

and the Residual Value is . . . . –$10,000

the tax is based on the difference . . . . =$15,000.

Thus, the 7% (tax rate) x $15,000 = $1,050 which was the total tax. Under the October 1, 2005 law, the consumer is directly responsible for paying the tax as opposed to the previous law where it was the responsibility of the leasing company. You will not be required to physically make the tax payments. In general, the tax is based on the total dollar amount of the lease payments and is collected up front and paid by the dealer, at the beginning of the lease, in a manner similar to the way it is done when a consumer is purchasing a motor vehicle. So, in this situation, the tax should be included in your contracted lease payment which is similar to the way it was done on previous leases as well as retail purchases.

You, the consumer, should make sure you understand the tax information that is listed and disclosed on the lease contract.

The major provisions of the tax law, effective October 1, 2005, are as follows:

1) The trade-in amount given by the dealer is not taxable. Previously, that amount, which actually reduces the payment amount, was taxable. This is similar to the way it is handled on a retail purchase.
2) Refundable security deposits are not taxable.
3) Rent charges (finance charges) are taxable. Previously, they were not taxable.
4) A manufacturer's rebate or reimbursed coupon is taxable.
5) A cash down payment is taxable.
6) The following add-on items are taxable: equipment or accessories added by the dealer, gap coverage, service agreements, maintenance contracts, etching programs, etc.
7) Leasing company/bank administration /acquisition fees are taxable.

8) Credit life, accident and health, and unemployment insurance is not taxable.
9) Motor vehicle fees paid to the State are not taxable. However, documentary fees, which are paid to the dealer, are taxable.
10) People leasing vehicles from a New Jersey dealer who are out-of-state residents or have dual residences, <u>and</u> who are going to register and use the vehicle in another state, do not have to pay New Jersey taxes. Of course they will be responsible for the taxes in the state in which they register the vehicle.
11) Consumers who have leased a vehicle in New Jersey and paid the taxes in New Jersey, and who then, during the term of the lease, move to another state, may file for a pro-rata refund based on the remaining payments due on the lease.

As you can see, this is complicated because some of the components of the lease are taxable and some are not taxable. Keeping this in mind, the tax amount, which is then added to and included in the monthly lease payment, is subject to rent/finance charges, which in turn are taxable. It may be advantageous to you to obtain documentation from the leasing dealer regarding how the tax was calculated.

Service Contract –

Also known as an "extended warranty," this is a contract sold by the dealer on top of the manufacturer's warranty. Like the manufacturer's warranty, service contracts typically cover the major components of a vehicle, such as the engine and transmission. However, they usually last longer than the average manufacturer's warranty in time and in mileage. You should make sure that you get a complete breakdown of what is covered and discuss whether the coverage is limited or not. You may still be responsible for the routine maintenance of the vehicle either way. Also, most cars have a three-year warranty, so if you choose a three-year lease, you may not have any need for a service contract. Remember, service contracts are never mandatory, but they may be worthwhile if you plan to purchase the car at the end of the lease.

Total of Base Monthly Payments –

This is the difference between the Adjusted Capitalized Cost and the Residual Value plus the Rent Charge, which is then divided by the lease term to get the Base Monthly Payment, which when multiplied by the number of months for which the car is leased, gives you the total.

Wear and Tear –

This is the incidental damage done to a car while leased. If this is deemed "excessive," this will cost you money at the end of the lease when you return the car. There is no "formula" for determining what defines "excessive." Individual leasing companies determine what they are going to charge. The C.P.L.A. requires that a description of the standards used by the lessor in determining excessive wear and damage be spelled out in the contract. Many leasing companies are inspecting the vehicles ***prior*** to the end of the lease. If there is damage, consumers may find it less expensive to repair it themselves rather than pay the amount the leasing company may charge. New Jersey's laws state that the lessee may obtain, at his or her own expense, a professional appraisal detailing the amount required to repair or replace parts or the amount by which the excessive wear and tear reduces the value of the vehicle. This professional appraisal shall be performed by an independent third party agreed to by both the lessor and the lessee, and the appraisal shall be binding on the parties.

There is nothing mystical about how your lease payment is configured if you know how the transaction works. Before you look at the leasing process, let's review the basics of buying a car.

When buying a new vehicle, one of the first things you probably do when you walk into the dealership is check the selling price of the car you intend to buy. The car has something called a Monroney

Label (commonly known as the window sticker) on it, which lists the MSRP. Very few people offer to pay the sticker price. Consumers typically look at the sticker price and begin negotiations. The ultimate cost is determined by your counteroffer based on this price, how much you will seek for your trade-in and how much you are able to provide as a down payment. Once the haggling is over, many consumers begin to think about financing the car and getting the best interest rate, knowing that the higher the interest rate, the more they will pay each month and, eventually, over the life of the deal. A smart consumer not only shops for the best purchase price, but also shops for the best interest rate, expressed as the annual percentage rate (A.P.R.). The dealer may have a good rate, but your credit union or local bank may have a better rate. The choice is yours.

Now, let's look at leasing.

When people lease, a different approach is often used. Leasing advertisements emphasize low monthly payments. The monthly payment is important – that is, how much you will have to pay each month – but if you ignore how that payment is reached, you surrender the best chance of negotiating a better deal and a lower payment.

The place to start is still at the MSRP. This figure gives you a rough idea of what the car would cost if you were buying it. It is also probably not far off from the Gross Capitalized Cost of the vehicle – the starting figure that determines your lease costs and monthly payments.

Under State law, the lessor has to list the MSRP on the contract if the Gross Capitalized Cost is more than the MSRP. Once you know the Gross Capitalized Cost, you are ready to make crucial evaluations. If you are trading in your car as part of the deal, the credit for your trade should be subtracted from your Gross Capitalized Cost. If you make a cash payment toward your lease, that should be subtracted from your Gross Capitalized Cost, as well. Once you have subtracted these payments and added in any fees charged by the lessor, you have reached your Adjusted Capitalized Cost.

Now you're ready to do some more subtracting. The banks, the lessor and financial institutions all keep estimates of what your leased car will be worth when your lease is over. This is known as the residual value of the vehicle. In theory, this residual value is determined by a percentage of the vehicle's original sticker price or MSRP. These are exact percentages which are printed in automotive lease guides provided by leasing companies for internal use by automobile dealers when doing business with leasing companies. You will not have use of the car when the lease is over, so you do not pay for that portion of the car's costs. You should subtract the residual value from the Adjusted Capitalized Cost. This leaves a lump sum which you will pay over the life of your lease. That means you will pay finance charges on the value of the car for the time you have it. Remember, you are also paying finance charges on the residual. These are known as the "Rent Charges."

Learn how to calculate the interest rate which is also known in leasing as the "money factor."

What interest rate? You are indeed paying interest even though lessors are not always eager to disclose this fact, much less the rate, to you. This may also be called the "rent factor" or "rent charge." New Jersey law does not require a lessor to tell you about this charge, but you should insist that he or she inform you about this interest rate.

If you insist on being told the interest rate, the lessor will quote a rate that will likely be in the form of a money factor which is an interest rate. Nevertheless, it is not hard to translate the money factor into a finance rate, once you learn how. This can be done simply by multiplying the money factor by 24. This is explained in greater detail in the Glossary under "Money Factor." This process will convert the money factor to a percentage which is closer to the A.P.R. that you are more accustomed to seeing. Compare that to the A.P.R. on a purchase and you will have crucial information on the interest rate. You also need to know whether this is the best rate the lessor can give you. Your lessor usually has an array of financing institutions from which he or she can get the financing. If you don't like the rate that you are quoted, make him or her shop for a better rate. Remember, your goal is to get the lowest possible payment.

What are your insurance needs?

Even after you've done all of this, there are other issues to consider. Not only will you need to purchase the automobile insurance coverages that the State of New Jersey and the leasing company require, such as liability, collision and comprehensive, but it may be advantageous to purchase a coverage sometimes called "Gap Insurance." Remember, Gap coverage is technically not insurance but it is a type of coverage that protects you from owing the difference between an insurance settlement and the leasing company's payoff figure. There is usually a difference between the value of the car at any point in time and the amount actually owed on the lease. In most cases, the value of the car is less than the amount still owed on the lease. Many leasing companies will automatically provide you with Gap coverage. Ask your dealer if Gap coverage is included in your contract. If it is, you should not be charged any additional insurance costs.

The Buy-Out

Most leases give the consumer an opportunity to buy the car at the end of the lease. This is known as the purchase-option price. If you do not have the option to purchase, it should be clearly stated in the lease. The purchase-option price is set by the leasing company based on guidelines which establish the value of the vehicle at the end of a lease. This purchase-option price is usually the residual value, although it may be higher. The consumer may want to renegotiate the purchase-option price, and the time to do this is at the conclusion of the lease. Either the exact dollar amount or the method for determining the purchase price must be spelled out in detail.

Advertising Requirements for Lessors

The C.P.L.A. also requires a lessor who advertises in print and on television to include the following disclaimers in at least 10-point boldface type:

- that the transaction is a lease;
- the amount of the payment required at the inception of the lease, or that no payment is required;
- the number, amounts, due dates, or periods of scheduled payments and the total amount of all of the payments;
- the name and address of the dealer; and
- a toll-free telephone number for more information.

If the advertisements are broadcast, the information must be stated while the commercial is being aired. All of the text that is flashed across the screen must be displayed for at least five continuous seconds. Anyone who calls the toll-free number must be provided with the following information:

- the advertiser's business name and address;
- identification of the transaction as a lease;
- whether the advertised price refers solely to a business lease;
- whether the transaction is an open-end or closed-end lease;
- the number, amounts, due dates, or periods of scheduled payments and the total amount of all of the payments;
- all other itemized payments, such as security deposits or capitalized cost reductions required at the start of the lease;
- the cost of the lease;
- the MSRP;
- a statement that the price includes all of the costs to be paid by the consumer except for licensing, registration and taxes;
- whether you have the option to purchase the advertised

vehicle, at what price and over what period of time;

- how the advertiser determines any liability that is imposed on the customer at the end of the lease;
- a statement indicating that the customer will be liable for the difference between the estimated value of the vehicle and its actual value when the lease is up; and
- a statement which clearly explains what is considered standard equipment; whether the transmission is standard or automatic; whether the brakes and steering are power or manual, and whether the vehicle has air conditioning.

What to expect at the end of the lease.

In most cases, the leasing company will contact you to give you instructions for returning the vehicle. They may want to inspect the vehicle prior to your turning it in. They usually want the vehicle returned to the original dealer, but alternate arrangements can usually be worked out if another dealer works with your leasing company. To protect yourself, you should always coordinate with the leasing company a mutually agreeable location and date for the return of the vehicle at lease maturity. If you keep it longer than the maturity date, you may be subject to additional charges. Remember, if your vehicle has excess wear and tear, as defined in your contract, it may be more economical for you to repair it prior to returning it rather than taking the chance that the leasing company's estimate will be more expensive. Read your contract carefully for all of the details. It is best to read it prior to signing the lease. When you do turn in your vehicle, you are responsible for signing an odometer statement certifying the end of lease mileage. You should demand a dated condition report with both your signature and that of the representative accepting the car, the mileage clearly stated, and a detailed review of the condition of the car at the time that you turn it in. If you do not get this receipt, it could cost you money down the road. If the leasing company is going to assess you for damages, the company is required by the C.P.L.A. to do so within 10 business days of the return of the vehicle. You then have seven business days to demand a third–party inspection, which would be binding on both parties. In addition, they are required to return your security deposit within 15 business days if there are no charges against it.

If you are going to purchase your vehicle at the end of the lease term, you should read the contract carefully and follow the specific instructions. In many cases, the leasing company may be able to finance the purchase for you.

Remember, by having your specific obligations clearly indicated in your contract, it is less likely you will be upset by a “surprise.” This abundance of information will also decrease the likelihood that anyone will be able to take advantage of you. If you take the time to read your entire contract, front and back, before you sign it, you will understand the responsibilities and obligations of both the lessor and the lessee.

Conclusion

The Division of Consumer Affairs can make no recommendations about the benefits of leasing versus buying. If you are thinking seriously about leasing, educate yourself about the lease agreement to be certain that the deal you are considering is truly the deal that is right for you.

Don't Be Taken for a Ride

Guide to Auto Leasing

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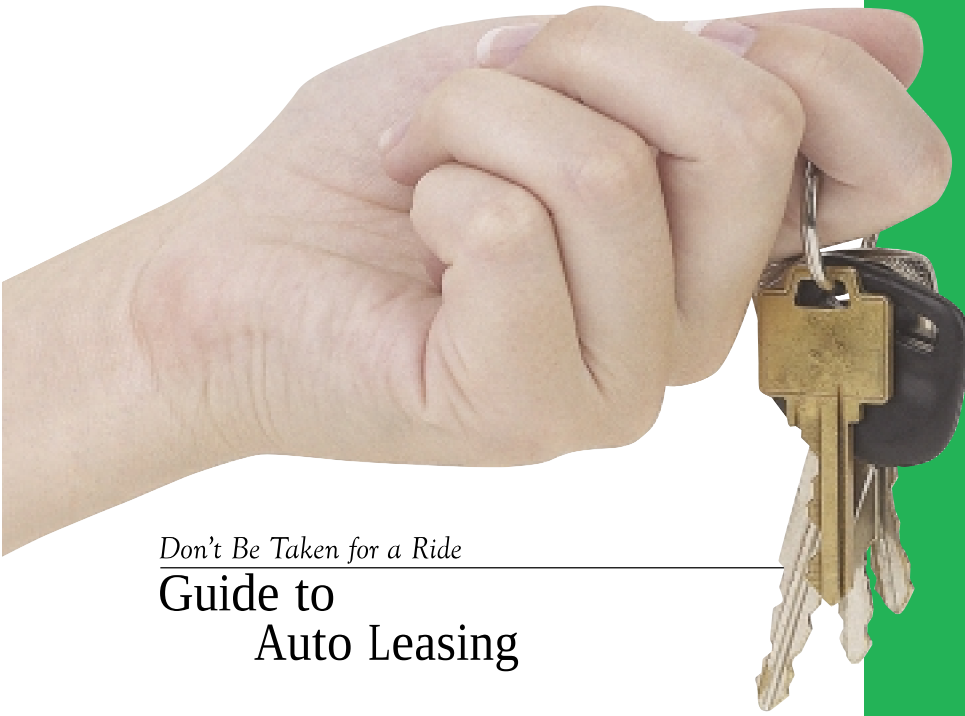

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