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Explanatory Notes for Educators

developed by

Consumer and Community Affairs, Federal Reserve Board

with assistance from

Federal Reserve Banks of the Federal Reserve System

American Automobile Manufacturers Association

American Financial Services Association Education Foundation

Arizona Attorney General

Association of Consumer Vehicle Lessors

Cooperative Extension System

Federal Trade Commission

Florida Attorney General

National Automobile Dealers Association

National Vehicle Leasing Association

A brochure, *Keys to Vehicle Leasing--A Consumer Guide*, is available from Publications Fulfillment, Mail Stop 127, Board of Governors of the Federal Reserve System, Washington, DC 20551. Information on vehicle leasing (including a glossary) is also available on the Federal Reserve Board's web site, at <http://www.federalreserve.gov/pubs/leasing/>.

Consumer Leasing Act

- **Regulation M**
 - consumer leases
 - more than 4 months
 - \$25,000 contract or less



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2. Consumer Leasing Act covers

- consumer (not business) leases for personal property (can be a car, furniture, computer, cell phone, etc.)
- term must be more than 4 months
- contractual obligation of \$25,000 or less, which is set by statute, not regulation

Note that this amount is not the value of the asset but the value of the contract.

The federal Consumer Leasing Act is implemented by Federal Reserve Board Regulation M. Copies of the regulation and the act are available from the Board's web site at <http://www.federalreserve.gov/regulations/regref.htm#m>.

Some states and localities also have laws that apply to leases, especially with respect to sales taxes, personal property taxes (if any), license and registration fees, and vehicle inspections. Check with your state's attorney general's office to learn more about laws that apply in your state.

Keys to Vehicle Leasing

- **Leasing is different from buying**
- **Consider beginning, middle, and end-of-lease costs**
- **You can compare lease offers and negotiate some terms**
- **Know your rights and responsibilities**



3

3. Core messages consumers need to remember

Leasing also requires that consumers learn a whole new vocabulary. Use the glossary to define terms as you go through this presentation.

Terms you may need to define here are:

Lessor

Lessee

Leasing is Different from Buying

- Ownership
- Up-front costs
- Monthly payments
- Early termination
- Vehicle return
- Future value
- Mileage
- Excess wear
- End of term



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4. Refer consumers to the “Leasing Is Different from Buying. Here’s How....” section of the *Keys to Vehicle Leasing* brochure

Note that early termination may be voluntary or involuntary (for example, the vehicle may be returned early, stolen, or totaled, or you may default on the lease). In most cases of early termination, you must pay an early termination charge. Defaulting on your lease--that is, failing to make payments--also is considered an early termination, and early termination charges will apply.

Lease or Buy Considerations

Ask yourself

- **Typically, how often do I get a new vehicle?**
- **Do I maintain my car in good condition?**
- **How many miles per year do I drive?**



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5. In general

Leases typically run 2 to 4 years; loans typically have 4- to 6-year terms. In general, the longer you keep your vehicle, the more likely you are to be a candidate for owning rather than leasing.

In addition to keeping the car in good mechanical condition, consider how likely you are to get permanent stains or holes in the seats, and whether you park where the car might get excessive dings and chips in the paint. In a lease, you may find excessive wear charges assessed for not keeping the car in good condition. If you own, the trade-in or resale value of your car may be affected if you don't keep it in good condition.

Match the miles you drive to the lease terms. Most leases limit the number of miles you may drive (often to 12,000–15,000 per year). You can negotiate a higher mileage limit and pay a higher monthly payment. If you own the vehicle, higher mileage will lower the vehicle's trade-in or resale value.

Consider **Beginning, Middle,** and **End-of-Lease Costs**

- **Acquisition fee**
- **First monthly payment**
- **Capitalized cost reduction**
- **Refundable security deposit**
- **Title, registration, & license fees**
- **Freight charges**
- **State and local taxes**



6

6. Refer to the glossary for the definitions of terms in this section. Terms you may need to define are:

Acquisition fee

Capitalized cost reduction

Although the security deposit is refundable, if you have any excess mileage charges or excessive wear charges, these amounts may be deducted from your security deposit.

Different states treat some of these items differently. For example, some states require that you pay all state taxes up front, while others require that you pay the taxes monthly during the term of the lease. If you move from one state to another, you may have to change the way you pay the taxes on the leased vehicle.

Consider Beginning, Middle, and End-of-Lease Costs

- **Monthly payment**
- **Maintenance costs**
- **Insurance premiums**
- **If applicable:**
 - Early termination charges
 - Sales and use tax
 - Inspections
 - Personal property tax
 - Late-payment fees



7

7. Refer to the glossary for the definitions of terms in this section. Terms you may need to define are:

Early termination

Early termination charge

“Middle costs” do not occur only in the “middle” of the lease (for example, in month 18 of a 36-month lease), but rather during the lease. Some of these costs may be once-in-a-while costs, such as registration and inspection fees, while others are recurring costs, for example, the monthly payment.

Most lessors require that you carry “100,000/300,000” insurance coverage. If you have not carried this much insurance before, you will see your premiums go up. Insurance companies do not usually charge different rates for leased and owned vehicles.

Consider Beginning, Middle, and **End-of-Lease** Costs

Return

- **Disposition fee**
- **Excessive wear charges**
- **Excess mileage charges**

Buy

- **Purchase-option price**
- **Purchase-option fee (if any)**



8

8. Refer to the glossary for the definitions of terms in this section. Terms you may need to define are:

Disposition fee

Excessive wear

Excess mileage

At the end of the lease, you may have several options:

- turn in the car and pay any end-of-lease charges due
- purchase the car (if you have a purchase option)
- extend the lease for a short term (typically month to month for up to 6 months)-- usually under the same terms as the original lease
- re-lease the same vehicle; new terms and payments usually apply

Compare Offers and Negotiate Terms

- **Monthly lease payments**
- **End-of-lease payments**
- **Purchase option**
- **Gap coverage**



9

9. Refer to the glossary for the definitions of terms in this section. Terms you may need to define are:

Gap coverage (see slide 11)

Some items in a lease are generally not negotiable (for example, a purchase option and late charges), but you should compare the terms of different leases to make sure you're getting the best terms.

The monthly payment may be negotiable, but it is really a function of other items in the lease. If you have negotiated the agreed-upon value of the vehicle, the capitalized cost reduction, the length of the lease, the mileage allowance, and the residual value, you will have, in effect, negotiated your monthly payment.

Compare Offers and Negotiate Terms

- **Agreed-upon value of vehicle (price)**
- **Up-front payments, including capitalized cost reduction (down payment)**
- **Length of lease**
- **Mileage allowance & per-mile charges**



10

10. Some items are truly negotiable.

The capitalized cost reduction is negotiable and will affect the monthly payment amount. The more you put down, the lower your monthly payments will be--but the higher your up-front costs will be.

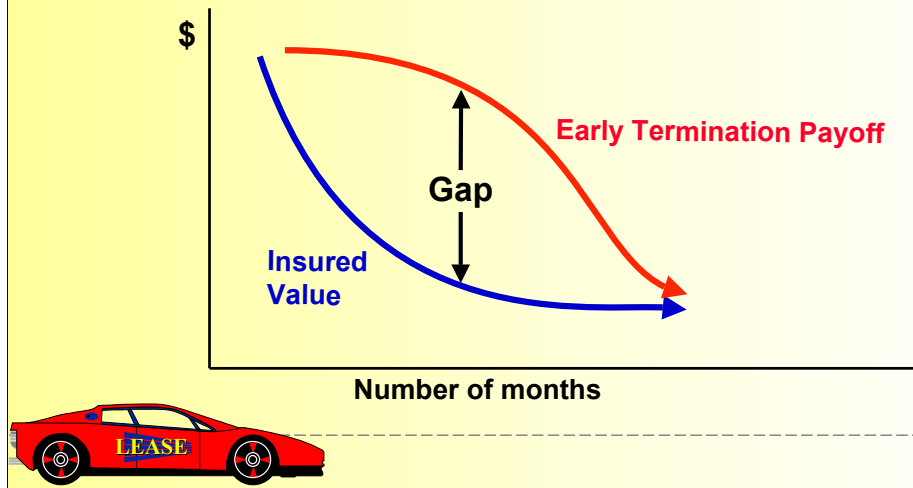
Most leases are for 2 to 4 years, with an average of 35 months (almost 3 years). Depreciation rates for cars are highest during the first 2 years; rates drop some in years 3–5, and then rise as the car gets older (and may have more things go wrong with it).

In general, it's less expensive to "buy" extra miles up front, by getting a lease with a higher mileage allowance, than to pay an excess mileage charge at lease-end. You "buy" these extra miles by having a lower residual value (that is, more depreciation on the car)--a car with 45,000 miles on it at the end of 3 years is worth less than a car with 36,000 miles on it. However, most lessors won't give you a rebate if you drive fewer miles than allowed, so it's best to get a lease with the mileage that most closely approximates what you'll actually drive.

Don't forget to negotiate the value (price) of the vehicle! Ask about rebates and incentives, and go prepared with information on dealer invoice costs (you can get this from various books and web sites). If there are manufacturer's incentives for a particular vehicle, the dealer may already be passing these on to you and there may not be much room for negotiation on the price of the car.

The Gap

The difference between the insured value of the vehicle and the amount due for early termination



11. The gap is the difference between the early termination payoff amount--the top line in the graph--and the insured value of the vehicle--the bottom line in the graph--at any point in time during the lease.

An example:

Your car is totaled in an accident halfway through your lease. The adjusted lease balance is \$16,000. Your insurance company says the book value of the car is only \$15,000, and you have a \$500 deductible; the insurance company pays \$14,500. The difference between the \$16,000 you still owe on the lease and the \$15,000 insured value is “the gap.” If you don’t have gap coverage, you are responsible for the \$1,000 gap and the \$500 deductible. If you do have gap coverage, it will cover the gap--but you are still responsible for the \$500 deductible.

Many lessors will “waive” gap liability so that you won’t have to pay anything extra to have gap coverage. In reality, this type of gap coverage is “paid for” in the fees the lessor is charging you and other lessees whose vehicles are not totaled. Other lessors will not waive the gap liability but may offer gap coverage at an additional charge (usually in the \$400–\$500 range). You can also shop around for gap coverage offered by insurers and other third parties.

In general, gap coverage, or a waiver of gap liability, is important.

Know Your Rights and Responsibilities

- Use for agreed-upon number of months and miles
- Service under warranty or recalls
- Turn it in, pay any end-of-lease charges, and “walk away”
- Buy the car if you have a purchase option



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12. Read your contract thoroughly to understand what you're agreeing to.

There is no federal “cooling off” law that covers purchases or leases at vehicle retailers! If the dealer/lessor says you have 3 days to change your mind and turn the car back in, make sure to get that promise in writing!

Note to Instructor:

Show a sample lease contract so that consumers understand the difference between the required disclosures and the full contract.

Know Your Rights and Responsibilities

Returning the vehicle

- **Early**
 - early termination charges
- **At end of lease**
 - excess mileage charges, if any
 - excessive wear charges, if any



13. You are responsible for abiding by all the terms and conditions of the contract. Know what you're agreeing to before you sign. If you're feeling pressured, it's OK to say you need time to think about this and "sleep on it." Manufacturer incentives and rebates will have time limits. However, there are a lot of cars and a lot of lessors, and it's likely that other promotions and incentives will be offered in the future.

A Lease's Monthly Payment

$$\begin{aligned} & \text{Gross cap cost} \\ & - \text{Reductions} \\ & \hline & = \text{Adjusted cap cost} \\ & - \text{Residual value} \\ & \hline & = \text{Depreciation} \\ & + \text{Rent} \\ & \hline & = \text{Total for calculating} \\ & \quad \text{base monthly payments} \\ & \div \text{Lease term in months} \\ & \hline & = \text{Base monthly payment} \end{aligned}$$



14. This slide gives an overview of all the parts of the lease disclosure for a lease having monthly payments. The following slides go through these parts step-by-step.

Gross Capitalized Cost

Agreed-upon value

(Price plus freight and options)

+ Insurance that is capitalized

+ Prior loan or lease balances

+ Acquisition or documentation fee

+ ???



15

15. Refer to the glossary for the definitions of terms in this section. Terms you may need to define are:

Gross capitalized cost

Prior loan/lease balance

Acquisition/documentation fee

Other add-ons include

- license and registration fees
- optional service contracts (commonly called extended warranties) and contracts for mechanical breakdown coverage
- any up-front sales taxes

Consumers can, and probably should, ask for an itemization of the gross capitalized cost.

Capitalized Cost Reduction

Cash

+ Trade-in allowance

+ Rebates/dealer incentives

**Think of capitalized cost reduction
as pre-paid depreciation.**



16

16. Refer to the glossary for the definitions of terms in this section. Terms you may need to define are:

Rebates

Incentives

It's important to think of the capitalized cost reduction (similar to a down payment) as pre-paid depreciation. To understand that, look at the example in the sample leasing form and work through the numbers without the \$3,500 capitalized cost reduction.

Also, because you are "financing" less when you make a cap cost reduction, the rent charge will be less. If you were to have a lower cap cost reduction, the adjusted cap cost would be higher--so the rent charge would go up.

Residual Value

Assumes that Residual Value = Purchase Option Price

Higher Residual

Monthly payment is lower ↓

Purchase-option price is higher ↑

Lower Residual

Monthly payment is higher ↑

Purchase-option price is lower ↓

Negotiating a higher mileage allowance
will lower residual value.



17

17. Refer to the glossary for the definitions of terms in this section. Terms you may need to define are:

Residual value

Depreciation

MSRP

The residual value is usually set according to guidelines from the third-party assignee/lessor that purchases the lease from the originating dealer. It is usually based on guidebooks or historical data.

It is usually set as a percentage of the MSRP--**not** the agreed-upon value the consumer has negotiated.

There is a direct relationship between the residual value and the monthly payment, and between the residual value and the purchase-option price, assuming the fixed-purchase-option price equals the residual value.

If you are pretty sure you will be turning the car in at the end of the lease, you may want to look for a higher residual value, which will lower your monthly payments. However, if you decide to buy the car at the end of the lease, the purchase price may be higher.

If you think beforehand that you may want to buy the car at the end of the lease, you may want to look for a low residual value. Keep in mind that a lower residual value will mean higher monthly payments, but lower total rent charges.

If you've negotiated more miles in your lease (for example, 18,000 instead of 15,000), you will have a lower residual value (a car with 54,000 miles on it is worth less than a car with 45,000 miles), which means you will face higher monthly payments, but either a lower purchase price or less chance of excess mileage charges.

Depreciation— You Pay For What You Use

Lease

Pay the stated depreciation during the lease term

$$\begin{array}{r}
 \$22,300 \text{ gross cap cost} \\
 - \quad 12,350 \text{ residual value} \\
 \hline
 = \quad 9,950 \text{ depreciation} \\
 \div \quad 48 \text{ months} \\
 \hline
 = \quad \$207 \text{ avg. depreciation} \\
 \text{per month}
 \end{array}$$

Finance

Pay the full cost during the loan term

$$\begin{array}{r}
 \$22,300 \text{ cost of vehicle} \\
 \div \quad 48 \text{ months} \\
 \hline
 = \quad \$465 \text{ avg. cost} \\
 \text{per month}
 \end{array}$$



18. This example is greatly simplified, but it helps show why leasing usually has lower monthly payments than financing when purchasing a vehicle.

Monthly lease payments are usually lower than monthly loan payments because you are paying only for the vehicle's depreciation during the lease term, plus rent charges (like interest), taxes, and fees. Monthly loan payments are usually higher than monthly lease payments because you are paying for the entire purchase price of the vehicle, plus interest and any other finance charges, taxes, and fees.

Keep in mind that if you buy the car and finance it, even though you pay the full cost over the term of the loan, you may keep the car longer than the loan (for example, the loan in the example is for 4 years, but you may keep the car for 8 years).

Rent Charge

- **Cost of money over time**
(Similar to interest on a loan)
- **Not an APR**



19

19. Refer to the glossary for the definitions of terms in this section. Terms you may need to define are:

Rent charge

APR

The rent charge may be referred to as the lease charge. The number used to calculate the rent charge may be referred to as the lease rate, money factor, or lease factor.

There is no annual percentage lease (APL) rate. Lessors are not allowed to use this term.

Note to Instructor:

The difficulties in calculating an annual percentage lease rate stem from the need to assume a value for all but one of the unknowns in the lease equation in order to arrive at a unique solution to the mathematical formula for a lease rate. Because it's impossible to know at lease inception what the consumer will do at lease-end (purchase the car, lease a different car, re-lease the same car) and because the value of the purchase option and the residual value are part of the formula, there is no unique solution to the lease rate calculation. Different assumptions about depreciation and residuals can change the annual percentage lease rate for the same payment stream, even apart from any issue of manipulation by dealers, lessors, or assignees.

Federal Consumer Leasing Act Disclosures

Date 00/00/00

Lessor(s) Dealer or Leasing Company Lessee(s) J. Smith **1**

Amount Due at Lease Signing or Delivery	Monthly Payments	Other Charges (not part of your monthly payment)	Total of Payments (The amount you will have paid by the end of the lease)
(Itemized below)* 2 \$ <u>4,241.94</u>	Your first monthly payment of \$ <u>256.94</u> is due on <u>02/02/02</u> , followed by <u>47</u> payments of \$ <u>256.94</u> due on the <u>1st</u> of each month. The total of your monthly payments is \$ <u>12,335.12</u> 3	Disposition fee (if you do not purchase the vehicle) \$ <u>400.00</u> 4 -0- Total \$ <u>400.00</u>	\$ <u>16,368.12</u> 5

6 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 \$ <u>3,500.00</u>	Net trade-in allowance \$ <u>2,500.00</u>
First monthly payment <u>256.94</u>	Rebates and noncash credits <u>-0-</u>
Refundable security deposit <u>360.00</u>	Amount to be paid in cash <u>1,741.94</u>
Title fees <u>75.00</u>	
Registration fees <u>60.00</u>	
Total \$ <u>4,241.04</u> 6a	Total \$ <u>4,241.04</u> 6b

7 Your monthly payment is determined as shown below:

8 Gross capitalized cost. The agreed upon value of the vehicle (\$ 21,500.00) and any items you pay over the lease term (such as service contracts, insurance, and any outstanding prior credit or lease balance) \$ 22,000.00

If you want an itemization of this amount, please check this box

9 Capitalized cost reduction. The amount of any net trade-in allowance, rebate, noncash credit, or cash you pay that reduces the gross capitalized cost

Capitalized cost reduction	3,500.00
Adjusted capitalized cost. The amount used in calculating your base monthly payment	18,000.00
Residual value. The value of the vehicle at the end of the lease used in calculating your base monthly payment	12,350.00

Depreciation and any amortized amounts. The amount charged for the vehicle's decline in value through normal use and for other items paid over the lease term

Depreciation and any amortized amounts	6,450.00
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10 Rent charge. The amount charged in addition to the depreciation and any amortized amounts

Rent charge	45
Total of base monthly payments. The depreciation and any amortized amounts plus the rent charge	11,745.00

11 Lease payments. The number of payments in your lease

Lease payments	47
1 Base monthly payment	244.69
12 Monthly sales/use tax	12.25
13 Total monthly payment	- \$ 256.94

14 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.

15 Excessive Wear and Use. You may be charged for excessive wear based on our standards for normal use and for mileage in excess of 15,000 miles per year at the rate of .12 per mile. **16**

17 Purchase Option at End of Lease Term. You have an option to purchase the vehicle at the end of the lease term for \$ 12,350.00 and a purchase option fee of \$ 150.00

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.

20. Refer consumers to the “centerfold” in the *Keys to Vehicle Leasing* brochure-- the numbers there are the same as the numbers in the slide.

This slide provides an overview and shows how all the pieces fit together. We are about to go through the 4 major sections of this disclosure form.

Top of Lease Form Disclosures

Federal Consumer Leasing Act Disclosures

Date 00/00/00

Lessor(s) Dealer or Leasing Company Lessee(s) J. Smith **1**

Amount Due at Lease Signing or Delivery (Itemized below)* 2	Monthly Payments 3	Other Charges (not part of your monthly payment) 4	Total of Payments (The amount you will have paid by the end of the lease) 5
\$ <u>4,241.94</u>	Your first monthly payment of \$ <u>256.94</u> is due on <u>00/00/00</u> , followed by <u>47</u> payments of \$ <u>256.94</u> due on the <u>1st</u> of each month. The total of your monthly payments is \$ <u>12,333.12</u> .	Disposition fee (if you do not purchase the vehicle) \$ <u>400.00</u> -0- Total \$ <u>400.00</u>	\$ <u>16,368.12</u>

21. These top boxes provide a “snapshot” of the beginning (up-front), middle, and end-of-lease costs along with an estimate of the total of payments in this lease.

Top of Lease Form Disclosures

Federal Consumer Leasing Act Disclosures

Date 00/00/00

Lessor(s) Dealer or Leasing Company Lessee(s) J. Smith **1**

Amount Due at Lease Signing or Delivery (Itemized below)* 2	Monthly Payments 3	Other Charges (not part of your monthly payment) 4	Total of Payments (The amount you will have paid by the end of the lease) 5
\$ <u>4,241.94</u>	Your first monthly payment of \$ <u>256.94</u> is due on <u>00/00/00</u> , followed by <u>47</u> payments of \$ <u>256.94</u> due on the <u>1st</u> of each month. The total of your monthly payments is \$ <u>12,333.12</u> .	Disposition fee (if you do not purchase the vehicle) \$ <u>400.00</u> -0- Total \$ <u>400.00</u>	\$ <u>16,368.12</u>

Beginning

22. These top boxes provide a “snapshot” of the beginning (up-front), middle, and end-of-lease costs along with an estimate of the total of payments in this lease.

Top of Lease Form Disclosures

Federal Consumer Leasing Act Disclosures

Date 00/00/00

Lessor(s) Dealer or Leasing Company Lessee(s) J. Smith **1**

<p>Amount Due at Lease Signing or Delivery (Itemized below)* 2</p> <p>\$ <u>4,241.94</u></p>	<p>Monthly Payments</p> <p>Your first monthly payment of \$ <u>256.94</u> is due on <u>00/00/00</u>, followed by <u>47</u> payments of \$ <u>256.94</u> due on the <u>1st</u> of each month. The total of your monthly payments is \$ <u>12,333.12</u> 3</p>	<p>Other Charges (not part of your monthly payment)</p> <p>Disposition fee (if you do not purchase the vehicle) 4</p> <p style="text-align: right;">\$ <u>400.00</u></p> <p style="text-align: right;">-0-</p> <p style="text-align: right;">Total \$ <u>400.00</u></p>	<p>Total of Payments (The amount you will have paid by the end of the lease)</p> <p style="text-align: right;">\$ <u>16,368.12</u> 5</p>
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Beginning
Middle

23. These top boxes provide a “snapshot” of the beginning (up-front), middle, and end-of-lease costs along with an estimate of the total of payments in this lease.

Top of Lease Form Disclosures

Federal Consumer Leasing Act Disclosures

Date 00/00/00

Lessor(s) Dealer or Leasing Company Lessee(s) J. Smith **1**

<p>Amount Due at Lease Signing or Delivery</p> <p>(Itemized below)* 2</p> <p>\$ <u>4,241.94</u></p>	<p>Monthly Payments</p> <p>Your first monthly payment of \$ <u>256.94</u> is due on <u>00/00/00</u>, followed by <u>47</u> payments of \$ <u>256.94</u> due on the <u>1st</u> of each month. The total of your monthly payments is \$ <u>12,333.12</u> 3</p>	<p>Other Charges (not part of your monthly payment)</p> <p>Disposition fee (if you do not purchase the vehicle) 4</p> <p style="text-align: right;">\$ <u>400.00</u></p> <p style="text-align: right;">-0-</p> <p style="text-align: right;">Total \$ <u>400.00</u></p>	<p>Total of Payments</p> <p>(The amount you will have paid by the end of the lease)</p> <p style="text-align: right;">\$ <u>16,368.12</u> 5</p>
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Beginning

Middle

End

24. These top boxes provide a “snapshot” of the beginning (up-front), middle, and end-of-lease costs along with an estimate of the total of payments in this lease.

Top of Lease Form Disclosures

Federal Consumer Leasing Act Disclosures

Date 00/00/00

Lessor(s) Dealer or Leasing Company Lessee(s) J. Smith **1**

<p>Amount Due at Lease Signing or Delivery</p> <p>(Itemized below)*</p> <p>\$ <u>4,241.94</u> 2</p>	<p>Monthly Payments</p> <p>Your first monthly payment of \$ <u>256.94</u> is due on <u>00/00/00</u>, followed by <u>47</u> payments of \$ <u>256.94</u> due on the <u>1st</u> of each month. The total of your monthly payments is \$ <u>12,333.12</u> 3</p>	<p>Other Charges (not part of your monthly payment)</p> <p>Disposition fee (if you do not purchase the vehicle) \$ <u>400.00</u> 4</p> <p style="text-align: right;">-0-</p> <p>Total \$ <u>400.00</u></p>	<p>Total of Payments (The amount you will have paid by the end of the lease)</p> <p>\$ <u>16,368.12</u> 5</p>
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Beginning
Middle
End
Overall

25

25. These top boxes provide a “snapshot” of the beginning (up-front), middle, and end-of-lease costs along with an estimate of the total of payments in this lease.

The Total of Payments amount (box #5) does not include insurance premiums, maintenance costs, personal property taxes (if any), registration fees, and other ancillary fees and services you may pay over the term of the lease that are not included in monthly payments. It also does not include refundable amounts or amounts that may be due if you end the lease early or exceed wear or mileage limits. The box does provide information on at least a large part of the overall cost of the lease contract.

In this example,

$$5 = (2 + 3 + 4) - (\text{first monthly payment} + \text{security deposit})$$

Note to Instructor:

See the section “How to Use the ‘Total of Payments’ Box When Shopping for a Lease” in the More Information section of the Sample Leasing Form, http://www.federalreserve.gov/pubs/leasing/form_info1.htm

Amounts Due at Lease Signing Are Itemized

Federal Consumer Leasing Act Disclosures

Date 00/00/00

Lessor(s) Dealer or Leasing Company Lessee(s) J. Smith **1**

Amount Due at Lease Signing or Delivery (Itemized below)* \$ <u>4,241.94</u> 2	Monthly Payments Your first monthly payment of \$ <u>256.94</u> is due on <u>00/00/00</u> , followed by <u>47</u> payments of \$ <u>256.94</u> due on the <u>1st</u> of each month. The total of your monthly payments is \$ <u>12,333.12</u> . 3	Other Charges (not part of your monthly payment) Disposition fee (if you do not purchase the vehicle) \$ <u>400.00</u> -0- Total \$ <u>400.00</u> 4	Total of Payments (The amount you will have paid by the end of the lease) \$ <u>16,368.12</u> 5
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*** Itemization of Amount Due at Lease Signing or Delivery**

Amount Due at Lease Signing or Delivery: 6 Capitalized cost reduction \$ <u>3,500.00</u> First monthly payment <u>256.94</u> Refundable security deposit <u>350.00</u> Title fees <u>75.00</u> Registration fees <u>60.00</u> -0- Total \$ <u>4,241.94</u> 6a	How the Amount Due at Lease Signing or Delivery will be paid: Net trade-in allowance \$ <u>2,500.00</u> Rebates and noncash credits <u>-0-</u> Amount to be paid in cash <u>1,741.94</u> Total \$ <u>1,741.94</u> 6b
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Column totals should be equal

26. Box #2 is expanded in the second section of the lease. The itemization of the amount due at lease signing was designed to address concerns about “disappearing down payments” and “disappearing trade-ins.”

Note that the out-of-pocket amount “due” at lease signing in this case is not the full \$4,241.94 but only \$1,741.94 (amount to be paid in cash) because there is a \$2,500 trade-in.

Monthly Payment Calculation

7 Your monthly payment is determined as shown below:

8	Gross capitalized cost. The agreed upon value of the vehicle (\$ <u>21,500.00</u>) and any items you pay over the lease term (such as service contracts, insurance, and any outstanding prior credit or lease balance).....	\$ <u>22,300.00</u>
	If you want an itemization of this amount, please check this box. <input type="checkbox"/>	
9	Capitalized cost reduction. The amount of any net trade-in allowance, rebate, noncash credit, or cash you pay that reduces the gross capitalized cost	- <u>3,500.00</u>
	Adjusted capitalized cost. The amount used in calculating your base monthly payment	- <u>18,800.00</u>
	Residual value. The value of the vehicle at the end of the lease used in calculating your base monthly payment	- <u>12,350.00</u>
	Depreciation and any amortized amounts. The amount charged for the vehicle's decline in value through normal use and for other items paid over the lease term	= <u>6,450.00</u>
10	Rent charge. The amount charged in addition to the depreciation and any amortized amounts	+ <u>5,295.00</u>
	Total of base monthly payments. The depreciation and any amortized amounts plus the rent charge	- <u>11,745.00</u>
11	Lease payments. The number of payments in your lease	÷ <u>48</u>
	Base monthly payment	= <u>244.69</u>
12	Monthly sales/use tax	+ <u>12.25</u>
	+ <u>-0-</u>
13	Total monthly payment	- \$ <u>256.94</u>

27. This shows how all the pieces (gross cap cost, cap cost reduction, adjusted cap cost, residual value, depreciation, rent charge) fit together to determine the base monthly payment. Add monthly sales/use taxes (if any in your state) to get the total monthly payment.

Note that there is a separate check box for consumers to request an itemization of the gross capitalized cost.

Additional Disclosures

14 **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.

15 **Excessive Wear and Use.** You may be charged for excessive wear based on our standards for normal use and for mileage in excess of 15,000 miles per year at the rate of ...15 per mile. **16**

17 **Purchase Option at End of Lease Term.** You have an option to purchase the vehicle at the end of the lease term for \$ 12,350.00 and a purchase option fee of \$ 150.00 .

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.

- **Early termination**
- **Excess wear and mileage**
- **Purchase option**
- **Other terms in the lease**

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28. These disclosures include a

- conspicuous notice about early termination costs
- notice about excessive wear
- disclosure of the mileage limit and cost of excess mileage
- disclosure of the purchase-option price, if any
- disclosure of any purchase-option fee, if any
- reminder to read the rest of the contract

Federal Consumer Leasing Act Disclosures

Date 02/02/00

Lessor(s) Dealer or Leasing Company Lessee(s) J. Smith **1**

Amount Due at Lease Signing or Delivery (limited below)* 2 \$ <u>4,241.94</u>	Monthly Payments Your first monthly payment of \$ <u>296.94</u> is due on <u>02/02/00</u> , followed by <u>47</u> payments of \$ <u>296.94</u> , due on the <u>1st</u> of each month. The total of your monthly payments is \$ <u>12,333.12</u> . 3	Other Charges (not part of your monthly payment) Disposition fee (if you do not purchase the vehicle) \$ <u>400.00</u> Total \$ <u>400.00</u> 4	Total of Payments (The amount you will have paid by the end of the lease) \$ <u>16,366.12</u> 5
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6 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	\$ <u>3,500.00</u>	Net trade-in allowance	\$ <u>2,500.00</u>
First monthly payment	296.94	Rebate and noncash credits	-0-
Refundable security deposit	350.00	Amount to be paid in cash	1,741.94
Title fees	60.00		
Registration fees	-0-		
Total	\$ <u>4,241.94</u> 6a	Total	\$ <u>4,241.94</u> 6b

7 Your monthly payment is determined as shown below:

8 Gross capitalized cost. The agreed upon value of the vehicle (\$ 22,300.00) and any items you pay over the lease term (such as service contracts, insurance, and any outstanding prior credit or lease balance) \$ 22,300.00

If you want an itemization of this amount, please check this box:

9 Capitalized cost reduction. The amount of any net trade-in allowance, rebate, noncash credit, or cash you pay that reduces the gross capitalized cost

Capitalized cost reduction	- 3,500.00
Adjusted capitalized cost. The amount used in calculating your base monthly payment	= 18,800.00
Residual value. The value of the vehicle at the end of the lease used in calculating your base monthly payment	- 12,360.00
Depreciation and any amortized amounts. The amount charged for the vehicle's decline in value through normal use and for other items paid over the lease term	= 6,440.00
10 Rent charge. The amount charged in addition to the depreciation and any amortized amounts	+ 5,295.00
Total of base monthly payments. The depreciation and any amortized amounts plus the rent charge	= 11,745.00
11 Lease payments. The number of payments in your lease	+ 47
12 Base monthly payment	= 244.69
13 Monthly sales/use tax	+ 12.25
Total monthly payment	= \$ <u>296.94</u>

14 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.

15 Excessive Wear and Use. You may be charged for excessive wear based on our standards for normal use and for mileage in excess of 35,000 miles per year at the rate of .35 per mile **16**

17 Purchase Option at End of Lease Term. You have an option to purchase the vehicle at the end of the lease term for \$ 12,350.00 and a purchase option fee of \$ 50.00

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.

29. These disclosures are only part of the lease contract.

Note to Instructor:

Show a sample lease contract so that consumers understand the difference between the required disclosures and the full contract.

Early Termination Notice

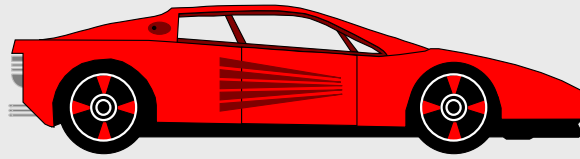
You may have to pay a substantial charge if you end this lease early. The charge may be up to several thousand dollars.

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.



30. Note that early termination may be voluntary (for example, you no longer like the car and want to turn it in early) or involuntary (the car is stolen or totaled); if you default on making your lease payments, that is also considered an early termination, and early termination charges will apply.

Advertising



SPARK EX

Lease for \$245/month for 48 mo.

**\$4,095 due at lease signing, includes security deposit
excludes taxes, title, and registration fees**

15,000 miles per year.

Subject to credit approval



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31. Federal Reserve Board Regulation M requires that except for the monthly payment, no other component of the total amount due at lease signing (for example, the cap cost reduction/down payment) may be more prominently advertised than the total amount due at lease signing (\$4.095 in the example).

If a printed lease ad includes any of the triggering terms (the amount of any payment or a statement of a specific or zero capitalized cost reduction or other payment required prior to or at delivery), it must also state

- that the transaction is a lease
- the total amount due before or at delivery
- the number, amounts, and due dates of the payments
- whether or not a security deposit is required

If third-party fees (taxes, license, registration) that vary by state or locality are due up front, the lessor may disclose that these fees have been excluded or may include the fees along with a statement that the fees may vary by state or locality.

For an open-end lease only, the ad must also state that extra charges may be imposed at the end of the lease term (if the lessee's liability is based on the difference between the residual value and the realized value at the end of the lease).

The disclosures must be made in a clear and conspicuous manner so that consumers can read and understand them. Unfamiliar abbreviations or terms are not allowed.

This is an ad for the EX model of the Spark. It tells the monthly payment (\$245) and the term of the lease (48 months). It tells you that to get this monthly payment, you need to pay \$4,095 at lease signing. This amount includes a security deposit but excludes taxes, title, and registration fees. It tells you that this lease allows you 15,000 miles per year. It also tells you that if you apply for a lease, the lessor may run a credit check on you.

Beyond the Ad

- **You're responsible for ongoing license plate, inspection, and emission test fees**
- **Required insurance coverage may be at higher limits than you now carry**
- **You must follow the maintenance schedule**
- **You're responsible for "excessive wear"**



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32. Beyond the text in the ad, there's a lot for consumers to know.

The ad doesn't specify if there's a purchase option and, if so, what the purchase-option price is if there's gap coverage

- how the amount due at lease signing is itemized
- other amounts and conditions that will be stated in the lease but are not included in the ad
- other terms for this particular offer

Lease Rate — Advertising

May not be

- advertised as an “annual percentage rate” or “annual lease rate” or any equivalent term
- more prominent than required written disclosures

Must state

“This percentage rate may not measure the overall cost of financing this lease”

Don't use the Lease Rate as you would use an APR to shop for the best rate on a loan.



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33. In general, Regulation M discourages lessors from advertising a lease rate.

There must be a disclaimer, and the rate figures must not be more prominent than other information.

Lessors may not use the terms APR or APL.

Note to Instructor:

The difficulties in calculating an annual percentage lease rate stem from the need to assume a value of one or more of the unknowns in the lease equation in order to arrive at a unique solution to the mathematical formula for a lease rate. Because it's impossible to know at lease inception what the consumer will do at lease-end (purchase the car, lease a different car, re-lease the same car) and because the value of the purchase option and residual value are part of the formula, there is no unique solution to the lease rate calculation. Different assumptions about depreciation and residuals can change the annual percentage lease rate for the same payment stream, even apart from any issue of manipulation by dealers, lessors, or assignees.

Special Issues

- **Personal property taxes**
- **Relocation/Transfers**
 - Within U.S.
 - Outside U.S.
- **Flexibility in payments**



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34. These special issues may be important if you tend to move a lot in your job or if you are in the military.

In states with personal property taxes, you will still owe those taxes, even though the lessor holds title to the car. This is especially important for military personnel, who are exempt from personal property tax when they hold title to their own car. If a member of the military leases a car, the exemption does not apply to the lessor (who holds the title), and the military personnel will have to pay the tax.

Not all lessors will let you move the car out of state. The major national leasing companies generally allow this, but smaller regional companies generally do not.

Virtually none of the leasing companies let you move your car outside the United States, with the exception of letting you drive to Canada (not Mexico) for a vacation.

Most lessors do not allow any flexibility in payments. Unlike car loans, on which you may be able to make “interest only” payments if needed, leases generally require full payment every month. Consumers who need a lot of flexibility in their budgets (for example, seasonal workers) may find that leasing doesn’t work for them.

If You Have a Problem, Talk to . . .

- 1. The dealer, manufacturer, or lessor**
- 2. Local consumer protection office
or state attorney general's office**
- 3. Federal Trade Commission** **or** **Federal regulators**
(if the lessor is a bank)
 - Federal Reserve Board
 - Federal Deposit Insurance Corporation
 - Office of the Comptroller of the Currency
 - Office of Thrift Supervision



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35. Try to resolve your problems locally with your dealer or lessor. As a next step, work with your local office of consumer protection (if available) or with your state's attorney general's office.

If your lease is with a "captive finance company" (affiliated with Ford, GM, Chrysler, Honda, Toyota, Mazda, or Mitsubishi, for example) or other leasing finance company, you can contact the Federal Trade Commission.

If your leasing company is a financial institution (such as a bank or credit union), contact the federal regulator for that institution.

Questions?

