Anyone Can Lease!

A comprehensive guide to leasing your next car

Surefire Techniques and Strategies to Save You Money

Steve Walker

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Introduction

So, it's time for that new car. Summer is here. Time for a vacation with the family. A driving vacation that is. And what better way to acquire a new car or truck than to lease it.

Great idea, but just like swimming, it's best to know how before you jumping into the deep end of the pool.

This simple guide will take you through the process in a step by step fashion that will make you, if not an instant expert, at least knowledgeable enough to speak intelligently about what you are about to do.

This guide was not developed, nor do we having any desire to impugn the car dealer or leasing company you are considering as a source for your new car or truck. Every industry has its skills and body of knowledge that you, as the customer, are not expected to understand. The real estate industry, the stock market, and the medical industry are only a few of the places where you haven't a clue what goes on unless you are directly involved in that industry. The automobile industry is no different and should not be considered any less professional. These people are in business to make a living, just like you, and to support a large huge industry that this country could not do without. Try running your business without making a profit and see how long you last.

With this guide you will "understand the process" which is all you can be expected to do. The rest is up to you to determine if you get a "good deal" or not.

Good Shopping

What is a Lease?

Let's take the simple approach in answering this question first, then we'll move on to the more involved answer.

First of all, since we are discussing vehicle leasing, I will use the word "**lease**" without reference to the vehicle part from now on. We will not be discussing equipment leasing, apartment leasing, or skyscraper leasing in this guide, so when I say leasing, I mean vehicle leasing. OK?

A lease is a very simply a method of acquiring a vehicle that would fall somewhere between renting a vehicle and owning a vehicle.

Let's clarify some terms before we get too deep into this discussion.

Lessor – No this is not the opposite of "Greater". The bank, leasing company, manufacturer owned finance company, etc., is the lessor, and YOU are the Lessee. Think of it in terms of a bank loan and the Lender is the Lessor, and the borrower is the Lessee. Simple, eh? We have included a glossary of terms so you can brush up on the lingo of leasing. It's helpful to know what the Lessor is talking about during negotiations.

A lease is a way of financing the purchase or use of a vehicle. Simple, right? It really is just that simple. Most people are familiar with the other method of financing which is installment financing. With installment financing you create an obligation, or loan, with the lender, let's call it "the bank", to repay a specified amount of money which you borrowed from them to purchase a vehicle. They will use the vehicle you are purchasing as collateral, or value, against the chance that you may not repay the loan. The bank is very careful about who they lend money to and they want some assurance they will get their money back. The bank places a lien, or claim, on your vehicle so that in the event you don't repay the money they will own the car. They don't really want your car but it is an inducement for you to repay them on time and in full.

They will charge you interest on that obligation which increases the amount of your obligation and must also be paid to satisfy your debt. Once you have paid that total obligation you own the car. End of story. You're happy and the bank is happy. They got all the money back and some and you got to own your car. Or should I say you got to own your old car. An average installment loan is 48 months which means you have successfully purchased a FOUR YEAR OLD AUTOMOBILE. Since the average consumer trades his car every 2.5 years, either because they're tired of it or it's worn out, the obligation to the bank is not fully satisfied. What to do now? You still owe money on the car, but you don't want it anymore. Well, for one thing, RULE #1 is the bank is always going to get its money. Accept that fact now.

When you drive your two and a half year old car into your friendly car dealer you expect that he will take that heap off your hands and replace it with a shiny new one and you are only on the hook for the new one, but you are SO wrong. If your car is worth $10,000 and you owe $12,000, you will either pay the difference in cash or add it to the amount you finance on your new car. If your car is worth $10,000 and you owe $8,000, you have equity or value in your car and that money will decrease the amount you owe on your new car. At this point you might be saying to yourself, "The last time I traded my $10,000 car I got the dealer to pay it off for me. He gave me $12,000 for it."

Fig. 1

Purchase Price of Vehicle	$20,000

Minus Trade Allowance	$12,000
Plus Payoff to the bank	$12,000
Amount you will finance taxes and fees	$20,000 plus

Fig. 2

Purchase Price of Vehicle	$18,000
Minus Trade Allowance	$10,000
Plus Payoff to the bank	$12,000
Amount you will finance	$20,000 plus taxes and fees

Fig. 3

Purchase Price of Vehicle	$18,000
Minus Trade Allowance	$10,000
Plus Payoff to the bank	$10,000
Amount you will finance	$18,000 plus taxes and fees

In all three examples, the amount due your lender, the bank, remains constant. That is about the only constant in buying a car. Remember RULE #1, the bank always gets their money. The car dealer may play with the numbers, often on your behalf, but the bottom line is you will pay X dollars for the new car, your old car is worth Y, and the payoff is always Z. So, X-Y+Z = what you always pay for the new car.

Leasing is very similar to Buying when it comes to driving a new car. In both cases you get the use of the car even though the bank holds a lien on it. You create an obligation to the bank which you must satisfy, just as you did with installment financing. You may dispose of the car at anytime you wish just as with installment financing. And, as in installment financing, when you decide to dispose of the car you must payoff the bank any amounts due that the sale or trade of the car does not cover.

Unlike installment financing, at the end of your agreement with the bank, you do not own the car. Unlike installment financing, you do, however, know what the car is worth to the bank at the end of your agreement. That amount is specified on the lease agreement at time of signing.

Let us say that you agreed that you car lease end (residual) value would be $12,000. Now the lease has come to an end, the car you choose is now only worth $8,000. And unlike installment financing, you are not on the hook for that $4,000 difference in value of the car. You do, in fact, walk away. You may have to pay a small disposition fee if you have decided to turn the car in to the bank instead of trading it on a newer model, but that’s it. Your obligation is done.

So, now What is a Lease? A lease is a way to drive a car for a specified length of time and only pay for the part of the car you use. Say that again?

If you buy a $20,000 car and keep it three years, you have used only three years of the cars life expectancy. But you paid for the entire car didn't you. If you lease a car, you pay for the three years of use and the remaining life of the car is residualized. Here's and example:

	Buy	**Lease**
Value of new car	$20,000	$20,000
Amount you paid	$20,000 plus interest	$10,000 plus interest
Amount you owe	$0	$10,000
Value of Car in three years	$10,000	$10,000
Net to you	$10,000	$10,000 plus interest earned

Have trouble following the math? Let's go through the numbers. The buyer paid for the whole car and at the end of three years sold the car and recouped $10,000. The lessee leased the same car, paid only $10,000 for the same three years and has the $10,000 that he never spent earning interest for three years. Even if the buyer paid cash, he is still expensed the entire car up front. When was the last time you made an investment where your broker told you that he had a stock for you that as $10.00 a share and he could guarantee that it would be worth $5.00 a share in three years. How many shares would you buy? Not many I'm guessing.

Again, leasing is a way to drive more car for less money. Or, leasing is a way to drive more car for the same money as you would has spent on less car.

When renting a vehicle you assume an obligation to pay a certain amount in installments for the USE of the vehicle. These installments are generally daily, weekly, or even monthly in some circumstances. This payment does not imply ownership of the vehicle, and no obligation beyond returning the vehicle in the same condition as you received it.

When you purchase a vehicle, either by cash or credit, you assume the full responsibility for the vehicle because you OWN it. It's yours. You can drive it off a cliff if you choose, and short of a scuffle with the insurance company and an interview with a psychiatrist, no one cares because it was your loss. But, if you take reasonably good care of your vehicle, some where down the line it will return a percentage of the original price you paid for it as a thank you.

Leasing a vehicle is a pleasant blend of the above two examples. You only pay for the portion of the vehicle that you intend to use and you get to treat it like it's your own. You undertake a long term obligation, you register the vehicle in your name, and the lessor, you buy license plates, you take it on trips, and you wreck and get it repaired. Come the end of the predetermined period you chose to use this vehicle, you give it back to the lessor, say thank you, and go on to the next exciting model. No, it's not always that easy. But, there are also more options that we will discuss later. That's it, and it's that simple.

Lease vs. Buy

This is quite a decision to make what with all the 0% financing and incentives offered by the auto manufacturers. But, depending on your circumstance, the choice should be easy.

On the one hand, we have “THE LEASE”. More car, less money. Or, more car, same money.

On the other hand we have our old favorite “BUY”. Good old reliable buy. Buy it, own it, keep it, love it.

Why, you may ask, have so many people, who have bought vehicles for years, suddenly switched to leasing?

Let us look at a comparisons of Leasing and Buying for the answer. Some reasons will be tangible. Other more emotional. But, all are valid.

	Leasing	**Buying**
Purchase Price	The purchase price, whether to lease or to buy a vehicle, is the same. Leasing is a method of financing the vehicle, so don't be confused, or mislead into believing that you cannot negotiate the price on a lease in the same way that you did on a buy. When and “if” a salesperson tells you that the price to lease a car doesn’t matter, because you are buying a payment, not a car, WATCH OUT! All sorts of alarms should be going off in your head.	
Down Payment	There typically is no down payment, per se, on a lease, unless you choose to make one. See cap reduction in glossary. The down payment on a lease is referred to as a cap reduction and may be a requirement of the lessor under some special lease offer programs. Even this is negotiable.	When buying a vehicle, the lending bank or credit union usually requires that you create equity in the vehicle by a cash or trade downpayment. In the event that you default on the loan or suffer a total loss due to theft or accident the bank is not on the hook with a loan larger than the worth of the collateral (the vehicle). This is not always the case and many lenders now off *no money down loans* which are comparable in startup cost to a lease. This, and all premium loan types are based on your good credit. The difference will always be that with a loan you are purchasing the entire vehicle, whereas in a lease you only rent the part that you will use. (We will go into more detail on this point later.)
Equity	If there is equity in the car at the time you decide to dispose of it, you may sell the car and realize any equity there is.	Once again, you own. This is where you get the sweet with the bitter.
Insurance	Typically high limits are requested, but most people these days carry these higher limits on vehicles they purchase as well.	Governed by State minimums, and lender requirements of financed.

Ownership	You rented it, or if you want to split hairs, you **leased** it. You don't own it. That's why you leased the car, so you wouldn't own it.	Yes, you own it. I might remind of you of this later.
Mileage	At the inception of the lease you and the lessor determine how many miles you will be allowed to drive without incurring a penalty. The standard allowances are 10,000, 12,000, or 15,000 miles. Remember, this penalty only applies if you return the vehicle to the lessor at the end of the lease. If you trade the car no such penalties are applied.	It's your baby. Put as many miles on it as you want. But remember, the same deduction for excessive miles that the leasing company charges the lessee applies to the buyer also. You just take it out of your own pocket instead of the leasing company doing it for you.
Wear and Tear	To some extent normal wear and tear are covered in your lease. The depends more on the make of car than on the leasing company. Factory owned leasing sources tend to be more lenient than commercial banks or private leasing companies. The reason being they want to lease you another car. I'll give you an example. Mercedes Benz will send the lessee an "end of lease" package to prepare for the termination of their lease. Within this package is a small card the size of a credit card. If you can cover any scratch or dent on your car with this card you will not be charged for it. By comparison, if you can cover a dent or scratch on your "owned" car, you will likely end up using that credit card to pay for the repair of that dent or scratch.	It's all yours. You are the owner of the vehicle and assume all responsibility for dents, dings, scratches, etc.
IRS, Expensing, Etc.	In the chapter on IRS in this guide I indicate that I like to steer clear of this subject, but since this information is readily available to anyone who can read of Tax Guide, here goes. This is a trick. Contact your accountant on all tax matters, PLEASE!	Ditto

The Mathematics of Leasing

Let me tell you up front that this is the tricky part. If you hated math in school, you will definitely hate this chapter. I made it as simple as possible to avoid the reader's eyes glazing over in the first paragraph. But, this is very important. You should be able to make a fair appraisal of the value of a lease proposal just by looking at the figures presented by the leasing company.

Let's discuss the elements of your lease calculation at a high level.

Cap Cost/Selling Price – This is the price you pay for the vehicle you are leasing.

Residual Value – This is the amount you owe at the end of your lease term. This is usually calculated as a percentage of the **Manufacturers Suggested Retail Price (MSRP)** of the vehicle. This is an arbitrary percentage derived from some very intelligent people sitting around a room looking into a crystal ball which will tell them what your vehicle will be worth in a predetermined amount of time in the future.

Depreciation – This is the difference between the Cap Cost/Selling Price and the Residual Value.

Example:	Your new car has a MSRP of	$40,000.00
	And you have a Selling Price of	$40,000.00
	The Residual Value is 50%	-$20,000.00
	The Depreciation is what is left	$20,000.00

So, from this example you can see that the residual, and by extension, the amount of depreciation, is a very important factor in your lease since the total depreciation is divided equally among your monthly payments. In this case you the monthly portion of your depreciation for a 36 month lease would be $555.55.

Now if the residual had been 60%, the depreciation would have been $16,000, or $444.44 per month. So a more popular car, or a better lease program just made a $100.00 per month difference in your monthly payment. Now to money factor.

Money Factor - The money factor is a figure derived by dividing your Annual Interest Rate by 12 (as in twelve month) to give you a monthly APR. The percentage is then converted to a decimal by dividing by 100. Since the finance charges are determined based on the average amount financed, (or level yield), the cap cost plus the residual divided by two, would give you the average amoun financed. Or, APR/12 x 1/100, which is the same as APR/1200.

For our purposes and the entire leasing world we use the much simplified:

(Cap Cost + Residual) X APR / 2400

Now you can take your money factor backwards and determine your Annual Percentage Rate. Let's use a money factor of .003, which is pretty common these days.

.003 X 2400 = 7.2% APR

or

7.2% APR / 2400 = .003 MF

This is all you will ever need to know about Money Factors, but once again, we are about understanding what make a lease what it is.

Now, using the same numbers from our previous example, let's calculate the rental portion of our lease, or the "Monthly Use Fee":

Example:	The CAP COST is	$40,000.00
	The Residual is	$20,000.00
	The Depreciation is 50% or	$20,000.00
	The calculation goes like this:	

$ 40,000 + 20,000 = $60,000 X .003 = $180

Some of you may be thinking, if the Residual is high, as I've indicated is should be, then the Money Use Fee would be higher also. What gives?

This is true, but the monthly depreciation has a much bigger impact on your payment than does the monthly use fee. Here are two examples. The same car with two different residuals and money factors. Which one do you like best?

Cap Cost	$40,000	$40,000
Residual	$20,000 (50%)	$24,000 (60%)
Money Factor	.003	.0025
Monthly Depreciation	555.55	444.44
Monthly Use Fee	180.00	160.00
Monthly Payment (36 mo.)	**$735.55**	**$604.44**

Over the term of the lease this represents a **$4719.96** difference, which is a savings to you, or a profit for the dealer or leasing company. You should be able to see by now that a very subtle change can make a huge difference. Just for practice try a money factor of .0033 or .0035, with a residual of 55% or 65%.

The rest of your lease payment is made up of acquisition fees and taxes. If you have the ready cash, pay these fees up front.

Now let's see what affect the Cap Reduction can have on these scenarios. Let's just use $5,000 in our example above:

Cap Cost	$40,000	$40,000
Cap Reduction	$ 5,000	$ 5,000
Adjusted Cap	$35,000	$35,000
Residual	$20,000 (50%)	$24,000 (60%)
Depreciation	$15,000	$11,000
Money Factor	.003	.0025

Monthly Depreciation	$ 416.66	$ 305.55
Monthly Use Fee	$ 165.00	$ 147.50
Monthly Payment (36 mo.)	**$ 581.66**	**$ 453.55**

As you can see in the examples your payments are reduced by $153.89 and $150.89 respectively, or $5540.04 and $5430.04 in total savings. So your $5,000 investment in the lease saved you some money. Not a bad investment. There is, in fact, a point at which leasing company will limit the amount of cap reduction you can apply to a lease. Play with the numbers and you'll see why.

All Leases are NOT Created Equal

To know the difference in leases and why some leases had such a bad name you must reach back several years to the time before various lease acts came along to protect the general public.

In the ‘70s there were basically two kinds of leases. The closed end and the open end lease. The difference was dramatic and the purpose was ill defined. The “closed” in the closed end lease applied to the lessee. It meant that the lessee had virtually no control over the lease except to pay the monthly payments, and at the end of the lease the lessor could hold you responsible for everything from damage to mileage, and worst of all, the value of the car. The residual was not guaranteed and you could be billed for the deficiency. You did not, in many cases, have the right to sell the vehicle on your own. The open end lease meant just the opposite. It meant the options were “open” to the lessee, very similar to the leases written today. Both leases exist today, but you would have to work pretty hard to stumble into an open lease offering for something other than equipment leasing. We will concern ourselves with “open end” leasing any further, just understand that they exist and you would never take one.

Then in 1998 the Consumer Protection people stepped in again and revised the **Regulation M** of the **Federal Consumer Leasing Act**. This set certain guidelines to which must be adhered. Here are the high points:

TITLE 15 > CHAPTER 41 > SUBCHAPTER I > Part E > Sec. 1667a.

Consumer lease disclosures

(1)

A brief description or identification of the leased property;

(2)

The amount of any payment by the lessee required at the inception of the lease;

(3)

The amount paid or payable by the lessee for official fees, registration, certificate of title, or license fees or taxes;

(4)

The amount of other charges payable by the lessee not included in the periodic payments, a description of the charges and that the lessee shall be liable for the differential, if any, between the anticipated fair market value of the leased property and its appraised actual value at the termination of the lease, if the lessee has such liability;

(5)

A statement of the amount or method of determining the amount of any liabilities the lease imposes upon the lessee at the end of the term and whether or not the lessee has the option to purchase the leased property and at what price and time;

(6)

A statement identifying all express warranties and guarantees made by the manufacturer or lessor with respect to the leased property, and identifying the party responsible for maintaining or servicing the leased property together with a description of the responsibility;

(7)

A brief description of insurance provided or paid for by the lessor or required of the lessee, including the types and amounts of the coverages and costs;

(8)

A description of any security interest held or to be retained by the lessor in connection with the lease and a clear identification of the property to which the security interest relates;

(9)

The number, amount, and due dates or periods of payments under the lease and the total amount of such periodic payments;

(10)

Where the lease provides that the lessee shall be liable for the anticipated fair market value of the property on expiration of the lease, the fair market value of the property at the inception of the lease, the aggregate cost of the lease on expiration, and the differential between them; and

(11)

A statement of the conditions under which the lessee or lessor may terminate the lease prior to the end of the term and the amount or method of determining any penalty or other charge for delinquency, default, late payments, or early termination.

The disclosures required under this section may be made in the lease contract to be signed by the lessee. The Board may provide by regulation that any portion of the information required to be disclosed under this section may be given in the form of estimates where the lessor is not in a position to know exact information

TITLE 15 > CHAPTER 41 > SUBCHAPTER I > Part E > Sec. 1667b.

Lessee's liability on expiration or termination of lease

(a) Estimated residual value of property as basis; presumptions; action by lessor for excess liability; mutually agreeable final adjustment

Where the lessee's liability on expiration of a consumer lease is based on the estimated residual value of the property such estimated residual value shall be a reasonable approximation of the anticipated actual fair market value of the property on lease expiration. There shall be a rebuttable presumption that the estimated residual value is unreasonable to the extent that the estimated residual value exceeds the actual residual value by more than three times the average payment allocable to a monthly period under the lease. In addition, where the lessee has such liability on expiration of a consumer lease there shall be a rebuttable presumption that the lessor's estimated residual value is not in good faith to the extent that the estimated residual value exceeds the actual residual value by more than three times the average payment allocable to a monthly period under the lease and such lessor shall not collect from the lessee the amount of such excess liability on expiration of a consumer lease unless the lessor brings a successful action with respect to such excess liability. In all actions, the lessor shall pay the lessee's reasonable attorney's fees. The presumptions stated in this section shall not apply to the extent the excess of estimated over actual residual value is due to physical damage to the property beyond reasonable wear and use, or to excessive use, and the lease may set standards for such wear and use if such standards are not unreasonable. Nothing in this subsection shall preclude the right of a willing lessee to make any mutually agreeable final adjustment with respect to such excess residual liability, provided such an agreement is reached after termination of the lease.

(b) Penalties and charges for delinquency, default, or early termination

Penalties or other charges for delinquency, default, or early termination may be specified in the lease but only at an amount which is reasonable in the light of the anticipated or actual harm caused by the delinquency, default, or early termination, the difficulties of proof of loss, and the inconvenience or nonfeasibility of otherwise obtaining an adequate remedy.

(c) Independent professional appraisal of residual value of property at termination of lease; finality

If a lease has a residual value provision at the termination of the lease, the lessee may obtain at his expense, a professional appraisal of the leased property by an independent third party agreed to by both parties. Such appraisal shall be final and binding on the parties

TITLE 15 > CHAPTER 41 > SUBCHAPTER I > Part E > Sec. 1667c.

Consumer lease advertising; liability of advertising media

(a) In general

If an advertisement for a consumer lease includes a statement of the amount of any payment or a statement that any or no initial payment is required, the advertisement shall clearly and conspicuously state, as applicable -

(1)

the transaction advertised is a lease;

(2)

the total amount of any initial payments required on or before consummation of the lease or delivery of the property, whichever is later;

(3)

that a security deposit is required;

(4)

the number, amount, and timing of scheduled payments; and

(5)

with respect to a lease in which the liability of the consumer at the end of the lease term is based on the anticipated residual value of the property, that an extra charge may be imposed at the end of the lease term.

(b) Advertising medium not liable

No owner or employee of any entity that serves as a medium in which an advertisement appears or through which an advertisement is disseminated, shall be liable under this section.

(c) Radio advertisements

(1) In general

An advertisement by radio broadcast to aid, promote, or assist, directly or indirectly, any consumer lease shall be deemed to be in compliance with the requirements of subsection (a) of this section if such advertisement clearly and conspicuously -

(A)

states the information required by paragraphs (1) and (2) of subsection (a) of this section;

(B)

states the number, amounts, due dates or periods of scheduled payments, and the total of such payments under the lease;

(C)

includes -

(i)

a referral to -

(I)

a toll-free telephone number established in accordance with paragraph (2) that may be used by consumers to obtain the information required under subsection (a) of this section; or

(II)

a written advertisement that -

(aa)

appears in a publication in general circulation in the community served by the radio station on which such advertisement is broadcast during the period beginning 3 days before any such broadcast and ending 10 days after such broadcast; and

(bb)

includes the information required to be disclosed under subsection (a) of this section; and

(ii)

the name and dates of any publication referred to in clause (i)(II); and

(D)

includes any other information which the Board determines necessary to carry out this part.

(2) Establishment of toll-free number

(A) In general

In the case of a radio broadcast advertisement described in paragraph (1) that includes a referral to a toll-free telephone number, the lessor who offers the consumer lease shall -

(i)

establish such a toll-free telephone number not later than the date on which the advertisement including the referral is broadcast;

(ii)

maintain such telephone number for a period of not less than 10 days, beginning on the date of any such broadcast; and

(iii)

provide the information required under subsection (a) of this section with respect to the lease to any person who calls such number.

(B) Form of information

The information required to be provided under subparagraph (A)(iii) shall be provided verbally or, if requested by the consumer, in written form.

(3) No effect on other law

Nothing in this subsection shall affect the requirements of Federal law as such requirements apply to advertisement by any medium other than radio broadcast

TITLE 15 > CHAPTER 41 > SUBCHAPTER I > Part E > Sec. 1667d.

Civil liability of lessors

(a) Grounds for maintenance of action

Any lessor who fails to comply with any requirement imposed under section 1667a or 1667b of this title with respect to any person is liable to such person as provided in section 1640 of this title.

(b) Additional grounds for maintenance of action; ''creditor'' defined

Any lessor who fails to comply with any requirement imposed under section 1667c of this title with respect to any person who suffers actual damage from the violation is liable to such person as provided in section 1640 of this title. For the purposes of this section, the term ''creditor'' as used in sections 1640 and 1641 of this title shall include a lessor as defined in this part.

(c) Jurisdiction of courts; time limitation

Notwithstanding section 1640(e) of this title, any action under this section may be brought in any United States district court or in any other court of competent jurisdiction. Such actions alleging a failure to disclose or otherwise comply with the requirements of this part shall be brought within one year of the termination of the lease agreement

This goes on forever, but these are the highpoints and the parts that protect you in a lease agreement.

Dealing with the Dealer

This is a good place to borrow on past experience. Have you a dealer with which you have had successful dealings in the past? This is a good place to start, or should I say finish.

Most people like to do business with people that they like. And if that sounds like your current automobile dealer, and they sell the brand of car you're interested in buying, give your salesperson a call. You say your salesperson has left? Contact the Sales Manager and have him refer you to another sales associate. If you are looking for a different make of car than your current dealer sells, (you may already know that they own a dealership selling that make), ask for a referral to the other dealership. Quite often the same friendly, courteous treatment that drew you to this dealership in the past will carry over to another dealership with the same owner. This is not always the case, but it's worth a try.

Now for the hard part. Or maybe not. For you to successfully negotiate your lease you must have all the numbers. MSRP, Selling Price, Money Factor, Residual Percentage, Acquisition Fee, and Use Tax rate. **IF YOUR DEALER WILL NOT GIVE YOU THE COMPLETE INFORMATION FOR YOU TO CALCULATE YOUR LEASE YOURSELF, RUN, DON'T WALK, TO THE NEXT DEALER**.

I would like to relate to you an experience I had as a REPEAT customer to a certain dealership where I lived. I wanted to replace my Bronco with a pickup as my families needs had changed. And as the pickup of interest was also a Ford, I contacted my original selling dealer. I ask for the New Car Manager and was directly to an Assistant Manager who was very friendly and helpful. He indicated their desire to retain past customers and we set an appointment. Upon arrival at the dealership I found the Assistant was, in fact, a new car salesperson in disguise. I found immediately that I was not going to get the true figures without a long drawn out battle. The ease of doing business which had drawn me to them originally was no longer there. They had changed management and their method of doing business.

I did some quick calculations from the information I had and found that they were charging me the acquisition fee twice. Now what kind of treatment is this for a repeat customer? Very poor treatment indeed. I left immediately drove 10 minutes to the other Ford dealer in town and within 15 minutes, had the information I needed and had leased a new truck.

The point to the story is that you should be on your guard, be prepare NOT to do business with people who treat you poorly, and be prepared to walk if they won't do business YOUR WAY. This is your money by the way.

There are still a great many dealers who like to play the "make me an offer" game, and hide the true numbers from you, but there are a fair number who are upfront with the information you need to make an educated decision. I will go so far as to tell you that if you cannot or will not require that the dealer supply you with this information before you make a decision on the vehicle, you have wasted your time and money on our guide.urce for a friendly dealer is a referral from a friend or acquaintance who has had a good experience there in the past.

Internet Leasing

Without knowing your individual saturation point it is hard to advise you on alternate methods of find the right deal. If you like the thrill of the hunt and extended negotiations, there are many more avenues open to you. One of these is on the Internet. There are dozens of good sites that profess to offer special deals to those who contact a dealer through them. Carpoint and Autobytel are two of the biggest. I have personally tried both, once in earnest to check out the best price on an

Acura MDX, and a second time for this guide. In both cases I did better at the local dealer. Your experience may be different. I did not get the MDX by the way.

Negotiating Your Lease

As I mentioned in the beginning, this book is a guide to help you understand leasing sufficiently to enter into negotiations without feeling like a lamb being lead to the slaughter.

This does not mean all lambs are slaughtered, or that the slaughtering process is painful. About the worst thing you can do is enter a car dealership with the feeling that everyone there is out to get you. It is not true and you shouldn't feel that way. You are about to make second largest purchase of your life and create a relationship with an organization whose very life depends on your patronage. There is no reason to start with a bad attitude. If you arrive at the car dealership and you don't feel comfortable, then get out of there. Go somewhere that feels good to you. Deal with someone you like. Believe me, if the salesperson you end up with doesn't like you, neither of you will be happy with the process.

It is your responsibility to set the ground rules and timing of the car shopping and buying process. Your goal and the goal of the salesperson are exactly the same. You both want you to have a new car. The path to that goal is where the difference comes in. Initially you want information on the car itself, the dealership, and financing options. (*I'm speaking to the majority of the new car shoppers, so if you have a wad of cash in your pocket and know everything there is to know about the car, just pick from this section what information you need.)*

I suggest shopping by telephone as the first step. Contact the dealer of the make of that interest you and give them a call. I typically contact three dealers starting with the third, or the one farther away. Ask the person answering the telephone if they have a leasing department, and if not, ask to speak to a new car sales person. Explain to the salesperson up front that you are interested in the cars, and a particular model, they sell and would like to discuss the car, the dealership, and know a little more about him, or her, (the salesperson), before driving down. Explain that you are interested in leasing and what your expectation is involving calculating the lease yourself. Explain that you will only deal with his dealership if they will give you all the figures on the lease so that you may do the calculations yourself.

Dealing with a Third Party Leasing Company

There are several advantages to dealing with a third party leasing company. Here are a few reasons:

- In most cases they have access to many or all makes and models and can cut your search time down considerably.

- The are often not bias to a particular make beyond personal preference.

- When the really hot new models are available the can often get a deal that you cannot due to the volume of business that they do with other dealers.

Your obligation with a lease

A lease contract is very similar to a purchase contract with some very significant differences. But most of these differences don't put an undue burden on you as the lessee. (Remember, bank is lessor, you are the lessee.)

We know about the mileage allowance, the disposition fee, and residual value. These are the significant differences and I'll explain why. An agreement to purchase a vehicle has no need for a mileage allowance because the bank has not a forehand any plans for ever seeing your vehicle again. They don't care how many miles you put on it. In fact, if it helps you pay the monthly payments, they would celebrate the more miles you put on. You see, the car is yours, not theirs. They hold a lien on the vehicle, but they don't want it.

In contract, the lessor or leasing bank, does own the car and has a lien on it, and from all indications, want it back. The fact is that they don't want it back, but if they are to see it again, they want it in pristine condition. Wouldn't you. In reality, they don't want the car back and that brings us to the next difference. The disposition fee. If you ever wanted proof that a bank wants you to dispose of your car on your own, think "disposition fee". See, you would think that if someone put so many conditions on you to insure that your care for their property that they are planning on having it back. But that is not the case. It all to protect them, "just in case", they get it back.

The last difference of any worth is the residual. There are some purchase agreements that have something similar called a "balloon payment", but that's as close as it gets. The residual is the estimated, I said "estimated", value of the car at a predetermined point in time in the future. For example, you lease a car for three years and it has historically been a big seller for years and years. A Mercedes Benz E320 has been a very popular lease car since before the name change, (from 300E). The residual values were high making the payments lower and, when the factory got involved with incentives, they were a steal. Unfortunately, the large number of E320 in the hands of lessee eventually come back to the lessor, and BAM, the bottom falls out of the resale market. The lessor's three years ago might have been guessing 60% residual, but in reality the number was closer to 50%. The good news to the lessee, it's the banks problem, not yours.

So to wrap up, you are requested to keep your lease vehicle in tip top shape, keep the miles in line, and please lease another car when you're done.

There are also statutory rights and responsibilities imposed on you as the lessee by the Federal Reserve Board. There are regulations on the lessor also, but we are talking about you at this point. You should know these before visiting a car dealership or leasing company. These regulations are taken as an excerpt from the Federal Reserve Board website. You can find the link under Government Resources on any page of our website.

When you lease a vehicle, you have the right to

- *Use it for an agreed-upon number of months and miles*
- *Turn it in at lease-end, pay any end-of-lease fees and charges, and "walk away"*
- *Buy the vehicle if you have a purchase option*
- *Take advantage of any warranties, recalls, or other services that apply to the vehicle.*

You may be responsible for

- *Excess mileage charges when you return the vehicle. Your lease agreement will tell you how many miles you can drive before you must pay for extra miles and how much the per-mile charge will be.*
- *Excessive wear charges when you return the vehicle. The standards for excessive wear, such as for body damage or worn tires, are in your lease agreement.*
- *Substantial payments if you end the lease early. The earlier you end the lease, the greater these charges are likely to be.*

Doesn't seem so hard does it?

Your lease and the IRS

This is a touching area and I like to steer clear of it. If you are a Premium Subscriber we can discuss this point in detail and I will share some insights about accountants and leasing.

The bottom line is, if you are in business you have an accountant that you pay good money to advise you on this kind of thing. Always check with your accountant before buying or leasing a vehicle.

Glossary

Adjusted Cap Cost
The figure used to calculate your lease after applying the Cap Reduction (downpayment).

Base Payment
The total arrived at by adding the monthly Rental Charge and the Monthly Depreciation.

Cap Cost
This is the selling price of the vehicle. This is what you have agreed to pay for the car or truck you are leasing. This is a negotiated figure no matter what you may be told.

Cap Reduction
Simply put, an amount applied to the Cap Cost to reduce the amount of the initial lease price. Think of it as a downpayment. The Cap Reduction has serious benefits as you will see while doing lease computations.

Closed End Lease

Depreciation
The dollar difference between the Adjusted Cap Cost and the Residual. This amount is your responsibilty to pay and it is a portion of your monthly payment. For example, on a 36 month lease, the total depreciation is divided by 36 so that you pay 1/36th of the total each month.

Gap Waiver
Commonly called Gap Insurance, which it IS NOT. You will receive no insurance policy. What you do receive is the lessors agreement to terminate your lease and not charge you for any deficiencies between what your vehicle is worth and the amount the you owe the the vehicle should your vehicle be totalled in an accident, or stolen and not recovered.

MSRP
Manufacturers Suggested Retail Price - This is the "Window Sticker" as delivered to the dealer from the manufacturer BEFORE any modifications, dealer added equipment, Doc Fees, etc., are added at the dealership.

Money Factor
The interest amount charge on the lease. It is called the Money Factor because it is a fraction of the percentage rate.

Non-Disclosed Lease

Open End Lease

Residual
The projected value of the vehicle at the end of the lease. Also referred to as the "Buy Back". It is a figure arrived at arbitrarily by the lessor.

Security Deposit

Total Payment
The total that you pay monthly. This is a total of the the Base Payment and Use Tax.