



PREVENTIVE LAW SERIES

LEASING AN AUTOMOBILE



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LEASING VERSUS BUYING

Leasing an automobile is an attractive alternative to purchasing a new automobile because leases normally require a smaller down payment and have smaller monthly payments. Before leasing a vehicle, be aware of the advantages and disadvantages of leasing, as well as the requirements placed on dealers who lease automobiles. Leasing a car is not the same as buying one. When you buy, you own the car. When you lease, you pay to drive someone else's vehicle.

BEFORE LEASING, KEEP THE FOLLOWING IN MIND

1. Know what car model and options you want and how much you can afford to spend before looking.
2. Compare prices of cars at different dealers by reviewing newspaper ads.
3. Shop as if you are buying a car. Negotiate all the lease terms, including the price of the vehicle. Lowering the lease price will help reduce your monthly payments. Get all the terms in writing.
4. Check each car's quality and repair record through available consumer reporting agencies and publications. The U.S. Department of Transportation Auto Safety Hotline (800) 424-9393 will tell you if a car model has ever been recalled and will send you information about that recall.
5. Some cars cost more to insure than others, so check insurance rates before leasing an automobile.

ADVANTAGES OF LEASING

1. Smaller down payment. (Beware: many dealers will ask for a large amount of money down or will apply a large portion of your trade-in as a down payment.)
2. Smaller monthly payments. (Beware: many leases have monthly payments well over four-hundred (\$400.00) dollars.)
3. Dealer is usually responsible for significant maintenance and repairs.

DISADVANTAGES OF LEASING

1. At the end of the lease period, you do not own the vehicle. In fact, you do not even have any equity in the vehicle to borrow against.
2. The purchase price of the vehicle at the end of the term is usually very high. Leasing a vehicle and then purchasing the car at the end of the lease period is usually more expensive than buying the car off the lot and making payments for several years. If you want to own the car, a lease is probably not the most economically efficient manner of purchasing.
3. The lease may limit the geographical territory within which you may operate the vehicle. For instance, many leases prohibit the lessee from taking the vehicle out of the continental United States. If you are transferred out of the U.S., you may not be able to get out of the lease or take the vehicle with you. The Servicemembers Civil Relief Act (SCRA) can be applied to terminate the lease in limited circumstances, namely: if you signed a lease before you went on active duty for 180 days or more, if you deploy for 180 days or more, or if you receive PCS orders outside CONUS. 50 U.S.C. § 3955(b)(2).
4. The lease may also limit the total miles the lessee may drive the vehicle in a year (or over the term of the lease). If the vehicle is driven more than the allowed number of miles (usually 12,000 to 15,000 miles a

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year), the lessee pays an additional amount for each mile over the limit (usually about \$0.15 per mile). THIS CAN BE VERY EXPENSIVE IF YOU ARE NOT CAREFUL!

5. If your vehicle is stolen or "totaled" in an accident, you still owe the lease amount, even though you do not have the automobile anymore. Your insurance will generally only cover you for the NADA/ Blue Book value of the vehicle. Since you often owe more on a lease than the vehicle is worth, you may still owe a lot of money on the vehicle, even after your insurance company has "paid" what it owes on the claim. You can purchase additional insurance, called "Gap Coverage," to protect yourself from this potential liability, and you should strongly consider getting this additional insurance if leasing a vehicle. Consult with your insurance carrier and determine how much extra this will cost. Factor this amount into the cost of the vehicle.
6. You will not have the same SCRA vehicle property tax protections as Servicemembers who own their vehicle. Oftentimes, the leasing company will include a provision in the lease that transfers the responsibility to pay vehicle property taxes directly to you. Leasing a vehicle has the potential to lead to an unexpected vehicle property tax.

DEALER REQUIREMENTS

Federal law provides that a lessor/dealer must make the following disclosures to the lessee:

1. A description of the leased property.
2. The amount you must pay to start the lease (amount due at signing).
3. The amount paid by the lessee for official fees, registration, certificate of title, and license fees or taxes.
4. The payment schedule and amount of each payment.
5. The amount of other charges payable by the lessee not included in the periodic payment, including 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 vehicle and at what price and time.
6. A statement of total payments, including amount you must pay to terminate the lease.
7. A statement of the conditions under which the lessee may terminate the lease prior to the end of the term and the amount or method of determining any penalty.
8. Terms and conditions including purchase options, mutually agreeable final adjustment, right of appraisal, and securities interests held by the lessor.
9. A statement describing all express warranties and guarantees made by the manufacturer or lessor and identifying the party responsible for maintaining and servicing the vehicle.
10. A description of the insurance provided by the lessor.
11. A description of any security interest held by the lessor.
12. The number, amount, and due dates or periods of payments under the lease and the total amount of such periodic payments.
13. Liabilities at the end of the lease term, fees, taxes, and penalties. 12 C.F.R. § 213.4.

READ THE ENTIRE CONTRACT BEFORE SIGNING IT!

NO COOLING OFF PERIOD

All potential buyers should be aware that the three-day "cooling off" period for canceling many consumer contracts **does not apply** to car leases unless expressly provided in the sales contracts! IF YOU LEASE AN AUTOMOBILE, DO NOT EXPECT TO RETURN IT WITHIN THREE DAYS AND GET YOUR MONEY BACK!

In the event of a problem, you should always first try to resolve the problem with the salesperson or, if necessary, the owner of the dealership. Most problems can be resolved at this level. If problems continue after the purchase of a new car, a buyer should contact the local Department of Motor Vehicles Office listed in the State Government listings at the front of the telephone directory.

RESOURCES

Federal Trade Commission: (877) FTC-HELP; www.consumer.ftc.gov/features/feature-0009-military-families

- Consumer Information: www.consumer.ftc.gov; (877) FTC-HELP
- File a Consumer Complaint: www.ftccomplaintassistant.gov

Department of Transportation Auto Safety Hotline: (800) 424-9393

Servicemembers Civil Relief Act, 50 U.S.C. § 3901 et seq. (2016).

Consumer Leasing Regulations, 12 C.F.R. Part 213 (2013).