CONSUMER'S GUIDE TO VEHICLE LEASING

BUREAU OF AUTOMOTIVE REGULATION
MICHIGAN DEPATMENT OF STATE

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Keys to Vehicle Leasing

This brochure gives an overview of the most common type of vehicle lease—a closed-end lease. With this type of lease, you may return the vehicle at lease end, pay any end-of-lease costs, and "walk away." This brochure also provides you with a comparison of leasing and buying.

The federal Consumer Leasing Act gives you the right to information that helps you understand and negotiate your lease. A number of leasing options are available. Look for the lease that best fits your needs, your budget, and your driving patterns.

Inside is a sample form like the one your dealer or leasing company must give you before you sign a lease.

Consider beginning, middle, and end-of-lease costs

At the beginning of the lease, you may have to pay your first monthly payment; a refundable security deposit or your last monthly payment; other fees for licenses, registration, and title; a capitalized cost reduction (like a down payment); an acquisition fee (also called a processing or assignment fee); freight or destination charges; and state or local taxes.

During the lease, you will have to pay your monthly payment; any additional taxes not included in the payment such as sales, use, and personal property taxes; insurance premiums; ongoing maintenance costs; and any fees for late payment. You'll also have to pay for safety and emissions inspections and any traffic tickets. If you end your lease early, you may have to pay substantial early termination charges.

At the end of the lease, if you don't buy the vehicle, you may have to pay a disposition fee and charges for excess miles and excess wear.

Leasing is different from buying. Here's how . . .

	Leasing	Buying
Ownership	You do not own the vehicle. You get to use it but must return it at the end of the lease unless you choose to buy it.	You own the vehicle and get to keep it at the end of the financing term.
Up-front costs	Up-front costs may include the first month's payment, a refundable security deposit, a capitalized cost reduction (like a down payment), taxes, registration and other fees, and other charges.	Up-front costs include the cash price or a down payment, taxes, registration and other fees, and other charges.
Monthly payments	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 other finance charges, taxes, and fees.
Early termination	You are responsible for any early termination charges if you end the lease early.	You are responsible for any pay-off amount if you end the loan early.
Vehicle return	You may return the vehicle at lease end, pay any end-of-lease costs, and "walk away."	You may have to sell or trade the vehicle when you decide you want a different vehicle.
Future value	The lessor has the risk of the future market value of the vehicle.	You have the risk of the vehicle's market value when you trade or sell it.
Mileage	Most leases limit the number of miles you may drive (often 12,000–15,000 per year). You can negotiate a higher mileage limit and pay a higher monthly payment. You will likely have to pay charges for exceeding those limits if you return the vehicle.	You may drive as many miles as you want, but higher mileage will lower the vehicle's trade-in or resale value.
Excess wear	Most leases limit wear to the vehicle during the lease term. You will likely have to pay extra charges for exceeding those limits if you return the vehicle.	There are no limits or charges for excessive wear to the vehicle, but excessive wear will lower the vehicle's trade-in or resale value.
End of term	At the end of the lease (typically 2–4 years), you may have a new payment either to finance the purchase of the existing vehicle or to lease another vehicle.	At the end of the loan term (typically 4–6 years), you have no further loan payments.

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Sample Leasing Form

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You can compare different lease offers and negotiate some terms. Consider . . .

- the agreed-upon value of the vehicle—a lower value can reduce your monthly payment
- up-front payments, including the capitalized cost reduction
- the length of the lease
- the monthly lease payment
- any end-of-lease fees and charges
- the mileage allowed and per-mile charges for excess miles
- the option to purchase either at lease end or earlier
- whether your lease includes "gap" coverage, which protects you if the vehicle is stolen or totaled in an accident.

Ask for alternatives to advertised specials and other lease offerings.

Know your rights and responsibilities

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
- excess wear charges when you return the vehicle. The standards for excess 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.

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For more information . . .

Contact your dealer, manufacturer, leasing company, or financial institution for more information.

The federal Consumer Leasing Act and some state laws may provide you with additional consumer rights not covered in your lease agreement. For information on these laws, contact your state's consumer protection agency or Attorney General's office. You also can contact

Division of Consumer & Community Affairs
Mail Stop 800
Federal Reserve Board
Washington, DC 20551

or

Consumer Response Center
Federal Trade Commission
6th and Pennsylvania Ave., N.W.
Washington, DC 20580

To obtain additional copies of this brochure, contact Publications Services, Board of Governors of the Federal Reserve System, Mail Stop 127, Washington, DC 20551.

Learn more about leasing on the Federal Reserve Board's Web site: http://www.bog.frb.fed.us/pubs/leasing

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