

## ACVL Web Site Phase II

### FREQUENTLY ASKED QUESTIONS

#### **At the beginning of the lease:**

##### **1. Am I paying interest as part of my lease payment?**

No, but leases do include rent charges, which are similar to interest or finance charges on a loan or credit agreement.

##### **2. How are rent charges calculated?**

Rent charges are calculated at the beginning of the lease based on the adjusted capitalized cost, residual value and term. Most lessors use a “money factor” to calculate the rent charges by applying it to the sum of the adjusted capitalized cost and residual value.

##### **3. Why doesn't my lease show a lease or interest rate?**

In leasing, there is no federal requirement for lessors to disclose a lease rate and no federal formula for calculating a lease rate. Standardizing the lease rate calculation would be extremely complex. Because a lease rate is not a reliable measure of the total lease cost, federal regulators have decided not to require a rate disclosure since it could mislead consumers.

The lease agreement will disclose the rent charge – an amount charged in addition to the depreciation and any other amortized amounts as part of your base monthly payment. This charge is similar to interest or the finance charge on a loan.

##### **4. Why do leases have mileage limitations and purchases do not?**

Vehicle leases include a mileage limit because the residual value is based on the expected mileage. You have a right to return the vehicle at lease end without responsibility for the actual vehicle value. This is one of the principal advantages of leasing. There is no similar guarantee when purchasing a vehicle. Driving more miles reduces the value of the vehicle. Excess mileage charges are the way lessors recover the decrease in value from the additional use. When you purchase a vehicle, if you drive more miles than you expect, there is no excess mileage charge owed to the creditor. However, the vehicle will be worth less when you trade or sell it so the used car market imposes an “excess mileage charge” through the reduced vehicle sale price. Even if you keep the vehicle, the vehicle value has been reduced by the extra mileage. The extra mileage is reflected not only in a reduced vehicle value, but also in the likelihood of higher future maintenance costs.

## **5. What is the mileage I can drive?**

Closed-end leases limit the number of miles you can drive before you are charged for additional mileage (often an average of 12,000 or 15,000 miles per year). The miles included in your lease are stated in the lease agreement. Some lessors offer lower mileage leases, e.g., 10,000 miles per year. However, most consumers drive 12,500 – 15,000 miles per year. Selecting a lease with lower mileage than you expect to drive will usually subject you to excess mileage charges if you return the vehicle. It is best to match your contract to your actual anticipated driving.

## **6. Can I purchase additional mileage if I intend to drive more?**

Yes, when negotiating your lease, you generally can request a higher (or a lower) mileage limit. In the case of a higher mileage limit, the residual value will be reduced to reflect the higher mileage and resulting greater depreciation, which results in a higher monthly payment. It often costs less for you to request a higher mileage limit during the lease (that increases your monthly payment) than to pay for excess miles at the end. Increasing your mileage limit and your monthly payment can reduce or eliminate large end-of-term excess mileage charges. It also will reduce the total rent charge since the average lease balance is reduced.

## **7. If I don't use all of my allowed mileage, do I get a refund for the unused portion?**

If you purchase more than 15,000 miles per year, some lessors will refund unused miles. However, there is no refund for unused miles unless it is stated in your lease.

## **8. How do I decide if I should pay a capitalized cost reduction (down payment)?**

A capitalized cost reduction is the sum of any cash down payment, trade-in allowance or manufacturer or dealer rebate in your lease. The advantage of paying a capitalized cost reduction is that you reduce your monthly payment in two ways. First, it reduces the amount of "Depreciation and Any Amortized Amounts" shown on your lease agreement that you pay as part of your monthly payment. Second, it reduces the total rent charges by reducing the beginning lease balance (the adjusted capitalized cost), thereby reducing the average lease balance over the term. However, once you have paid a capitalized cost reduction, the money is not "refundable" and so will not be available for other financial needs that you may have during the lease.

## **9. What does it mean to be "upside down" in my vehicle or to have "negative equity"?**

"Upside down" is an industry term that means your early termination payoff to the lender or lessor is more than the market or trade-in value of the vehicle. The difference that you are obligated for is called "negative equity." You may either pay the negative equity, or,

if the lessor agrees, include all or part of the negative equity as a portion of the gross capitalized cost on the new lease transaction.

#### **10. Do rebates and incentives apply to leases?**

Yes, lease rebates and incentives may be offered by a manufacturer, dealer, lessor, or assignee and may be paid to you separately or credited and applied to your lease agreement.

#### **11. What is an acquisition fee?**

The acquisition/administrative fee usually covers a variety of administrative and insurance or risk-related costs. These **may** include the costs of obtaining a credit report, verifying your insurance coverage, checking the accuracy and completeness of the lease documentation, entering the lease in data processing and accounting systems, and purchasing insurance for or reserving funds for residual value losses, gap coverage losses and other lease losses (e.g. some lessee excess wear and tear costs if specified in the lease agreement ). It is a charge included in most lease transactions that is either paid up front or is included in the gross capitalized cost. Without an acquisition fee, lessors have to charge higher rental charges.

#### **12. What is a security deposit?**

A security deposit is used by the lessor or assignee in the event of default or at the end of the lease to offset any amounts you owe under the lease agreement. Some lessors permit you to pay higher rent charges or a higher acquisition fee rather than a security deposit.

#### **13. Who is responsible for insuring the vehicle?**

In most leases, you are responsible for purchasing and maintaining vehicle insurance throughout the term of the lease. Your lease agreement will list the insurance requirements. When you sign the lease agreement, you may be required to show proof of insurance coverage before taking delivery, including the insurance company, agent, insurance amounts, coverage dates, and policy number. You are required to maintain this insurance until you return the vehicle to the lessor or purchase it at lease termination.

#### **14. Is the insurance coverage different for a leased vehicle than a purchased vehicle?**

The type of insurance coverage and the insurance rates are not different for leased or purchased vehicles, except that there may be a small charge for you to request that the lessor be an “additional insured.” In this way, your insurance would also cover the lessor. But the lessor may require a higher amount of insurance than you normally carry. For example, the following types of insurance are typically required:

- collision insurance with a maximum deductible usually of \$500 or \$1,000

- comprehensive fire and theft insurance with a maximum deductible usually of \$500 to \$1,000 and
- liability insurance with coverage requirements of \$100,000/\$300,000/\$50,000 (\$100,000 of bodily injury insurance for the injuries of one person, up to \$300,000 for two or more persons per accident, and up to \$50,000 for property damage).

*Note: The maximum deductible amounts and the coverage limits are designated in the lease agreement but you can have lower deductibles or buy more liability and collision coverage if you wish.*

**15. If I lease a used car, does it come with a warranty?**

It depends. Used cars may continue the manufacturer's warranty from when they were new cars (e.g., if you lease a 2-year old vehicle that had a 3-year warranty when it was new, you will still have 1 year left on that warranty, assuming any mileage limit on the warranty was not exceeded). Some used cars carry separate warranties from the lessor. Some states may have laws that provide warranty rights.

**16. Is there a time period (e.g. 3 days) in which I can cancel my lease agreement?**

No, generally not. Be certain that you want to lease before you sign the lease contract.

**17. Do I get copies of all the papers I sign at the dealership or leasing company?**

Under federal law, you must receive a copy of your federal lease disclosures. State laws determine whether you get copies of all the other documents that you sign. However, you should ask for copies of these regardless of the state law.

**During the lease:**

**18. Can I have my lease payments electronically sent from my bank account?**

Most lessors will welcome electronic payments.

**19. If I get transferred to another state, can I take my vehicle with me?**

Some lessors, particularly those operating regionally, prohibit lessees from permanently moving the leased vehicle to another state. In most lease agreements, if you have the right to move out of state, you must notify the lessor that you have moved and be sure that the vehicle is properly titled and registered in the new state and all taxes are paid. If you move, you should be aware that a new state might tax your vehicle and your lease in a different manner. Some states collect certain taxes at the beginning of the lease while other states collect these taxes during the term of the lease

## **20. Can I take my vehicle to another country?**

Most lessors restrict your right to take the vehicle out of the country. However, there may be exceptions for vacation use to visit certain countries. Please refer to your lease agreement.

## **21. Can I terminate my lease early?**

Virtually all leases permit you to terminate your lease early as described in your lease agreement. However, you may have to pay a substantial charge if you want to return the vehicle because most vehicles depreciate faster than the actual depreciation paid during the early stages of a lease. For specific requirements, see your lease agreement.

## **22. How are early termination charges calculated?**

If you return the vehicle at early termination, the charge is generally the difference between the early termination payoff and the amount credited to you for the vehicle after its sale in the wholesale market. The early termination payoff is the total amount you owe under the lease agreement at the time of termination before subtracting the value credited to you for the vehicle. The early termination payoff includes the unpaid lease balance.

## **23. What happens if my vehicle is stolen or totaled in an accident?**

Generally, this is an early termination of the lease (although some leases allow the lessor to substitute a similar vehicle to complete the original lease). Some leases include “gap coverage” at no additional charge that covers some or all of the “gap amount” that you may owe at early termination after a casualty loss. The gap amount is the difference between the early termination payoff and the amount for which the vehicle is insured. The difference is primarily due to the insurance settlement being based on the wholesale value of the vehicle. The gap amount does not include any past due amounts you owe or other fees such as late charges assessed to your account, your insurance deductible or any other policy deductions. If your lease does not include gap coverage (without an additional charge), you can generally purchase gap coverage from the lessor or another third party at the beginning of the lease.

## **24. What happens to my lease if I become disabled and no longer want the vehicle?**

Your lease remains in effect. Talk with your lessor to see what your options are for early termination or subleasing.

**25. What happens if I die during the lease term?**

Generally your lease will terminate early with your estate held responsible for any early termination charge. Some lessors may allow your spouse or another party to assume the lease.

**26. Is it possible to transfer my lease to another party that is not on the lease?**

Lessors have a variety of different policies concerning lease transfers (called “subleasing”). Generally, if the lessor permits subleasing, the sublessee will have to meet the same credit standards that you met. You will remain responsible for the performance of the lease terms including all payments, so it is important to find a fully responsible person in this situation to take over your lease. In some states, it is illegal to sublease vehicles without the explicit written consent of the lessor. If the lessor does not agree to a sublease, then you cannot transfer the lease.

Some businesses charge a fee to find someone to assume the lease. They may or may not be able to find a suitable consumer.. These “subleasing” companies may advise you not to inform the lessor “so they can’t turn you down.” However, you will risk the vehicle being given to an unqualified party. In addition, there have been numerous cases in which both the vehicle and the subleasing company disappeared, leaving the lessee responsible for the missing vehicle and the payoff on the lease. You should check with your local consumer protection agency and your lessor about any subleasing company you are considering.

**27. If I have temporary financial difficulties, what can be done? Can I extend my lease beyond the lease term for a month or two?**

Lessors have a variety of different policies concerning lessee financial problems. Some lessors allow you to skip a payment or extend the lease. The lease depreciation and monthly payment may be increased or a fee charged because the vehicle will be older and will have more mileage, which will increase the lease depreciation. If different arrangements are made, ask to get the terms in writing.

**28. Who is responsible for paying for maintenance?**

Lease agreements generally require you to follow all manufacturer maintenance requirements. Typically, you pay separately for vehicle maintenance.

**29. What do I do if I receive notification of a recall on my leased vehicle?**

Most leases require you to have the repair made by the manufacturer’s representative, normally the dealer. If you don’t respond to the recall, it may affect your warranty coverage or the excess wear and tear charges at the end of the lease, or be treated as a default.

### **30. How do I renew the registration for the vehicle?**

You usually must pay for all annual state and local government fees required to register the leased vehicle and operate it. Either the state or the lessor will mail you the registration renewal application just as if you owned the vehicle. You then renew the registration for the vehicle in the usual way.

### **31. Am I developing equity in my leased vehicle?**

In most cases you are not. However, if the market value of the vehicle is more than the residual value stated in your lease (i.e. the actual depreciation was less than the depreciation shown in your lease), there is equity in the vehicle. However, you don't receive this equity in the vehicle if you return it at the end of the lease. You can acquire this equity in two ways:

1. exercise your purchase option
2. transfer your purchase option to a dealer or other third party you choose for a fee.

### **32. What do I do if I have a problem with my lease? Who can I turn to?**

Your first step should be to talk with the dealership or leasing company directly. If you still have a problem, your next step would be to talk with staff in your state's Division of Motor Vehicles or your state's Attorney General's office. 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. If your lessor is a bank, you can contact the bank's regulator. If your lessor is not a bank (for example, if it is a captive finance company or an independent leasing firm), you can contact the Federal Trade Commission. You also have the right to hire an attorney.

## **At the end of the lease:**

### **33. At the end of the lease term, can I turn in the vehicle at a dealership other than the one from which I took delivery?**

Lessors have a range of different policies concerning the return of leased vehicles at the end of the term. If the lessor's or assignee's policy is for you to return the vehicle to the originating dealership or leasing company, then, upon request, you may be able to return the vehicle to any dealership affiliated with that lessor. On the other hand, you may need to return the vehicle to a specific location; check your lease agreement for details.

### **34. What is considered "normal wear and tear"?**

Any wear to the vehicle that is not defined as "excess" is "normal." Each lessor's standard for "excess" wear and tear is found in the lease agreement. Typical examples of excess wear and tear include:

- Broken or missing parts

- Dented or damaged body panels or trim
- Cuts, tears, burns or permanent stains in the fabric or carpet
- Excessively worn tires
- Cracked or broken glass
- Poor quality repairs

In addition to being responsible for excess wear and tear, you are generally responsible for all scheduled maintenance and servicing including oil changes.

**35. What should I do to find out whether I will be charged for excess wear and tear on my vehicle?**

Some lessors require or permit you to have the vehicle inspected for excess wear and tear prior to the scheduled termination date. This procedure gives you notice of any expected excess wear charges and an opportunity to repair or service the vehicle before it is returned. Your insurance policy may cover some of these repairs, and thus defray your cost.

**36. How long will it take to get my security deposit back?**

Lessors have a range of different policies concerning the return of security deposits. Generally, the lessor will return your security deposit when you have paid: (1) all amounts due under the lease (including any end-of-term costs); (2) any taxes due such as personal property taxes; and (3) any other government fees such as parking tickets. Once these obligations are met, any remaining part of your refundable security deposit should be returned within a few days or weeks.

**37. If my replacement vehicle that I have ordered is not in when my lease ends, can I continue leasing my current vehicle?**

Most lessors will allow you to extend the lease while waiting for a replacement vehicle. Generally, the lease extension is done on a month-to-month basis. If the extension is for more than 6 months, you should receive a new set of Consumer Leasing Act disclosures.