LeaseAdvisor

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To every person that ever felt
like they had been taken.

Table of Contents

Leasing Basics

What is a lease?

Car leasing was designed to make cars more affordable to consumers. As prices on cars have risen, the ability for consumers to afford a loan has decreased. Enter car leasing.

Car leasing allows companies to reduce the monthly payments on a car by only requiring the buyer to pay for the cost of the car **during the time they are using it**. It's very similar to renting - you don't own anything, you are just paying for the right to use something.

Unlike buying, however, you never actually own the vehicle and you have to return it to the bank at the end of the lease. The idea of leasing first became popular in the 1990's when cars became too expensive to buy for many people. Leasing allows a person to drive a brand new car and make

lower monthly payments, thus making the "new-car experience" more accessible to more people. In addition, leasing can offer tax breaks for certain occupations.

Who do I lease from?

When you write a lease, you are typically entering into an agreement with a leasing company or a bank that has a leasing program. Most people think that they are leasing from their car dealer, but this is not true!

The car dealer is NOT the leasing company!

In addition, many car manufacturers have their own leasing companies such as GMAC, Ford Motor Credit, and BMW Financial Services that specialize in creating financing programs for their own vehicles. Typically when you see an ad for financing on a certain vehicle, it's the manufacturer's finance company that is creating that special to sell more of their cars.

When you visit a car dealer and are presented with a potential lease payment, it is the leasing company that you will ultimately lease this car from. The car dealer sells the actual car to the leasing company who then turns around and leases it to you. Keep in mind that during that process the dealer is getting paid a commission from the leasing company to offer you this financing. More about that part of negotiation later.

Which terms do I need to be familiar with?

There are 6 terms that you must be familiar with in order to understand how a lease works:

- Capitalized Cost
- Depreciation
- Residual Value
- Interest Rate (Money Factor)
- Term
- Taxes

All of these factors help determine your monthly lease payment. We will discuss how your monthly lease payment is calculated later based on these factors.

Capitalized Cost ("Cap Cost")

The capitalized cost is the purchase price of the vehicle. This will sometimes be referred to as "Cap Cost".

You may have heard of MSRP (Manufacturer's Suggested Retail Price) - this is just the list price of the vehicle to a customer. It is not necessarily what you will ultimately pay for the car, but simply a guideline to help set a precedent for what a new car is worth.

Do not let the dealer tell you that the Capitalized Cost is not important in a lease - it is VERY important!

You will want to find and negotiate the lowest cap cost that you can for your vehicle, just as if you were buying your car with cash. The lower your capitalized cost, the lower your payment will be.

When you finally settle on the purchase price of your vehicle, you will see this final amount represented as the "Cap Cost Reduction" - this is just the difference between what the car was offered for and what you agreed to pay for it.

Depreciation

The depreciation amount is the primary factor that determines the cost of leasing. With this in mind, it is essential to understand what it is and how it is calculated. Every year a car is in existence the value of that car drops. This is depreciation.

The largest part of your leasing payment is depreciation - the cost of owning your vehicle over a fixed period of time.

When you lease a car, every year the car is worth less. Therefore the leasing company wants to make sure you pay the difference in the value of the car when you bought it from the value of the car when you turn it in. Here is an example:

	Value of Vehicle
At Purchase	$25,000
After Year 1	$17,500
After Year 2	$13,750
After Year 3	$10,000
Total Depreciation	**$15,000**

As you can see, the vehicle has lost $15,000 of value over a 3 year (36 month) period.

An interesting fact about depreciation is that regardless of leasing or buying, your car will still depreciate the same amount. Many salesmen will tell you that “leasing is a bad investment” - remind yourself that your car is worth the same whether you lease it or buy it. Your time may be better spent determining what vehicles are likely to depreciate the most, and opt for a vehicle that tends to hold a higher residual value.

Residual Value

The value of your car at the end of your lease is called the Residual Value. In the example above, the Residual Value at the end of three years was $10,000. When creating your lease, the leasing company predicts how much the car will be worth at the end of your lease. They do this by using industry guidebooks like the Automotive Leasing Guide (ALG) that track the value of cars at the end of their lease. Not every company uses ALG - some set their own residual prices based on their own needs.

The higher the projected residual at the end of your lease, the lower your monthly payment.

If you consider that your largest portion of a payment is the depreciation, then it is important to know how depreciation is calculated. The formula is very simple, but always starts with understanding what term you will be considering (36 months, 48 months, etc.). If you already know the residual value, the term of the lease, and the capitalized cost, you are ready to calculate your depreciation. Once you have these values in hand, the math is simple:

Capitalized Cost **minus** Residual **divided by** Lease Term. Take a look at this example:

	Factors
Capitalized Cost	$25,000
Residual Value	$10,000
Term	36 Months
Depreciation per Month	$416.66

Let's apply this formula to the above factors:

Capitalized Cost ($25,000) **minus** Residual ($10,000) **=** $15,000

$15,000 is the total amount of depreciation over a three year period. Now simply do this:

Divide (total amount of depreciation) $15,000 **by** Term of Lease (36 months) **=** $416.66 per month

Interest Rate (Money Factor)

Most people are familiar with an interest rate but seem to be confused by a "money factor."

An Interest Rate and a Money Factor are very similar! They are just represented differently.

- An Interest Rate is represented as a percentage (like 6.5% interest).
- A Money Factor is represented by a figure behind a decimal point (like .00250)

The way to convert a Money Factor into a comparable Interest Rate is to multiply the money factor by 2400. Therefore a Money Factor of .00250 converts to an interest rate of 6%.

Though some believe that leasing interest rates are different than automotive leasing rates, this is not necessarily true. Most "good" leasing Interest Rates are comparable to new car interest rates and in some cases lower! We will discuss finding the right interest rate in greater detail in Shopping for your Lease.

Term

The Term of the lease determines how long you will lease the car for. Typically you will hear of 36, 48, and 60-month term agreements. However lease Terms can run for as few as 24 months and as long as 72 months! There are even mid-year terms such as 39-month or 42-month terms that are designed to bring customers back into the dealership during different times of the year.

Customers have all kinds of reasons for choosing a short or long-term lease. Short-term lease customers typically want to change vehicles often and are willing to pay a slightly higher payment to have this option. Long-term lease customers are often willing to sign up for a long-term liability in exchange for a slightly lower lease payment.

Most popular lease terms on new cars coincide with the vehicle's warranty duration, which is why leasing is often beneficial because the car is covered under warranty for its entire term.

The leasing company would prefer that you stay in the car as long as possible so they can earn as much interest during the term of the lease from you.

Taxes

Your taxes are figured differently based on which region of the country you are in. Some states choose to calculate your taxes based on the overall cost of your vehicle while others only tax the portion of your vehicle that you are leasing (the entire amount of depreciation).

Taxes are most often paid on a month-to-month basis and rolled into your payment to make them easier to pay. Because every state is different it is best to contact a local dealer or your Department of Motor Vehicles to determine how taxes are calculated in your area.

Putting your knowledge to work

Understanding a mechanics of a lease is just the beginning. Throughout this book you will learn how to put leasing to work for you to lower your operating costs of a vehicle and to find the best deals in the market.

For practice, consider looking at some of the vehicle ads in your local newspaper and get a sense for how these leases are computed. Over time you will begin to immediately spot a good deal from a bad one. From time to time there are some incredible deals out there, so you should be adept at spotting them quickly and taking advantage of them.

Lease vs. Loan

Understanding the Financing

One of the biggest decisions customers must make when financing a car is to lease or take on a loan. Let us first understand the differences and then discuss the benefits of both.

> **The biggest mistake people make when comparing a lease versus a loan is thinking that depreciation - the largest cost of a monthly lease payment - is different. They are exactly the same in both cases.**

It is important to first understand depreciation.

Whether you take on a loan or create a lease, your car is still going to depreciate at the same rate. This means that if your car is worth $20,000 when you buy it, and then $7,000 in 5 years, you still had to pay for the $13,000 that was depreciated over the term.

Here is where the difference between a loan and a lease really come into play. In a lease, you only pay the depreciation of the car throughout the term of the lease. In a loan, you pay the depreciation <u>plus</u> the additional principal that is required to pay the car of within the five year term (or whatever you choose). Do not forget that in both cases you are also paying the interest payments as well as taxes.

How a Loan Works

In order to pay off a loan within a given period you need to divide the cost of the vehicle by only five years. In a lease you only pay the *depreciation* of the vehicle, not the entire price.

Because you are paying the entire balance of the cost of the car in a loan, you own the car at the end of the term. This also causes the payments to be much higher in a loan than in a lease.

Remember, even though you own the car at the end of a loan, you still lost the same amount of value in the vehicle as if you had leased it. The only reason you own the car at the end of a loan is because you paid the extra money each month to pay off the principal balance.

Another Notable Difference

Much like a home mortgage, in a loan scenario, your monthly payment includes much more interest per payment at the beginning of the loan than at the end. A lease, however, charges the exact same amount of interest in each payment. Because of this, you may find yourself "upside down" in a loan for the first couple years because you are not paying off enough of the principal cost of the car during the beginning of the term. Loans are designed to pay lenders "up front" because you are not obligated to continue the loan through the entire term. Leases, on the other hand, require you to pay a fixed amount for a fixed period of time, and therefore leasing companies can charge customers in a different manner.

How a Lease Works

At the end of a lease you do not own the car, but you also did not have to pay the extra money each month during the term of your lease. If you want to own your car at the end of a lease, you can easily do so by purchasing the car at the Residual Price. Keep in mind that you can purchase a vehicle at lease end if you really want to keep it.

The difference between a loan and a lease really comes down to how you want to use the additional money. Do you want to invest it in your vehicle or do you want to invest it elsewhere, such as a mutual fund or an interest-bearing account? Most people who opt to pay the money through the course of a loan do so because they are not comfortable managing that extra money elsewhere, and therefore they prefer to ensure that it goes toward one cause specifically.

There is really no right or wrong here, just personal preference. We often recommend to our new car buying customers that they opt for a lease because if they decide to purchase the car, they can wait until the end of the lease term to make that decision. It's often a good way to "test" the car out before committing to it long term. Buying the vehicle at the end of the term is also a great way to avoid having to pay over mileage fees if you are not staying on track with your monthly mileage allotment.

Early Termination

A big benefit to a loan versus a lease is flexibility. With a lease, if you want to terminate your lease early, it can be very difficult (though far from impossible) to do. Companies like Swapalease.com specialize in helping customers walk away from their vehicle lease early without paying huge penalties. (For complete information on terminating a lease early, see "Exiting a Lease Early.")

But even this option is not as easy as having a loan. Let us discuss why:

Both a Loan <u>and</u> a Lease have certain restrictions on early termination that you must be aware of.

Early Termination of a Lease

A leasing company must create a binding contract with a customer because they are agreeing to buy the car from the dealer for a specific price. The only reason they are willing to buy this car on your behalf is because you have agreed to rent it from them at a premium price. It is a different way for a bank to earn interest on their capital, which is how they make money.

The problem a bank has is that not all customers are able to continue making payments through the term of the lease, which creates a lease default. Banks worry about lease defaults because they own the car, which means they now have to assume a loss on the vehicle because it is no longer earning interest payments on the lease. Therefore, the bank will make every effort to ensure you continue to make your payments as promised!

Early Termination of a Loan

A Loan does not necessarily have a penalty imposed by a bank; however there is another penalty that you must be aware of. When taking on a loan often the depreciation of the vehicle occurs faster than you pay off your principal. For example, when you first drive your car off the lot, it can easily depreciate as much as 10% just because it is no longer considered "new".

Because of this, you are considered "upside down" in your loan. This means that the value of the car is less than what you owe on your vehicle. In many cases it may take 1 - 2 years before you become "right side up" in your loan where you own more equity in the vehicle than it is worth. This is a common misconception about loans.

As mentioned earlier, a loan is also compounded with the problem that most of the interest payments are charged up front, leaving you with very little equity in the vehicle that your monthly payments are contributing toward. So even though you have no contractual liability, you are now saddled with a vehicle that you cannot sell elsewhere or trade-in without taking a huge loss.

If you are considering a loan for the purposes of "exiting early" at any point, you must take into serious consideration these factors. While you certainly have the flexibility contractually, if you cannot actually get out of your loan without paying thousands of dollars in negative equity, there really is not a huge benefit.

Let's take a look at the comparison of the two.

Comparing a Lease versus Loan

Let's take a quick look at the similarities and differences between taking on a loan versus a lease. You'll notice that they are more similar than different:

Similarities	Differences
• Monthly Payments • Vehicle Return • Future Value • Upfront Costs • Total Costs • Frequency Changing Vehicles • Gap Coverage • Warranty Expiration • Ownership • Mileage • Rate Disclosure	• On-going costs • Early Termination • Options at Early Termination • Vehicle Maintenance and Wear

• End of term • Excess Wear	

What you need to consider in making your choice is the longevity of the commitment and the likelihood that you are going to have a need for this particular vehicle at the end of the lease. A lot can change in 3-5 years, so you need to make sure you are comfortable with this type of decision.

There are a number of benefits to leasing as well as taking on a loan. Below is a simple view of the similarities, differences, and points that are surprisingly the same.

Lease Benefits	Loan Benefits
• Lower Monthly Payments • Want a new car every 3-5 years • Want warranty coverage during full term of contract • More cash retained during contract	• Drive over 10-15,000 miles per year • Need flexibility to sell within 3 years • Do NOT want car payment after 5 years • No additional charge for wear and tear at end of lease

These Qualities are the SAME for both a Loan and Lease
• Will depreciate (lose value) at the same rate • Interest rate will be approximately the same • The selling price of the car is the same • Warranty will expire at the same time • Insurance is required for both

Calculating your Monthly Lease Payment

Now that you understand the basics of leasing, let us take a look at how your monthly payment is calculated. A monthly lease payment is actually pretty easy to understand.

The problem with leasing today is that so few consumers understand how to be certain their payment is calculated correctly. It is not unusual for customers to overlook certain charges and factors because they do not understand the mechanics of a lease.

In this section we are going to make sure you understand exactly how a monthly lease payment is calculated and what you need to do to ensure your number matches the dealers.

What makes up a monthly lease payment?

A monthly car lease payment is a combination of three factors:

- **Depreciation**
- **Rent Charge**
- **Taxes**

Depreciation is the largest component of your monthly payment. Let us calculate that first. Depreciation is the amount of value your vehicle will lose over the course of your lease.

Many people do not realize the fact that regardless of how you pay for your vehicle, it is going to depreciate at the same rate. This means that whether you take on a loan, lease, or pay cash, your car will still lose a certain amount of value every year. This loss in value is considered the Depreciation, and it is factored into the cost of your lease.

Calculating Depreciation

Depreciation = **(<u>Net</u> Capitalized Cost** - **Residual) ÷ Term**

The **Net Capitalized Cost** is the total cost of your vehicle <u>after</u> negotiation with the dealer. Be sure you are calculating *this* cost versus the original price of the vehicle.

To factor in your **Residual** you will have to know what residual price your leasing company will set on the vehicle. The Term is set by you and can range from 24 – 72 months depending on your preferences. Let's look at an example:

Factors	**Results**
Net Capitalized Cost	$25,000
Residual	$15,000
Term	36 Months
Total Depreciation	**$10,000**
Depreciation ÷ Term	**$277.77**
Monthly Depreciation	**$277.77**

As long as you know the Net Capitalized Cost, Residual and Term, you can calculate your depreciation very easily.

Please note that when you extend your term to 48, 60, or 72 months (or whatever term you set with your leasing company) your Residual amount will change, which affects your monthly depreciation. Because a car tends to depreciate at a slower rate after a few years, your residual amount will not drop as far, and therefore your depreciation will not be quite as great for the entire term of the lease. (Translation: Your payment will be lower in a longer-term lease.)

Calculating Rent Charge (Finance Fee)

Your Rent Charge (or Finance Fee) is the cost you pay to your leasing company for the use of the money that purchased the car. If you took out a loan, you would pay this in the form of a straight interest payment. **A Finance Fee on a lease is calculated slightly differently than a traditional interest payment.**

Rent Charge = (**Net Capitalized Cost** + **Residual) × Money Factor**

A Rent Charge requires you to add both the Net Capitalized Cost of the vehicle *to the Residual* before you multiply it by your Money Factor (*for more information on determining Money Factors, see "Leasing Basics")* Many people think that adding both the Net Capitalized Cost and the Residual would not make sense, but it's a simplified method of accounting for the use of the bank's money.

Misunderstanding this formula is a very common error among consumers looking to calculate their own lease payment.

Let's look at an example:

Factors	**Results**
Net Capitalized Cost	$25,000
Residual	$15,000
Total Net Cap Cost + Residual	**$40,000**
Money Factor	.0025
Money Factor × Total Cap Cost + Residual	**$100.00**
Total Rent Charge (Finance Fee)	**$100.00**

Notice that when you add both the Net Capitalized Cost to the Residual you get a total of $40,000, which increases the total balance you will use to multiply with your money factor.

Your Rent Charge and Depreciation makes up the largest portion of your monthly payment. Working with these values will make the largest impact on keeping your payment as low as possible. There is a small consequence that will reflected in your taxes, which is the third component of your payment. Obviously the larger your monthly payment, the larger your tax component will be.

Let's take a look at calculating your taxes.

Calculating Taxes

As we explained in the earlier section, calculating your taxes into your payment will vary from state to state. Generally speaking, though, most states only tax the monthly payment using the local sales tax. Be careful to note that you must pay tax on both the Depreciation and the Finance Fee.

How to Calculate a Sales Tax Payment

Sales Tax Rate × (Depreciation Per Month + Finance Fee Per Month)

Let's look at an example:

Factors	**Results**
Depreciation per Month	$277.77
Rent Charge (Finance Fee) per Month	$100.00
Total Depreciation + Finance Fee	**$377.77**
Local Sales Tax Rate	5%
Tax Rate **× (Depreciation + Finance Fee)**	**$25.21**
Total Taxes	**$25.21**

Calculating your lease payment sales tax is really not much different than any other purchase you would make.

Putting it all together - Determining your Monthly Lease Payment

Once you have all the details together, it's time to get a good feel for what your final payment will be well before you ever step foot into a dealership.

Determining your final lease payment is as simple as adding the three principal factors of your lease together:

- **Depreciation**
- **Rent Charge (Finance Fee)**
- **Taxes**

Monthly Payment = **Depreciation** + **Rent Charge** + **Taxes**

We can't stress how important it is to know your monthly lease payment *before* walking into a dealership. If you can't get all the figures you need before you walk into the dealership, you should then consider keeping these formulas handy so that you can do your own math on the spot.

As we mentioned earlier, it’s important to know all the factors that contribute toward calculating your lease, including your Residual, Money Factor, and Net Capitalized Cost. All of these values can change from vehicle to vehicle, and again from year to year.

Fees and Registration

It is important to understand the fees that may be assessed throughout the leasing process. Although the specifics of these fees typically vary by leasing company and state, it is crucial to understand the basics.

Down Payment

A down payment should be viewed as an optional fee that simply buys down the monthly payments on your lease. By putting money down on a lease, you are effectively spreading the money across all remaining payments, which, in turn, create more attractive monthly payments. It is a good idea to avoid a down payment if possible, because the money is a sunk cost that you will never get back. Down payments may be mandatory, though, if you do not have good credit.

Sales Tax on Down Payment

If you do make a down payment, state and local sales tax will likely be assessed on the money that you put down.

Security Deposit

A security deposit is a refundable fee, typically about one month's payment, that may be assessed by the leasing company at the beginning of your lease. Upon returning your vehicle at lease-end, the leasing company will determine whether any money needs to be taken out of the deposit to cover excess wear and tare, excess mileage, damage, or disposition fees. Some leasing companies will waive this fee for those customers with flawless credit ratings.

Initial Monthly Payment

In leasing, it is important to recognize that the payments are expected at the beginning of each month, prior to use of the vehicle. So, your first payment will be due upon signing the lease contract.

Acquisition Fee

The acquisition fee, typically a few hundred dollars, is assessed by the dealer and included in the capitalized cost. The capitalized cost is then used to determine your monthly payments. The acquisition fee is simply a way for the dealer to make extra money on the deal. If you do not see this fee listed in your contract, you should ask about it before you sign.

Disposition Fee

The disposition fee, assessed by the leasing company at lease-end, is justified as compensation for the leasing company's responsibility to sell or dispose of the vehicle once you turn it in. This fee is typically a few hundred dollars, but may be negotiable at the beginning of the lease.

Sales Taxes

Sales taxes vary per state. In some states, each monthly payment is taxed, which means that the driver is not taxed for the entire value of the vehicle. In this type of situation, it is important to note that taxes are paid on the entire value of the monthly payment, which includes interest and financing fees.

In other states, the lessee must pay the taxes for the entire capitalized lease cost upfront. Or, you may even be taxed for the entire value of the vehicle upfront, including the residual value.

Before leasing a vehicle, it is important to research the taxes that will be assessed.

Assuming a Lease

What is a lease assumption?

A lease assumption allows one person to assume an in-process lease from another person.

For example, if your neighbor had 18 months left on his car lease, and you wanted to take over his lease, you would simply assume his lease and start making the payments each month for the remaining 18 months.

At the end of the term you would turn the car into your leasing company just as you would if you had leased the vehicle new. The process itself is relatively easy to understand and can provide a great deal of benefit and financial incentive if you use a lease assumption to your advantage.

What are the benefits of assuming someone else's lease?

For the Buyer (the person assuming a lease) you are able to take over an existing lease with no money down and with a shorter lease term than you would normally have to take on if you were to write a whole new lease. In most cases it is difficult to even find a "short term" lease these days with the average lease term ranging over 40 months.

Assuming a lease can save you thousands of dollars and only require a short term lease agreement.

In many cases, Sellers (those looking to hand over their leases) are willing to offer Buyers incentives in the form of cash or other terms that are exciting to Buyers. We have seen cases where Sellers are willing to write checks as large as $15,000 to walk away from their lease obligations! The incentives offered are typically in proportion to the size of the lease and the intentions of the Seller.

Why would someone want you to assume their lease?

As the existing holder of a lease (let’s call this person a “Seller”), they are already bound to a leasing contract for the duration of their remaining term. In order to exit that lease early, they would have to pay thousands of dollars in early termination penalties to their leasing company. The leasing company is under very little incentive to allow the Seller to return your vehicle to them. They lose thousands of dollars instantly when a vehicle is turned back in early.

The alternative is to find someone else who would like to assume a lease, allowing the Seller to walk away without paying these stiff penalties. In some cases they may offer a cash incentive to a Buyer to make their deal more attractive than a new lease or competing deals.

It’s important to remember that when signing a lease you have a *contractual obligation* to the leasing company for the entire term of the lease. It’s not a month-to-month rental, so your obligation is not just the monthly payment, but the entire amount of the lease, which usually totals tens of thousands of dollars.

Where to start

Sometimes you will find lease assumptions in your local newspaper, through a friend, or perhaps at work. If you were to venture on-line, we would of course recommend visiting Swapalease.com, which is the largest on-line marketplace for vehicle lease assumptions. Swapalease.com specializes in connecting people who want to get out of a car lease with people who want to assume one.

The Web site (and others like it) allows you to search by year, make, model, months remaining, monthly payment, and other criteria. You can also do geographic searches to locate a vehicle in your particular area if that is important to you.

Once you have found a vehicle you are interested in, you should be able to contact the Seller to ask questions and get a general sense for the condition of the vehicle. Later in this section we will suggest some questions you should consider asking a lease seller.

What to look for

Ideally you would like to find a vehicle that has a low monthly payment, has at least 1,000 miles per month available to drive, and is in your area. Finding a short lease term is often of interest as well, but some people plan on keeping their leased vehicle for some time, so they prefer a slightly longer term.

It is possible to sometimes find a lease that is just an absolute steal. But always be aware of *all* aspects of the deal, including the residual and the allotment of miles left on the lease term.

Here are some of the most popular criteria customers search for:

Monthly Payment - Is the price lower than what a new lease would bear? If not, remember that you are not required to put any money down on this lease.

The monthly payment on a lease assumption can be greatly affected by cash incentives and other offers.

Cash Incentive - Sellers will often provide Buyers with cash incentives to make their leases more attractive. Incentives can range from covering a single month's payment to thousands of dollars in cash. Sometimes you will see a lower monthly payment listed which *includes* the cash incentive which means the actual payment may be higher than listed. To be certain, consult the Seller and ask this question directly before proceeding.

Location - Is the vehicle in proximity to you? If not, there are a number of options. Some people prefer to pick the vehicle up themselves by flying or driving to the car and taking it home. If neither of these options works, a vehicle can typically be shipped nationwide for between $500 to a $1,000.

Miles Allowed - This will be different for every vehicle, so you need to pay attention to this. In a case where the Seller has more miles available per month than the average lease, this lease is worth quite a bit more if you plan on driving a lot of miles. Look for deals on mileage allotments!

Lease End Buyout - This is the amount the vehicle is available for at the end of the lease (also called the "Residual Price"). Sometimes you can find a great price on a car at the *end* of the lease. In other cases the Lease End Buyout may be very high, which means that it will cost you a great deal more if you wish to buy the vehicle at the end of the lease.

Contacting the Seller

Whether you are using an on-line Web site or your telephone, there are a few key questions you want to be sure to ask before negotiating your lease assumption. In most cases the car will not be readily available to preview in person, so it's important that you ask questions that can give you a good feel for the vehicle's condition.

In addition to the condition report, you also need to know the condition of the lease itself so that you are not getting yourself into hot water with a lease assumption that is not being fairly represented.

Key Questions to ask a Lease Seller

- What is the condition of the car?
  - Dents? Dings? Scratches?
  - Stains in the interior?
  - Are the windows free of scratches or dings?

- Has the car been smoked in?

- Have there been pets in the car?

- What is the most current odometer reading?

- Does the payment listed include taxes? Is it modified at all from the original lease contract?

- Are there any options or features not listed in the ad?

- How much wear is left on the tires?

- What are the over-mileage fees on the vehicle?

- Are you willing to pay the shipping costs (if necessary)?

- Are you offering a cash incentive?
  - Pay a month's payment (or two)
  - Flat cash settlement at signing
  - Cash amount to account for potential over mileage

- Is there an accident report available for this vehicle?

Negotiating your Deal

Do NOT be afraid to negotiate your lease assumption with a Seller! Seller's are often more willing to negotiate the terms of the transaction than you think.

Your lease assumption is absolutely negotiable, but you need to understand what is and *is not* negotiable. Negotiating with the Seller is easy to do and can be done through e-mail if you are uncomfortable negotiating over the phone or in person. Typically it is not unreasonable to ask the Seller to offer some sort of incentive if the deal is not already below market. This may be one month's lease payment, a few hundred dollars or an aftermarket stereo that is left in the vehicle. Your options are endless, but it never hurts to ask.

Negotiable	Not Negotiable
Cash Incentive	Term of Lease
Keep aftermarket items (speakers, stereo, cosmetic improvements)	Over mileage fees
	Taxes
Payment for over mileage fees	Lease End Buyout
Who pays shipping	

Fees to Consider

The fees associated with lease assumption are relatively few and inexpensive. Here are the fees you need to consider:

- **Registration Fee** – Some classified services (such as Swapalease.com) require a fee to begin a lease transfer.

- **Credit Application Fee** - The leasing company that you are assuming a lease with may charge a credit application fee that may or may not be refundable. This varies by leasing company.

- **Vehicle Inspection** - This charge is not necessary, but often recommended. A thorough vehicle inspection can be performed on a vehicle prior to lease assumption by a third party vehicle inspection service. Typically these services only cost around a hundred dollars and are well worth the investment.

- **Transportation** - Not every lease transfer is going to require special transportation of the vehicle.

- **Vehicle Registration** - Once you obtain the vehicle, you will need to register it, no differently than if you were to buy it outright. Contact your local Department of Motor Vehicles to determine what vehicle registration charges may be applicable in your area.

Starting the Lease Transfer Process

Once you and the Seller have come to an agreement regarding your deal, your next step is to begin the lease transfer process. This process can take as little as a week and as long as three weeks depending on you, the Seller, and the leasing company.

The best place to start is with a credit check. The leasing company typically requires the new lessee (you) to have as good or better credit than the person you are assuming the lease from. This is no different than buying a car on a lot from a dealer. In either case the leasing company wants to make sure you are a good potential customer. It is our experience at Swapalease.com, having dealt with thousands of lease assumptions, that leasing companies do not lower their credit expectations for lease transfers.

To initiate your credit check, simply contact the leasing company whom you want to transfer your lease with and request a lease transfer application. The application will look similar to a new lease application. Once completed, send this application back to the designated fax number or mailing address. The leasing company will review your application and contact you directly regarding your status. Once you have been approved, you can then begin the Lease Transfer Paperwork.

The Lease Transfer Paperwork

After you have been approved for a lease transfer, the leasing company will then send the appropriate transfer paperwork to both parties. Often this information is sent directly to the Seller because they are the party that is still legally bound to the vehicle. Once the paperwork is received, the Buyer (you) and the Seller then arrange to either meet or initiate the paperwork signatures through the mail.

In the event of a long distance transfer, it is customary for the Seller to arrange for transport with the Buyer ahead of the final signing of the lease paperwork. The reason is because the Buyer cannot be fully assured that the vehicle is in its stated condition until they see the vehicle or have it inspected. Upon delivery the Buyer must agree to sign the paperwork within a stated period or ship the car back. It is highly recommended that in the case of a long distance transfer the Buyer and Seller agree to a 3rd Party Inspection Service prior to shipment. For a hundred dollars or more it's well worth the investment.

When the vehicle arrives or when you go to see the vehicle you will often sign your transfer paperwork at this time. Typically a Notary Public is required to approve these signatures so make sure you are in proximity to a bank or other location of one of these officers. Remember that the car is not "yours" until you sign and notarize the transfer paperwork.

Be absolutely certain that the Transfer Paperwork you sign is exactly what was stated in previous conversations. The moment you sign that document you are liable for the rest of the lease!

Drive Away!

Once both parties have signed their respective documents, the Lease Transfer Paperwork is sent back to the leasing company and you are now the (lease) owner of your new vehicle! Soon after you will receive documents in the mail that will let you register the vehicle and transfer the license plates.

Sometimes people ask whether or not to leave the license plates on the vehicle at the time of transfer. If possible, we recommend that you do. We also recommend that you get your vehicle transferred and registered as quickly as possible so as to avoid any issues between registered vehicles. Also, you will want to insure the new vehicle in your name as soon as you take possession, just in case.

What to do at lease end

Each leasing company differs, so it is important to research your leasing company to determine what needs to be one at the end of the lease. It is important to recognize that the leasing company that leased the vehicle to the original lessee maintains ownership of the vehicle once you assume the lease. Some leasing companies require the lessee to deliver the vehicle to a local dealership, whereas others might demand that the vehicle be dropped off at a designated auction lot. Your leasing company can provide you with the location of your nearest drop-off point. It is important that any damage to the vehicle be repaired prior to vehicle drop-off in order to avoid paying the premium fees that will be assessed by the leasing company for such repair work once the vehicle has been inspected at the drop-off point.

Shopping for Your Vehicle

Where to begin

One of the most important things you can do while shopping for your vehicle is to stay organized and have a plan. This will save you time, and help you to be well prepared and confident throughout your quest.

To help in your search, take some time to narrow down what is important to you so that you can focus your efforts on a few particular aspects of the vehicle. We have found that many consumers spend far too much time on their vehicle search because they never spent a little bit of time trying to determine what they really wanted out of a vehicle. Take a look at the pre-shopping checklist we have provided to begin to narrow your choices.

Pre-Shopping Checklist

1. Decide which kind of vehicle you want vs. need. Which features are most important?

Pre-Shopping Checklist	
Do you prefer a car, truck, or SUV?	
How efficient must the vehicle be with respect to gas mileage?	
Do you prefer an automatic or manual transmission?	
Are you interested in 4-wheel drive or all-wheel drive?	
Do you want/need anti-lock breaks?	
Is engine size important to you (i.e. 1.8, 2.0)?	
How much horsepower do you want/need (i.e. 80, 180, 360)?	
How many cylinders do you want/need (i.e. 4, 6, 12)?	
Do you require cargo-carrying capacity?	
Will you need to tow anything with the vehicle? How often?	
Will the vehicle fit easily into your garage or parking space?	
Have you considered the impact that the vehicle will have your insurance premium?	
Will the vehicle be able to accommodate your needs as they change over the course of the next few years?	
Is there a nearby maintenance shop for this type of vehicle?	
Have you check with Consumer Reports or any other sources of vehicle reviews?	
Have you considered the annual cost of maintenance for this vehicle?	
How important is trunk space?	

2. Determine how much you can afford.

3. Review the differences between leasing and buying to decide which option best meets your needs. (See the section entitled "Lease versus Loan" for help on making this decision)

4. Look at similar vehicles in the same category to compare features.

What price can I afford?

The affordability of your vehicle has a lot to do with your other existing monthly expenses. A general rule of thumb is that your car payment should not represent more than 20% of your income. This does not include insurance, so the overall number would be slightly higher.

Part of the problem in determining what vehicle you can afford is not knowing what the final price of a vehicle will be when you get into a lease. There are many factors to consider, but a good baseline is to use $125 per month in payment for every $10,000 in MSRP cost. Again, these will vary greatly, so this is just a real general rule.

For a quick calculation on *actual* lease rates, go to LeasePower (http://www.leasepower.com) and use their real-time rate calculator. This calculator uses the actual ALG values that the dealers use across many popular lenders. Your payment ranges will vary based on the criteria that you input, especially your selling price and term.

Affordability should also consider the cost of insurance as well. (See the section entitled "Shopping for your Insurance" for more information about researching insurance companies.)

Where can I go to find a vehicle?

Traditional car dealerships are always a good option. Dealerships are great if you want to touch, feel, and test-drive the vehicles. In addition, the Internet has become an incredible resource for finding a new or used vehicle. Millions of vehicles are instantly available and thousands of pages of content are written about almost any model you could imagine.

Before you walk on the lot, though, it would make sense to start narrowing down your choices through some smart research on-line.

There are three steps to consider when shopping for your vehicle:

1. Learning about your vehicle

2. Finding the true market price of a vehicle

3. Locating the vehicle

Step 1: Learning about your vehicle

While we could list an endless directory of web sites that highlight particular vehicles, the most popular sites often cover the most important issues. While learning about your vehicle, be sure to not only read reviews, but also visit chat rooms and forums of actual customer experiences. Reviewers are not necessarily owners, so they might now be able to experience the same ownership issues that an actual owner would.

Popular Vehicle Review Sites

- Car and Driver (www.caranddriver.com)
- Edmunds (www.edmunds.com)
- Road and Track (www.roadandtrack.com)

Step 2: Finding the true market price of a vehicle

You may have heard of the terms "blue book price", "dealer wholesale", or "trade-in value". All of these are different terms for determining what a vehicle is worth. Vehicle prices are probably one of the most contested values of any commodity, as everyone feels they could potentially pay less than advertised. In most cases, it is probably true!

When finding the true market price of a vehicle, you can now leverage some popular Web sites to get a good reference point. Here are some of our favorites:

Kelley's Blue Book (www.kbb.com)
Kelley's Blue Book (KBB) is a great resource because it is viewed by so many people and is widely accepted as a general benchmark for a vehicle's value. KBB's values of vehicles tend to run a little bit higher than you will find elsewhere,

yet they are very conservative. As a general rule of thumb, you certainly do not want to pay any *more* than what your vehicle is listed for at Kelley's.

Edmunds (www.edmunds.com)

Edmunds has launched a more practical pricing guide by introducing their TMV - True Market Value of a vehicle. Their data is more reflective of what a vehicle is really selling for in the open market versus some dated statistics that are used in most general Blue Book sites. You will want to make sure you compare your vehicle to both Kelley's *and* Edmunds.

Blue Book Prices are derived from broad statistics across many dealers, auctions and third party information sources. Thus, the "book price" is just a guideline, not an absolute value. You should only use "Book Pricing" to understand what ballpark you are in, not as a final determination of price or what you should pay. In most cases these values are about 6-12 months old, so changes in market value may not be reflected accurately.

eBay Motors (www.ebaymotors.com)

The popular auction site is also a great way to research used vehicle pricing. But, it helps to know how eBay works. Understand that the prices that you may see for vehicles that are available may reflect the "current bid", not necessarily the final price. Therefore it is helpful to see what vehicles have already sold for by searching through recently closed listings. eBay represents one of the largest real-time marketplaces for used vehicle sales. Typically if a vehicle has recently increased or decreased in value you will see this reflected in the price on current vehicles.

Unlike Blue Book Pricing, eBay pricing only applies to the specific seller at that moment in time. You may see a vehicle that sells for $1,000 below what you have seen the value elsewhere, but it may have been a distressed sale or otherwise unusually low. What's important about eBay pricing is that it is current and actual.

Swapalease (www.swapalease.com)

Another way to determine what vehicles are currently leasing for is to search through a lease marketplace like Swapalease.com. Swapalease has thousands of vehicles listed that identify the exact payment, residual and mileage allowances for each vehicle, as well as the leasing company who offered these terms. This is the most accurate collection of what prices are being paid by actual consumers for actual vehicles at the time of lease.

What you do *not* know about each vehicle is whether or not the lessee put money down on their vehicle to reduce their monthly payment, had a trade-in that inflated their payment or had special circumstances surrounding their lease. So once again this is only a benchmark. You can ask these questions of the sellers directly using the Web site for more information.

LeasePower (www.leasepower.com)

LeasePower allows customers to compare lease pricing for new and used vehicles on-line using a calculator feature. You can get a general assessment of what banks are currently offering leases for on most vehicles. One of the nice features of LeasePower is that you can actually apply for financing and (hopefully) get approved on-line within minutes.

Manufacturer's Sites

Each manufacturer will have an extensive collection of information on its most recent models as well as special financing programs that it may be running. One of the fastest ways for a manufacturer to sell more cars is to offer special financing programs to make them more attractive. Taking advantage of a great financing program could be very advantageous, so it is highly recommended to visit a manufacturer's site to determine if special financing is available.

Step 3: Locating the Vehicle

Once you have found the vehicle you want and have a general idea of what price you want to pay, your last step is to locate the vehicle itself. There are many places to find a vehicle, but generally speaking you will likely purchase it from either a dealer or an individual. Because there are so many sites that offer the same thing - new and used vehicle listings - we will focus on the largest directories that offer the most selection.

General Vehicle Classifieds, New and Used

- Autobytel (http://www.autobytel.com)
- Yahoo! Motors (http://autos.yahoo.com/)
- Cars.com (http://www.cars.com)
- AutoTrader (http://www.autotrader.com)

Lease Assumptions

- Swapalease.com (http://www.swapalease.com)

Vehicle Auctions

- eBay Motors (http://www.ebay.com)

Luxury and Exotic Vehicles

- DuPont Registry (http://www.dupontregistry.com)

Manufacturer References

Most manufacturers will have their own directory of affiliated dealers who often link to existing inventory. This is particularly helpful when considering a new car because inventory is so fresh.

Putting your decision to the test (drive)

Now that you've narrowed down your decision to a few select models (or just one if you're lucky) it's time to do a physical test drive. No matter how great a car sounds in an editor's review, or a customer's claim, or in a fancy brochure, there really is no better way to tell whether a car is for you than to test drive it yourself.

What to look for in the test drive

Obviously you're not a mechanic, but you certainly know whether you like the basic functionality of a vehicle. You can tell the difference between the ride in a pickup truck and that of a smooth luxury exotic. Most consumers get nervous that they are not qualified to make a good decision on a vehicle. But there are two types of considerations – mechanical, and personal (not to mention financial!).

First focus on the personal aspects of the vehicle. Are you comfortable? Can you see out of the windows with ease? Is the drive easy or do you feel you are overcompensating for a poorly designed interior? The “right” car has a lot more to do with fitting into your day-to-day routines than scoring high on some editor’s scorecard. If you’re driving long distances, does the car have cruise control, cup holders and comfortable seats? If you live in an area that is covered in snow in the winters does the vehicle have adequate tires and traction control for these conditions? More than anything, is the vehicle safe?

The mechanics of your car

If the car is new, chances are it does not need to be inspected by a mechanic. Most flaws will be covered under warranty. But if the vehicle is used, any number of problems can exist that could really come back to bite you later on.

For less than a couple hundred dollars you can have a professional inspection service do a thorough inspection of the vehicle you would like to purchase. They will do a road test, an engine test, and a thorough checkup on the cosmetics and functional areas of the vehicle. At Swapalease.com, we request that each of our buyers perform this type of test to ensure there is a qualified third party opinion of the vehicle prior to purchase. Even a good mechanic cannot guarantee the condition of your vehicle long-term, but pointing out some glaring issues could save you a great deal of money down the road.

At Swapalease, we recommend a provider like Crawford Inspection Services (www.crawfordandcompany.com) although other providers may perform the same task as well. If your dealer provides an inspection report you may be a little skeptical because you are effectively taking the word of the person selling you the vehicle which will likely be a bit biased!

Getting the best price on your vehicle

Just because you test drove the vehicle of your dreams at your local dealer, that does not mean you need to buy it at *that* dealer. In most cases, for a new car you can find the same year, make, model and trim-level from any dealer around the country, perhaps even at a lower cost!

Once again we are going to go to the Internet to help find this vehicle. There are a number of sites on-line that will allow you to put multiple dealers in competition for the sale of the same car, which means a lower price for you and more options.

Sometimes the vehicle will be located in another city, state or even an opposite end of the country. Not to worry. In most cases a vehicle can be shipped anywhere in the country, right to your doorstep. There is of course a charge that may be assessed, anywhere between $500 to $1,000, but could be well worth the price if the deal is right.

Most vehicle inventories are listed on-line through different Web sites. You can browse the selection of these inventories as one major listing versus individual dealer listings.

Some popular sources for finding a vehicle on-line include:

- CarsDirect (http://www.carsdirect.com)
- AutoByTel (http://www.autobytel.com)
- Automotive.com (http://www.automotive.com)
- LeasePower.com (http://www.leasepower.com)

Regardless of where you find your vehicle, you will want to make sure you get multiple quotes on the same vehicle to be certain you have a competitive price.

Dealer tricks to avoid

If you do decide to go through a dealer directly (or when you choose the one who has the right vehicle) there are some common dealer tricks that you should absolutely avoid. Let's take a look at some of the more popular ones.

Sales price, Trade-in, and Financing

The sales price of the car you want to purchase, trade-in value of your existing vehicle, and financing terms you select are three completely different transactions.

Be sure to negotiate sales price, trade-in value, and your financing separately.

A popular dealer trick is to use one of these tactics to improperly represent the others. For example, say you have a trade-in that the dealer claims is worth far less than you think it is. He may say that in order to take your trade-in, he must adjust the sale price of your vehicle by adding $2,000 onto the final selling price.

This is a dealer's way of not only convincing you that you should trade your car in at a lower price, but that you should not even *think* about negotiating the sale price of your vehicle. Not so!

You need to negotiate each of these items separately, as if the other two never existed. Any of these transactions can be done without this particular dealer, so you need to make him aware of this.

We recommend you start with the sale price of the car. This is where the dealer has the most amount of leverage and you can negotiate from there.

Dealer Holdback

You may have heard that there are incentives provided to dealers by manufacturers to sell more cars. This is true, though not in every case. If a car is selling well already, chances are the manufacturer does not have to provide additional incentives in order for more units to move.

If this is part of the dealer's total compensation for this vehicle, though, you should be aware of it. There are many places that mention what current holdbacks may be. We recommend doing a general search in your favorite search engine under the search phrase "dealer holdback Toyota Camry" (or whatever car you are interested in) and scan through some of your results. Dealers can earn hundreds if not thousands of dollars in holdback when the timing is right.

MSRP versus the Actual Selling Price

Earlier we noted sites on the Internet where you can go to find your vehicle. These same sites will also give you market rates for what vehicles are currently selling for. You will want to get a good sense for how far below MSRP (Manufacturer's Suggested Retail Price) customers are currently paying.

Here is a list of sites we recommend visiting to get a good sense for what cars are actually selling for:

- Edmunds (http://www.edmunds.com)
- Kelley Blue Book (http://www.kbb.com)
- NADA Guides (http://www.nadaguides.com)

Each of these sites should provide relatively accurate information about actual selling prices. The pricing the list is based on selling prices of actual vehicles (in most cases) so vehicles that are brand new may not be completely reflected on these sites.

Poor value of your trade-in

A very profitable segment of the dealer businesses in used car trade-ins. The reason for this is because dealers often can negotiate very low purchase prices for trade-in vehicles because customers feel like they are compromised in the negotiation process.

The value of your trade-in should be no different than if you sold the car outright to a private individual.

In order to find the "right" price for your vehicle trade-in, consider comparable sale prices at a retail level using car classifieds and market indices like Edmunds and Kelley Blue Book. Remember that the dealer *cannot* pay retail value in most cases because he has to make some profit on the sale of your car. So expecting to get "full retail" for your vehicle is not realistic either. Your goal is to try to get as close to retail as possible. A general rule of thumb here is $1,000 less than retail should provide enough margin for the dealer to make money on the vehicle and enough room for you to still make most of your money on the vehicle.

The Financing

The financing of your vehicle is absolutely separate from the rest of the vehicle sale. More information about how to find the right financing and work with a dealer can be found in the section entitled "Shopping for your Lease".

The Add-Ons

In addition to selling you your vehicle, the dealer will also make money on additional “add-on” services such as extended warranties, GAP insurance, and various aftermarket add-on products and services.

Auto Insurance

Buying your auto insurance at the dealership is like doing your grocery shopping at a gas station convenience store. Sure, you’re there, but you’re likely going to pay for more for the convenience of shopping in one place than you are if you shop elsewhere for the same price.

There really is not a great advantage in being able to get your insurance through a dealer, so do your homework on your own time, preferably before you purchase your car so you can get a good sense for what the cost will be.

For more information on finding great insurance rates, see the section entitled “Shopping for your Insurance".

GAP Insurance

GAP insurance is a basic insurance product that helps protect customers from the personal liability that would occur if your vehicle was damaged (or destroyed completely) and the insurance company would cover less than the actual value of the vehicle.

For example, if you were to get into an accident and your car was considered “totaled” (unable to drive or function) the insurance company may cover you for $25,000 of the total damage of the vehicle. However, if you paid $27,000 for the vehicle, you would have $2,000 of cost that would not be recouped. If you financed the vehicle, the finance company would expect *you* to pay the difference personally. The $2,000 difference is considered the “gap” in coverage, hence the name.

To avoid this type of loss, dealers will offer you GAP coverage. In reality, the dealer is only reselling the policy that is provided from any auto insurance provider, which means they are making money in the process. If you desire this type of coverage, ask your insurance agent for pricing when you write your auto insurance policy.

Extended Warranties

Dealers make a fortune off of extended warranties. Obviously the only reason you would ever need an extended warranty is if the existing warranty ran out before your financing term did. If you have a 4 year warranty on your vehicle, and a 48-month (4 year) lease, there is no reason to purchase any additional coverage.

You're also speculating that the condition of your vehicle will warrant the additional coverage. If you are purchasing new, how can you be sure that your vehicle will need additional coverage in 4 years? You really can't, nor can the dealer. But it is a way for the dealer to ask you to buy additional "coverage" that you may never use.

Once again, you do not need to purchase this type of warranty directly from a dealer, nor do you need to purchase anything at that very moment. Extended warranties are available from many 3rd party sources at any point in the life of the vehicle and can be shopped competitively. The value of warranties can vary quite greatly and the coverage provided can be managed to meet your budget.

We have found a number of on-line companies that can service your warranty needs on-line:

- **Warranty Gold** (http://www.warrantgold.com)
- **American Auto Warranty** (http://www.aawarranty.com)
- **Warranty Wizard** (http://www.warrantywizard.com)

Finalizing your deal

So there you are – your sale price is competitively negotiated, your trade-in was settled at the right price, and you have aggressively sought out the best financing source for your lease. Now it's time to sign on the dotted line!

Our best advice at this point is to remember to double-check every document and take your time at the closing table. Far too many consumers have gotten taken at the *end* of the process, when they forget to pay attention to the details. This is a big decision and it should be a positive experience. Take your time and enjoy it!

Shopping for Your Insurance

Not all insurance plans are created equal

Shopping for the right insurance is just as important as shopping for the right car. Without comparison shopping, you could wind up spending hundreds or thousands of dollars in unnecessary insurance costs.

Why is insurance important to consider before purchasing a car?

Insurance is just as essential as the tires on your car. And like a car, there are many different costs involved based on your personal situation and the vehicle you choose to drive.

Therefore, although insurance is something that many consumers overlook when leasing a car, it is something that you, the educated consumer, *need* to consider!

Not all insurance plans are created equal

Different insurance companies target particular types of customers to offer their best rates. Various types of customer-specific characteristics include: state, age, gender, previous driving record, good student, type of car, year of car, color of car, classification of car (sport, economic), engine type, number of doors and more. All of these factors contribute to the amount that you will pay for insurance. By randomly picking an insurance plan, you may not select a company that focuses on your particular characteristics, and therefore, you will end up paying premium rates.

Typical yearly rates can average anywhere from $600 per year to $3,000 (or more) per year, which breaks down to the difference between $50 and $250+ a month. Do not throw your money away because you did not spend a few extra minutes researching the best insurance plan for you.

How much insurance do I need?

The first question that you need to ask is to know how much insurance you actually need. Before even considering what you would want covered, you need to know what your state legally requires you to cover. This will be the *bare minimum* level of insurance that you should purchase (which is a popular choice when selecting insurance plans). Most states require liability insurance. This saves you from handing over a huge multi-thousand or even million dollar payment when you are at fault in an accident.

In the chart below, minimum liability limits are read as follows (in thousands of dollars): bodily injury liability for one person in an accident/bodily injury liability for all people injured in an accident/property damage liability for one accident. So, for Ohio, the minimum requirements are $12,500 of bodily injury liability for one person, $25,000 bodily injury liability for all people and $7,500 property damage liability.

State	Liability Limits (in thousands of dollars)	Uninsured/ Underinsured Motorist Coverage Required?
Alabama	20/40/10	No
Alaska	50/100/25	No
Arizona	15/30/10	No
Arkansas	25/50/15	No
California	15/30/5	No
Colorado	25/50/15	No
Connecticut	20/40/10	Yes
Delaware	15/30/5	No
D.C.	25/50/10	Yes
Florida	10/20/10 (Property damage only is mandatory)	No
Georgia	25/50/25	No
Hawaii	20/40/10	No
Idaho	25/50/15	No
Illinois	20/40/15	Yes
Indiana	25/50/10	No
Iowa	20/40/15	No
Kansas	25/50/10	Yes
Kentucky	25/50/10	No
Louisiana	10/20/10	No
Maine	50/100/25	Yes
Maryland	20/40/15	Yes
Massachusetts	20/40/5	Yes
Michigan	20/40/10	No
Minnesota	30/60/10	Yes
Mississippi	10/20/5	No
Missouri	25/50/10	Yes
Montana	25/50/10	No
Nebraska	25/50/25	No

Nevada	15/30/10	No
New Hampshire	Not required 25/50/25	Yes
New Jersey	15/30/5	No
New Mexico	25/50/10	No
New York	25/50/10	Yes
North Carolina	30/60/25	No
North Dakota	25/50/25	Yes
Ohio	12.5/25/7.5	No
Oklahoma	10/20/10	No
Oregon	25/50/10	Yes
Pennsylvania	15/30/5	No
Rhode Island	25/50/25	Yes
South Carolina	Not required 15/30/10	Yes
South Dakota	25/50/25	Yes
Tennessee	Not required 25/50/10	No
Texas	20/40/15	No
Utah	25/50/15	No
Vermont	25/50/10	Yes
Virginia	25/50/20	Yes
Washington	25/50/10	No
West Virginia	20/40/10	Yes
Wisconsin	Not required 25/50/10	Yes
Wyoming	25/50/20	No

Personal Injury Protection and MedPay

Another important component of insurance is Personal Injury Protection (PIP), or Medical Payments (MedPay). PIP or MedPay pays for your own medical expenses, any lost wages and whatever other costs may arise when you are injured in an accident. It usually pays 70 - 85% of your losses, and it also pays a death benefit. PIP is required in Colorado, Delaware, Florida, Hawaii, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, New Jersey, New York, North Dakota, Oregon and Utah.

Know your (minimum) Limits

Now that you know the bare-bones amounts that you need in order to keep yourself safe, it is a good idea to purchase above the minimum limits. As the saying goes, you get what you pay for, and while you may cover injury liability, if someone else is injured and you are at fault, the minimum liability coverage may not cover their medical expenses. If this happens, it is likely that you will have to pay for their medical costs.

Overall, insurance companies generally recommend that you purchase $100,000/300,000 limits of bodily injury liability. If your personal assets are not that much, (i.e. you do not own a home or car and do not have much savings), then you do not have many assets to go after and the minimum requirements might actually be the best choice for you, which may also give you a little bit more cash to try to start saving.

On the other hand, if you have significant assets that could be at risk, purchasing a little extra insurance will create some peace of mind that could pay off huge dividends in the event of an accident.

Other Types of Coverage

Aside from bodily injury liability, personal injury protection, property damage liability and uninsured/underinsured motorist coverage, there is also collision and comprehensive auto insurance coverage that insurance companies encourage you to purchase. Collision covers damage to the policyholder's car resulting from running into anything (remember that pole you didn't see?) and comprehensive coverage takes care of your car in the case of theft, fire, falling objects, explosions, earthquakes, floods, riots, civil commotion, and other related events.

Comprehensive and collision coverage are required on most leases, and are absolutely necessary if you own an expensive car. If you are driving a "beater", you may end up paying more for your premium and coverage than the value of your car.

Make sure you do the numbers to figure out if this is a good choice for you.

You do not want to pay for the same coverage twice, so make sure you read up on your current policies.

Before selecting the right insurance coverage, you should also consider what is covered for you under other insurances, such as medical and dental.

What should I know *prior* to researching companies?

In addition to what type of coverage you would like, you should also be aware of your driving record and your current auto insurance policy.

More Is Not Better

The more citations, tickets and accidents that you have, the higher your premium will be. Typically, an insurance company bases your premium on what they expect to have to pay for your future driving habits. If you have proven yourself as a great driver who avoids accidents and speeding, they will give you a break. If you tend to be "accident prone" and are racking up points on your license, you can expect to pay a premium on your insurance.

Current Assessment: Are you satisfied with what you have?

Check out your current policy. If you have ever been in an accident, did it provide enough to keep you out of the red? Did you wish you had more? Are your payments taxing you each month? Keep these things in mind and choose wiser as you select your next policy.

How do I research companies?

The Internet is quickly becoming the number one resource for consumers to find information about insurance or just about anything else. We would recommend start there to find carriers who can fulfill in your area and rates that are competitive. Your research should only require a minimal investment up front, but will pay dividends throughout the life of your lease.

Step 1: Shopping On-Line

There are a wide variety of on-line insurance companies that will typically give you a quote the same day (usually within 15 minutes!). Examples of these include:

- www.insure.com
- www.esurance.com
- www.allquoteinsurance.com
- www.internet-insurancequotes.com
- www.insura.com
- www.lowermybills.com
- www.insweb.com
- www.statefarm.com

This is a quick an easy way to become familiar with what you should expect to pay. Keep in mind that not all on-line sites are created the same - some may not provide a quote on-line but will call you with information, others, may have to forward the information to local agents. Make sure you read the policies prior to submitting your request so that you are not bombarded by unexpected insurance salesmen and pitches.

Note that some of these references are actual insurance companies, but most are aggregators of information for other insurance providers.

STEP 2: Keep Track of All Quotes and Names of Companies

It is very easy to get lost with different quotes and rates. Make sure that each company is quoting you the exact same policy for the same vehicle. Also, make sure you are accurately reflecting your driving record when getting a quote so that you do not become shocked when an "adjusted" premium is delivered to your door.

It is also important to get a true “apples-to-apples” comparison for each of your quotes. Different carriers can rate your policy differently based on a broad number of criteria which will affect your premium. Sometimes a quote that seems like a great deal is severely lacking on coverage or has a very high deductible that is reducing the payment, but creating a huge liability for you down the road.

STEP 3: Make a Phone Call

Take your best find from your online research and select one or two local insurance companies to personally call. Typically, if you know what you are talking about, you can land your best deal.

Tell that what you have already been quoted and see if they can do any better. Be careful that you do not sacrifice coverage for a better price.

A quick phone call to an agent or representative can verify that the information you've research is accurate and up-to-date. Don't assume because you found the information on the Internet that it is absolutely true.

STEP 4: Make a Decision

You should now have a few *really* good quotes in front of you. Before selecting the least expensive rate, you need to check out the legitimacy of the company. You can get some good background information. There are several ways to do this.

- Ask your local body shops and dealership servicing departments which companies they prefer and have good relationships with.

- Check out your state's department of insurance to check out the complaints that have been voiced on this company.

- Investigate consumer satisfactions and/or dissatisfaction information by checking out the Better Business Bureau and J.D. Power and Associates.

Before You Sign on the Dotted Line

So now you have researched all of your options and feel good about the price you are going to pay (as good as you can!) and the company that you are working with. So what is stopping you from signing on that dotted line?

Make sure that you review everything in your policy.

It is easy for insurance companies to accidentally leave something out or add something in that will ultimately cost you more money.

Make sure you understand every sentence in the contract, and if you do not, then do not hesitate to ask for an explanation. If it seems fishy, keep looking. You have plenty of suitors.

Shopping For Your Lease

The dealer is not the financing company

Many consumers assume that the dealership is where both the sale of the car and the financing take place. We cannot stress enough the importance of separating these two items!

Your car dealer is simply a proxy between you and the leasing company. Typically banks and leasing companies (which operate the same in this case) work through dealerships to represent their financing because it is the most obvious place they can find new customers.

In order to create an incentive to dealers to represent their leasing products to customers, leasing companies pay dealers a percentage of the total funding as a commission. Dealers will often receive commissions ranging from 1 – 6% of the sale price of the car just for referring the financing business. This is of course rolled into your lease payment and paid for by *you*.

Understanding how a lease works

Now that you know that the lease is a separate component of your vehicle transaction and that the dealer is likely to make additional money on this component, it's time to search for your own financing under *your* terms, not theirs!

Before you begin shopping for your lease, though, you need to understand the mechanics of a lease. We covered the basics in the chapter entitled "Leasing Basics" where we explained terms such as money factor, term, and residual. If you haven't read that section yet, we would recommend you do before continuing on in this section. You can't shop for the best rates if you don't understand the fundamentals of a lease.

Finding the best Cap Cost

In the section entitled "Shopping for your Vehicle" we pointed out resources you could use to find a competitive price for your car. Remember that you must negotiate the sale price of your vehicle regardless of whether you lease or buy. Your final monthly payment will certainly be affected by this negotiation.

Finding the best Residual

Residual values are set by banks and 3rd party data information services such as ALG (Automotive Lease Guide). Generally speaking, you cannot negotiate these rates but you may find that different leasing companies offer slightly different residual values.

It is in your best interest to find the highest residual value offered with the lowest money factor. A high residual will decrease the amount of money you are paying during the life of your lease and leaves the liability of the vehicle on the leasing company, not you.

Finding the best money factor

Out of all the elements of a lease, the money factor is easily the most negotiable. This is where consumers also find the most frustration because they do not understand money factors. One simple way to translate a money factor into a comparable interest rate is to multiply the money factor by 2400. For example, if you are presented with a money factor of .0025 you can multiply this number by 2400 and get a comparable interest rate of 6%

This is where your dealer makes his money (well, that and the acquisition fee, but we will address that charge in a moment.)

In many cases the dealer can make more money on your financing than on the sale of your car – and you would never even know it!

Although financing programs differ, most dealers will receive between 1 – 6% of the final sale price of the vehicle as a commission for securing your leasing with a particular bank. So if your vehicle sells for $30,000 and your dealer is getting a full commission, he is earning $1,800 on the value of your lease alone!

When you are discussing financing with the dealer you will also need to keep in mind that the dealer is likely to connect you with the finance company that is in *his* best interest, not yours. There may be leasing companies who are willing to offer you better rates, but do not pay the dealer as much incentive in commission. Therefore the choices being presented to you are not necessarily the best out there, and most likely not the best for you.

Because of this, it is important to do some of your own comparison shopping *before* visiting the dealer to know what your target rates should be.

There are two popular sites that we like to recommend to customers to compare leasing payments and money factors across multiple lenders:

- **LeasePower** (http://www.leasepower.com)
- **LeaseCompare** (http://www.leasecompare.com)

Each of these companies offers real-time access to money factor, residual and acquisition fee information for free and from multiple lenders. You can also apply for approval and get your lease fulfilled on-line without having to use a dealer in the process.

Be sure to use these calculators to get a good sense for how adjusting the term and sale price can affect your monthly payment. If you are concerned about working with a finance manager in a dealership, these are also great alternatives that allow you to make important finance decisions from the privacy and comfort of your own home, on your own time.

Manufacturer leases

You may find in your travels that there is a sharp difference in some lease programs over others even though the vehicle is exactly the same. Often the reason for this difference is that one of the lessors is the finance arm of a vehicle manufacturer.

Car manufacturers own automotive finance divisions to help finance the sale of their products. Because the automotive company is making money on the sale of the vehicle itself, they can usually create better incentives than an independent leasing company who does not make any money on the actual sale of the car.

Researching manufacturer lease programs is very simple. All of the vehicle manufacturers that we have seen offer finance calculators on their Web site, usually attached to some sort of vehicle configuration tool. In addition to special leasing programs, the manufacturers may also have special rebates available only on new cars (rarely are these incentives on “used” cars, though some do occur on models that are about to replaced in a new model year).

The Acquisition Fee

If you look closely at your lease contract (or the research you’ve done on a lease) you’ll see a special line item called the “Acquisition Fee”. The Acquisition Fee is charged by the bank to cover the costs of initiating a lease, which is mainly clerical in nature.

The leasing company will make an Acquisition Fee available to the dealer with a little markup in most cases, so the $795 fee that you see on your leasing contract may only represent $395 of the cost applied from the bank, and $400 applied by the dealer as pure profit.

As you can imagine, the dealer is not going to discuss this fee with you at all, and he would prefer you didn’t bring it up. Not every bank allows for markup of an acquisition fee, but you can bet that your dealer is going to opt for the leasing company that does, regardless if it is the best option for you.

You can protect yourself somewhat by asking to see what the *bank's* acquisition fee is and what the markup on that fee is that is being charged. From there you have a leverage point to negotiate the final price of your lease downward a bit.

Leasing a New Vehicle

Leasing a new vehicle is a great option if you are looking to secure a low monthly payment on the vehicle of your dreams. It affords you the opportunity to drive a new vehicle, which is typically fully covered by warranties, for much less per month than it would cost to buy the same vehicle. By leasing a new vehicle, you are able to choose the vehicle itself and the terms for the lease. Money will almost always be required up front in the form of down payments, security deposits, and/or acquisition fees.

Leasing a Used Vehicle

Leasing a used vehicle can be a good option, but it can also be a bad idea if you do not understand the process. It is a good idea when the vehicle is relatively new and in good condition. Little repair work will be necessary and the vehicle is likely still under factory warranty. If the vehicle is much older, though, or has any damage or problems, it is not a good option.

Be careful about leasing a used vehicle that is off warranty! The maintenance costs can add up very quickly.

With a used vehicle, maintenance costs and repair work become much bigger issues, as you are still financially liable for any damage and problems with the vehicle at lease-end. Another option is to simply assume an in-process lease on a vehicle. In-process leases are available on low mileage, late model vehicles, and no down payment is necessary.

How is it different?

When you lease a vehicle, your payment is based on the value of the vehicle's expected depreciation throughout the course of the lease.

New vehicles tend to depreciate more over the course of a few years than used vehicles.

Thus, the payments on the new vehicle would be much higher than those for the used vehicle, as more depreciation must be paid off.

Negotiating the Best Deal

What is negotiable?

The art of negotiating a lease starts with a complete understanding of what *is* negotiable! Very often customers do not realize that many factors contribute to their final lease price, not just the selling price. Dealers can often confuse customers with terms that do not make sense to most people. Here we will uncover the secrets to negotiating the best deal.

Capitalized cost

Absolutely negotiable! The gross capitalized cost ("cap cost") is the value of the vehicle that is agreed upon (the sale price). It does not include anything that you agree to pay for over the lease term (amortized amounts), such as fees, services, insurance, taxes and any prior money balance. If you do not negotiate the value of the vehicle, you are losing money.

To get a sense for what the cap cost should be, see the section entitled "Shopping for your Car" to determine what a fair cap cost looks like. Your cap cost is one of the leading drivers in reducing your final lease payment, so it's important to negotiate the lowest possible cap cost.

Be sure to negotiate the cap cost separately from the lease price. The lease price should automatically change when you negotiate the cap cost.

You should be able to negotiate the same cap cost for a lease as you would for a purchase. Don't let a dealer tell you that the pricing should be different.

Term

Typically, a lease begins at 36 months and can range up to 72 months. The most popular leases are between 3-4 years. Dealers will often try to get you into a longer lease in order to lower your payments. If a low payment is a crucial element, this option is alright to consider. Just remember that the longer your lease, the larger your overall liability is.

It is typically a smarter decision to choose a shorter lease if you can financially afford to.

The term is set by <u>you</u>, so while it is not "negotiable", it is absolutely your decision.

Money Factor

When dealing with leasing you will most likely come across a different variation of an interest rate called a **Money Factor**. The Money Factor is just a simple calculation derived from the interest rate.

The Money Factor is one of the most misunderstood terms in leasing and yet is one of the most important!

As discussed in the "Shopping for your Lease" section, money factors are set by the lending institutions and are not easily negotiated. However it is important to know that if you are going through a dealer, he may try to sell you a higher money factor than what you should be paying.

Financial institutions provide dealers with incentives to encourage use of their programs by offering a small percentage of the money factor back to the dealer. The difference between the money factor your bank charges and the money factor you pay could add up quite significantly.

How to Determine your Money Factor

The easiest way to determine your Money Factor is to take the Money Factor number and multiply it by 2400. This will equate to a similar Interest Rate like you would see on a loan. While this is a good approximation of what you will be paying in interest, you need to remember that a money factor works slightly differently because of the structure of a lease. (For more information about how money factors work, see "Leasing Basics")

Typically a Money Factor will look something like this: **.00250**. If you multiply this Money Factor by **2400** you will get the equivalent interest rate:

.00250 multiplied by **2400** = **6%**

OR you can work backward to determine your target Money Factor:

6% (or just the number 6) divided by **2400** = **.00250**.

If you are uncomfortable with this math on the spot with the dealer, you should consider waiting until you get home to make your final purchase decision. The dealership environment is a difficult place to make a sound business decision.

Negotiating on Money Factor

If you are shopping through a dealer for your financing, you are probably going to pay a premium above the money factor your bank is actually charging.

The dealer is in business to make money like any other business, and this is a revenue center for him. It is important for you to know that if you are going to use the dealer, you are paying more than you have to. The dealer offers convenience above all else, but beyond that you can easily secure your own financing. (See "Shopping for your Lease")

Your focus for your money factor should be either getting the best rate you can find among lenders or to find the best rate among lenders and require the dealer only receive a small markup after that.

If you would like to get a sense for actual money factors in real time, we suggest you visit LeasePower.com, which provides real-time quotes for leases including money factors, residuals and associated costs of a lease. (http://www.leasepower.com)

For more information about finding the best lease, see the section entitled "Shopping for your Lease".

Mileage allowance

Mileage allowance is the salesman's best trick into lowering your monthly payments, but don't be fooled! What you don't spend now, you may spend later. The lowest mileage typically chosen is 12,000 miles per year The average American travels roughly 18,000 miles a year. At a cost of .15 per extra mile, this difference would end up costing you $3,300 at turn-in.

If you end up owing money at the end of your lease, your Mileage Allowance will most likely be the culprit!

Your mileage allowance will usually be either 12,000 or 15,000 miles. The savings you get on 15,000 miles can easily be worth the extra cash, especially if you use those miles. However, if you do not use them, they will not credit you in the form of cash when you turn your vehicle back in.

We recommend to customers that they opt for 15,000 miles per year to provide enough leeway to account for long trips and weekend use. The small incremental cost will often outweigh the anxiety consumers often create when they are over their mileage allotments during their lease.

Residual Price or Lease End Buyout

Next to your Capitalized Cost ("cap cost") the biggest leverage item in your lease is your Residual Price. The Residual Price is the amount the car is expected to be worth at the end of the lease. The purpose for this price is to determine how much the vehicle will depreciate during the term of the lease so that you can determine how much you owe while you are making payments.

Here's an example of the same car with two different car payments based on nothing other than the residual price difference:

Vehicle A		**Vehicle B**	
Cap Cost	$20,000	Cap Cost	$20,000
Term (months)	36	Term (months)	36
Residual Price	$7,000	**Residual Price**	$10,000
Monthly Payment *(before interest & taxes)*	**$361**	Monthly Payment *(before interest & taxes)*	**$277**

Notice that the Monthly Payment for Vehicle A is over 26% higher than the payment for Vehicle B. The difference is the Residual Price.

Dealers do not necessarily set residual prices. These are often set by banks that derive these numbers from statistics and reports on the values of vehicles when they are returned from leases. Companies like ALG (Automotive Lease Guide) provide these values to dealers and banks that use them as a reference point for designing leases.

You have more leverage in changing your residual price if you work directly with a leasing company versus through a dealer. The dealer will rarely present you with options on your residual price.

Choosing a higher or lower residual price

For most people, choosing the highest residual price is of no consequence to them - at the end of the lease they simply turn your vehicle into their leasing company and walk away. At that point the bank has to contend with the value of the vehicle and whether or not the residual is higher or lower than it should be.

For others who may consider buying the vehicle at lease end, a lower residual price makes the vehicle itself sound more affordable. But in reality, the consumer is just paying the difference during the term of the lease instead of at the end of the lease. It's the same amount of money, just over a different time period.

Our general recommendation would be to find the highest possible residual price that you can. Again, some lenders may adjust their residual prices to suit their own needs. Among lenders, captive leasing companies (leasing companies owned or operated by automotive manufacturers) are most likely to do this in order to drive more vehicle sales. They can afford to create higher residuals because they have the benefit of making more money in the sale of the vehicle. Independent leasing companies (those not owned by a manufacturer) do *not* make money on the sale of the vehicle, and therefore need to be more careful about setting higher residual values.

With a high residual, your lease end buyout price will of course be higher. We recommend a higher residual because you may or may not buy the vehicle at the end of the term, but you will certainly make the payments *during the term*. A higher residual gives you more flexibility during the term of the lease.

For more information about researching residuals and lending institutions, see the section entitled "Shopping for your Lease".

Who are you *really* negotiating with?

Obviously you want to find a great deal, but negotiating a great deal starts with understanding the few key areas that will affect your lease. By trying to negotiate the wrong items you may confuse yourself and allow the dealer or the leasing company to take advantage of you.

Let's review what factors each entity controls:

Dealer	Bank	You
Capitalized Cost	Money Factor Residual	Term Mileage Allowance

Contrary to popular belief, you can see the dealer only controls one of the 5 factors that make up your lease deal. Because the dealer often represents the leasing company, consumers believe he controls the rates a bank charges or other factors, like mileage allowance. By knowing where the decision points are being made, you can focus in on the only contributing factor the dealer really controls – the capitalized cost. You can then work either directly with the leasing company or manage your Money Factor and Residual through the dealer.

How to benchmark a great deal

OK, so you've done all your homework. You think you've found a great deal and you're excited about your vehicle. How do you know for sure you've found the best deal?

The best way to see what other people are getting is to see what other leases have already been written. Of course some of these may be bad leases to begin with, but they reflect the reality of what people are paying. Earlier we looked at "Shopping for your Car" to determine what the best capitalized cost is.

At Swapalease.com, we see thousands of in-market leases every month from every bank, dealer and vehicle available. Typically the best deals on the Web site are either situations where a customer put a lot of money down to get their payment down, traded in a vehicle that had positive equity in it, or is offering their own cash to subsidize the lease payment. Regardless of how they occurred, these still represent available leases that are on the market today. Often your best benchmark is to try to beat the lowest payment and terms on a similar vehicle. Here are some other resources that you may use to benchmark your deal:

Swapalease	www.swapalease.com
Edmund's True Market Value	www.edmunds.com
Kelley's Blue Book	www.kbb.com
eBay	www.eBay.com
Public/private auctions	Classifieds

Be sure that you are comparing the same vehicles, terms and trim-levels to be sure you have accurate comparisons.

Reviewing Your Contract

Don't think that because you agreed verbally on something during your negotiation that it is necessarily reflected in the contract. The dealer can easily make changes either deliberately or by mistake.

It is <u>your</u> responsibility to review the lease contract for accuracy, not the dealer's!

You should review the entire lease contract in detail so that you can confirm that the major elements of the contract are all as stated. Here's a quick list of items that you should focus on in your contract:

1. Is the cap cost what you agreed to?

2. Is the car the same year as the one you expected?

3. Is the interest rate current with what you researched? If not, why not? Can you negotiate?

4. What is the term listed? Is this what you agreed to?

5. What happens if you transfer the lease?

6. How many miles are you allowed? Can you handle this? What is the penalty for going over?

7. What is the policy on wear and tear? Make sure to have them define excessive wear and tear.

8. Are there extra charges that you don't understand? What are they? Are they necessary? (i.e. monthly car washes)

9. What is the residual set at? Is this accurate?

10. What are the turn-in policies?

Understanding Your Lease Contract

Lease contracts can be very complicated, so it is important to understand the basic elements before you find yourself signing one at a dealership or with a leasing company directly. The following section outlines a typical lease contract and explains the fundamentals.

Disclosure Statement

Lease contracts are required by Federal Law to include a section, typically called "FEDERAL CONSUMER LEASING ACT DISCLOSURES," in which key pieces of information are disclosed to you. This information includes the amount due at lease signing, the established monthly payment, other fees that will be assessed, the total value of all payments, the way in which the monthly payment is established, a statement explaining early termination, and an explanation of wear and tear.

It is extremely important to verify this information before you sign the lease, because mistakes are very common.

Insurance

Vehicle lease contracts typically require lessees to carry insurance. You should research the amount of coverage required for your given situation. It is recommended to carry maximum protection in order to fully protect yourself from the potential costs of repairs, accidents, or any other disasters.

For details about coverage requirements for certain states, see "Shopping for your Insurance"

Excessive Wear and Tear

It is important to recognize that each leasing contract requires that the vehicle be returned with no more than "normal wear and tear." Many contracts even outline the specifics of what "normal wear and tear" means. Generally speaking, you really just need to take good care of your vehicle throughout the lease and you will be OK. Any dents or scratches should be fixed before you drop off the vehicle in order to avoid paying the premium repair fees that would be assessed by the dealership.

If you have questions about what charges could be incurred at the end of your lease contract, take a look at the section entitled "Lease End Options" for more information.

Excessive Mileage

Lease agreements limit the amount of miles that can be driven throughout the period of the lease. Typically, the maximum number of miles per year ranges from 10,000 to 15,000. It is important to understand the mileage limitations going into the lease so that you do not limit yourself. The fee for excess mileage can be very expensive, as $.10-$.25 is typically assessed per extra mile.

Early Termination

There are a few available options for early lease termination, which are discussed in detail in the section entitled "Exit your Lease Early". The options include:

- Dropping off the vehicle at the dealership before lease-end date and paying the numerous penalties that will be assessed

- Transferring your lease on Swapalease.com
- Refinancing your lease
- Buying your vehicle from the leasing company and selling it outright to another seller

You will want to be absolutely sure that you have given yourself the opportunity to terminate your lease early in the event you need to.

Destroyed or Stolen Vehicle

If your vehicle is stolen or destroyed, it is important to have gap protection in order to avoid paying the penalties and payments that would be assessed by the leasing company and/or dealership. Gap protection (or “gap insurance”), will protect you against any fees that you might owe once your insurance policy has paid its share of the costs. Gap protection is often included in lease contracts, but it is important to ensure that you purchase it if it is not otherwise included.

Understanding your Credit

Know your past

Your credit history is the first thing that a leasing company will check when considering whether to do business with you. Banks use your credit history as a basis for determining the level of risk involved with writing you a loan or lease. With a good credit score, you are a great candidate for a lease. However, with a blemished credit history, you will be less likely to be approved by the leasing company. There are some financing institutions that are willing to write leases for people with poor credit, but these leases typically carry very high interest rates, which can be extremely expensive.

Credit history is typically the most important factor that effects an individual's vehicle purchase decision.

Understanding Your Score

Often, a credit bureau has a score associated with it, which is used by a lender to quickly categorize various credit candidates into different classifications based on perceived risk. This score, often referred to as your **Beacon Score**, is derived from a formula that utilizes the information provided by a credit bureau. The score is inversely related to the risk a credit candidate poses to a lender in terms of repayment. Simply put, the higher the score, the better chance you have of being approved for credit. Credit scores have a top end of approximately 800, with most individuals falling in the 500 to 700 range.

What does my credit score mean?

You may have heard your credit, or someone else's, referred to by using an alphabetical letter, or more specifically A, B, C, or D credit. These classifications are related to credit score and are another way that lenders group and categorize potential credit candidates.

The following credit score ranges are commonly used and accepted by most lenders when rating one's credit worthiness:

Number	**Rating**
700+	A
670-699	B
640-669	C
<639	D

How does your credit relate to your interest rate?

Securing a low interest rate can help you to save thousands of dollars on a lease. Although you do have the ability to shop different banks for the best interest rate, your credit history will ultimately determine which interest rate you are eligible for.

The higher your credit score, the lower your interest rates (money factor) will be.

A lot of the 'amazing' deals that are advertised for 'nothing down' and 'no interest' are for people whose credit score is 700+. However, most people do not have perfect credit, which means that the interest rate will be an issue of concern. If your credit is not great, you should consider credit improvement before trying to secure an attractive interest rate.

How to Exit your Lease Early

There are several reasons why a lessee might want to break their lease before the lease-end date. The following are a few prime examples:

- If a leased vehicle has excessive extra miles and/or extra wear and tear that would be extremely expensive to pay off at lease-end
- If the lessee has grown tired of the vehicle
- If a lifestyle change requires a different vehicle

Lease Termination

It is often believed that the only option in ending a lease early is a car dealerships' traditional definition of 'early lease termination' in which the lessee is required to pay an early termination penalty plus the balance of the remaining payments.

For example, if the payments are $700.00 per month and 10 months are remaining on the contract, then the lessee owes $7,000.00 ($700.00 X 10 payments) plus any penalty fees.

There are alternatives to paying thousands of dollars in early termination fees by using a Lease Transfer.

Lease Transfer

A Lease Transfer allows you to transfer your lease contract to another person. By doing so, the new lessee is responsible for the remainder of the payments per the terms of your original contract.

A vehicle lease transfer could save you thousands of dollars while allowing you to walk away from your vehicle lease with no strings attached. Lease transfers have become increasingly popular over the last few years.

In order to initiate a lease transfer, however, you will need to find someone who is willing to assume your existing vehicle lease. You may find a friend, family member, or co-worker would enjoy your car for the remainder of the lease and appreciate not having to put any money down to acquire a vehicle.

If that fails, you can also find potential buyers on-line through companies like Swapalease.com that specialize in connecting lease buyers and lease sellers.

How Does the Lease Transfer Process Work?

The basic lease assumption process is the same for all leasing companies.

- First, the individual wishing to assume the lease submits a credit application to the leasing company.

- Next, the leasing company will make a decision on the credit worthiness of the applicant.

- If approved, the lease transfer documents are prepared and sent to the buyer and seller to be signed and returned to the leasing company.

- Once the buyer and seller have signed the lease transfer paperwork, the seller will turn the keys over to the buyer and send the transfer paperwork to the leasing company.

- Within a week or so the leasing company will send both the buyer and seller confirmation letters and will begin sending the monthly lease statements to the new buyer.

Leasing Company Policies and Restrictions

As you might expect, every leasing company works differently. Not all leasing companies allow you to transfer your lease, and some set certain restrictions upon the seller when transferring a lease.

Here are some of the important factors to consider when attempting to transfer your vehicle lease:

Ability to Transfer – Not all leasing companies will allow you to transfer your leasing obligation. Some may require you to ride out the balance of your lease regardless of whether you find a qualified buyer or not. In this case you may consider re-financing your lease with a leasing company that *does* allow lease transfers, or selling your vehicle outright. Both approaches are explained later in this section.

Transfer Restrictions – Some leasing companies may put certain restrictions on the nature of your lease transfer. For example, your leasing company may not allow you to transfer your car to an out-of-state resident. Or they may not allow you to transfer your vehicle in the last 12 months of your lease.

Contingent Liability – Some leasing companies may still hold the original lessee liable for the lease in the event that the new lessee (the new lease buyer) fails to make their payments or fails to settle up on any other obligations in the lease (such as excess mileage and wear and tear). While we have seen many major leasing companies abandon this policy you should still be aware of it.

If you are leasing with a company that still holds you liable for the original lease contract, you may also purchase a protection policy that will guard against any losses you may cover. These are provided by third party companies who specialize in this type of lease transfer business. (Swapalease.com is one of these companies. There may be more, but we are not aware of any!)

Transfer Fees – Most leasing companies will also assess a one-time transfer fee upon lease transfer. Beware: some companies even charge the transfer fee *before* the buyer is credit-approved, which means there will be a charge assessed even if the transfer is not completed. The transfer fee can be paid by the buyer or the seller, depending on what your negotiation calls for.

What are the fees associated with transferring a lease?

Aside from the fees that we listed previously, you may need to account for associated fees relating to the transfer of your vehicle. Here are some to consider:

Shipping – Most cars can be shipped anywhere in the continental U.S. for $500 - $1,000, depending on your carrier. Shipping often requires about one week between pickup and delivery, as most services pickup many cars along the way.

Advertising Fee – If you are advertising your lease in a publication, you may incur some costs associated with classified advertising in your local newspaper. If you are advertising on-line, your costs may be a little less, but it is not unreasonable to pay $50 - $100 to run your ad successfully.

Inspection Services - The buyer may request that the vehicle be fully inspected by a 3rd party vehicle inspection service prior to assuming the lease. We advise our customers who are looking to sell to have an inspection performed prior to advertising your vehicle so that you can provide this information for prospective buyers.

Alternatives to Transferring your Lease

While transferring your lease will likely be your most cost-effective way of exiting your lease early, there are other alternatives.

Sell Your Vehicle Outright

One option is to sell your vehicle outright. You may opt to do this if you want to walk away from your lease without going through the transfer process. To sell your vehicle outright, you must first buy your vehicle from the leasing company to assume full ownership. This requires making all the remaining payments as stated in your lease contract.

Here is an example of what your buyout would look like on a typical car with 12 months remaining:

- Monthly Payment: **$500 per month**
- Amount of Payment that is Principal: **$300**
- Amount of Payment that is Interest: **$200**
- Number of Months Remaining: **12**

Now take the number of months remaining **(12)** multiplied by the amount of interest that is being paid per month (**$200)** to see how much money you would have to pay above the cost of your car.

The total here is $2,400.00 - that's how much you would be paying the bank just to walk away from your lease!

In some cases the present value of your vehicle may not be high enough to make a purchase option viable for you. This depends on what the market will pay for the sale of your car. You can research sale prices on vehicles at Web sites like Edmunds (http://www.edmunds.com).

By nature, a lease is not designed to be worth more than the market value of the vehicle at any point in time. Therefore, it may be difficult to sell your car outright without incurring a loss due to the difference in what you sell the car for and what you owe your leasing company.

If you wish to sell your vehicle outright, a good place to start is to call your leasing company and request the "buyout amount" of your lease. This is the total price that will be assessed by your bank to purchase your vehicle at that moment in time. Be sure that you get the most updated amount at the time of sale as this amount will change month to month (as you make more payments, it should go down).

Refinance Your Lease

Refinancing your lease can solve multiple problems. If you are leasing with a company that does not allow lease transfers, refinancing can create a new lease with a company who will allow you to transfer your lease (beware: there may be other restrictions with a new company including a time period where you cannot transfer the lease).

Refinancing is also a way to lower your payments by re-adjusting your lease term to a longer term. When you extend the term of your lease you often stretch out the depreciation of the vehicle which then lowers your monthly payment.

To refinance your lease, contact a leasing company directly and let them know you would like to initiate a refinance on your lease with that organization. We have found this to be easiest with independent leasing companies (leasing companies not owned by car manufacturers) as they are more likely to handle these transactions.

How to Evaluate your Lease Situation

Many customers have asked us how we would evaluate the state of their leasing contract. Is it possible to find someone who would be willing to assume this lease? Will it cost a lot of money to buy this lease out? Is re-financing really a viable option? Once again every case is different, but let's look at some factors that often contribute toward helping or hurting your lease situation:

Vehicle is Over Miles – So you've found yourself in a situation where your car is well over the allotted miles on your lease. What to do? One option is to pay the overage off directly to a seller upon transferring your lease. This is calculated based on the number of miles the vehicle is over at the point of transfer multiplied by the over mileage penalty imposed in the lease contract ($0.20 per mile, for example).

Another approach to consider is simply buying the vehicle out at the end of the lease. Most leases have a “buyout price” that states how much you should be able to purchase your car for at the end of the lease. If turning your vehicle into the leasing company will incur thousands of dollars in “fees”, you may consider buying the car at the buyout price and then reselling it yourself or perhaps refinancing it into a loan. This will help you avoid excess mileage fees. Beware: your vehicle may still be worth less than you are paying for it because of the additional miles.

Vehicle is at the Beginning of the Term - If you are 2 months into a 60-month lease term, you effectively have a relatively new lease. Anyone looking to assume your lease has nearly the same cost structure as if they were to lease the car brand new. You may want to promote the fact that you have already put money down on your vehicle or paid certain acquisition fees that the new buyer would not. But for the difference in cost, a seller may be more inclined to get a new vehicle with all the options they desire. Getting out of a lease from the very beginning is often the hardest thing to do. You are typically in the best shape to transfer or refinance your lease when you have less than 36 months remaining in your lease or have been in your lease at least a year.

Vehicle is Damaged – If your vehicle has damage that may impact the resale (or re-lease) of your vehicle, it is often more cost-effective to repair the vehicle at your own cost to make it more marketable than to try to pass off the damage in the sale of your lease. Sometimes, you may be able to get a lease buyer to negotiate the cost of the damages with you if the lease is a good deal or you are under miles.

Payment is Too High

If your payment is too high (compared to other comparable leases in the market) you can "buy down" the effective payment to a potential lease buyer by offering to put cash into your deal. It is not uncommon for a lease seller to offer a few months payments in cash upon transfer of the lease to "sweeten" the deal for a potential buyer.

Another powerful and popular tactic is to reduce the monthly payment by offering a sum total of money and calculating the "savings" across each monthly payment. For example, if you have 12 months left on your lease, and your actual payment is $300, you could offer $1200 cash into the deal to bring the "effective monthly payment" down to $200. While the buyer will still have to make the original payment of $300, you can still market the vehicle as having a lower "effective" payment, which tends to resonate very well with prospective buyers.

Reducing your effective monthly payment is one of the fastest ways to get new buyers interested in your vehicle.

Getting Money Back Out of Your Lease

What if you had put $5,000 down when you initiated your lease – is it fair to ask for that money back from a prospective buyer? Our advice is to avoid this practice if you can. Selling a lease can be challenging enough, but when you request money from the *buyer* as well, you are turning off a lot of prospective buyers who are interested in assuming a lease because they want to get a deal, not because they want to put a “down payment” into the deal.

Getting a Premium for Aftermarket Upgrades

Perhaps you’ve put a beautiful new car stereo into your vehicle or have added some aftermarket upgrades that increase the value of your vehicle versus a stock vehicle. While everything is negotiable, popular wisdom suggests that getting your money back out of these items will often be difficult to do as well. You may be better served in either removing the equipment and selling it outright or using it as an incentive for buyers who would otherwise consider a stock vehicle that does not have these great options. Also remember that what is a great, valuable option to you may not be to someone else.

Summary

Exiting your lease does not have to be a painful process if you understand your options. In most cases it is best to attempt a vehicle lease transfer first because this is the most cost-effective method of eliminating your lease liability.

Try to remember that if you are currently in a lease agreement, you are locked into this liability for the remainder of your term. It is not a month-to-month liability. Therefore if you can find someone who is willing to assume your lease or discover a way to exit your lease without paying huge penalties, you are really avoiding a much larger total liability than your monthly payment.

You need a little bit of time and patience to exit your lease. Between the buyer, the leasing company, and any third parties you may have to deal with, it's just a small exercise in logistics and patience before you can walk away from your lease.

Lease End Options

What is Your Vehicle Worth?

So, you are finally at the end of your lease. What should you do next?

The first thing to do is to figure out what your vehicle is worth. There are just as many variables now as there was when you began the lease. Many consumers do not realize the number of factors that go into their lease end options and therefore resolve to simply turning their vehicle into their dealer and taking their “medicine” from the leasing company.

Such a solution is not always necessary if you understand what each variable means to your leasing situation. Let’s take a look at the breakdown.

Variable	What does it mean?	Adjustments
Overage in Miles	Your lease amount was determined by assuming that you would pay off the vehicle's depreciation over a set period of time. The mileage was figured into your monthly payment. If you drive over the mileage that was agreed to, then you have effectively reduced the value of the vehicle.	$.10 - $.25 is typically the overage fee per mile. This is determined at the dealer. So, you simply multiply the overage fee (i.e. $.10) times the number of miles that you are over, which will give you the amount that you owe. If you know the residual value of the vehicle, you can subtract this overage amount from the residual to understand what the vehicle is worth.
Variable	**What does it mean?**	**Adjustments**
Damage	When returning your vehicle to a dealer, it will be carefully inspected for damage. Inspectors may overlook a few small scratches, but will not overlook dents or anything else that must be fixed prior to resale. If your vehicle is damaged, it is a good idea to have it fixed prior to return. It is advisable to us a local repair shop, since deals will charge a premium for any repair work.	Have your vehicle checked out by a local body shop and get an estimate. Then take your vehicle into the dealer and have them give you an estimate of the turn-in costs associated with the damage. Use your body shop's assessment to negotiate a lower cost from the dealer.

Variable	What does it mean?	Adjustments
Excess Wear and Tear	Excess wear and tear is similar to damage. You should follow similar procedures to assess the worth of the car. Please keep in mind that everything is inspected upon vehicle turn-in.	
Variable	**What does it mean?**	**Adjustments**
Residual Value	The residual value of your vehicle, or the estimated worth of your vehicle at lease-end, is typically determined at the beginning of a lease. The actual value may be higher or lower than the estimated value stated in your lease contract. If the residual value was included in the lease contract, then you will not owe anymore on the car unless you have any overage in miles, damage or wear and tear.	Make sure that you agreed to the residual upfront and follow out the respective rules set forth by the contract.

End of Lease Options

Approaching the end of your lease produces a number of options for you to choose from. You can turn your vehicle in, re-lease the vehicle, buy it out, or even create a loan based off the residual price. Of course if you cannot wait until the end of your lease, you can consider terminating your lease early, which means you are turning over your lease *before* the lease term expires.

Let us take a look at your options at the end of a lease:

Early Lease Termination

Ending the lease on your vehicle early can be one option. Most dealers will tell you that your only option to end a lease early is 'early lease termination'. During this process, the lessee (you) is required to pay an early termination penalty plus the balance of the remaining payments. For example, if the payments are $700.00 a month and 10 months are remaining on the contract, then the lessee owes $7,000.00 ($700.00 X 10 payments) plus any penalty fees.

When you turn your car in these additional fees are often applied toward your trade-in, but the net of the transaction may cost you thousands of dollars.

Do not pay thousands of dollars to exit your lease early when there are much more cost-efficient solutions!

There are other options, though:

Re-leasing Your Vehicle

You may opt to re-lease your vehicle. This typically means extending your lease contract by 12-24 months, and paying an adjusted monthly payment. The leasing company can adjust your payment based on the residual value of the vehicle relative to the lease term extension.

Typically, your new payment may be slightly lower, since the residual value decreases with every passing year. You should consider, however, that you will probably start to encounter problems with your vehicle as you surpass 60,000 miles, and most warranties expire by that point. A savings in monthly payment may not save you any money in the long run if you have excessive maintenance and/or repair costs.

Buy-out Your Lease

You may decide that you would like to buy out your vehicle. Reasons might include:

- You like your vehicle and you would like to own it
- You owe an excessive amount for extra miles and damage
- You want to sell it to someone else

Buying out your lease will require you to pay off the residual value of the vehicle, plus any remaining payments, to the leasing company. You can do this through financing or by paying cash. If you finance, you will need to get approved from a financing company and pay interest on your loan. You will also pay for the transfer of title, taxes on the vehicle, and for the tags.

Upgrade to a Newer Car

At the end of your lease, a popular option is to "upgrade" to a newer model. This is a good option if you:

- Have no additional costs associated with the car (mileage, etc…)
- Enjoyed leasing and want to start over again
- (Or) Had a positive relationship with the dealer

If you owe money at the end of the lease, a dealer will tell you that they can just roll over your charges into a 'trade-in'. This does not mean you do not have to pay the fees, but rather you just end up paying it over a longer period of time, and paying interest on it as well. Try to take care of all charges so that you start your lease anew.

Salesmen may try to get you to put some money down on your new lease. This is typically not a good idea. While it may lower your payments, the money is lost forever – you will not see it again (unlike if you purchased the vehicle).

How to Prep Your Vehicle for Turn-in

Have your vehicle inspected by the dealership that you are planning to turn it before your lease is up. This will give you time to determine what your options are, relative to vehicle repairs and vehicle drop-off.

To do this, you must schedule an appointment at the dealership to have an 'end of lease evaluation,' which may take several weeks to get. They will tell you what the vehicle is worth, what you owe, and what your options are. With this information, you can use Swapalease and other sites to investigate whether turning your car in is the best option. You may find that a lease assumption will save you a lot of money.

If the dealer assesses damage on the car and gives you an estimate of cost to repair, take it to a local body shop to compare the cost difference. If the body shop is cheaper, negotiate with the dealer. If the dealer will not budge on the price and you decide to turn in the vehicle, have the damage repaired elsewhere prior to returning.

Since dealers will assess a fee for minor scratches and dents, you may want to try to touch-up the small scratches with 'scratch remover' that you can find in an auto repair section of a store. You may also want to use the repair paint that may have come with your vehicle, but be careful… if you do not know what you are doing, you may end up doing more damage than repair.

Finally, clean your vehicle and remove any personal possessions. If it looks like it has been maintained well, the dealer may cut you a break on some of the scratches.

Where to Turn in Your Vehicle

Original Dealer

The original dealer is usually an option. Many times, it is smart to stay with the same dealer if you have a good relationship and you felt as if you got a good deal. They know you and will work with you on any extra costs associated with the turn-in.

Other Options

Since the leasing company actually owns your vehicle, it is important to consult with them to see which locations are acceptable drop-off points for your vehicle. Dealerships and auction lots are the most common drop-off locations.

Consumer

You may also sell your vehicle to another consumer, but this can be a lengthy and complicated process. You may opt to do this if you want to get rid of your lease obligations and cannot or do not want to do a lease assumption. Selling your vehicle out-right can be complicated because there are several steps involved.

1. First, you must buy your vehicle from the lessor so that you own it. You may not sell a vehicle that you currently lease, as the leasing company is the owner. To buy a vehicle, you must pay for the tags, taxes and title transfer (which can be anywhere from a few hundred to a few thousand dollars) plus the negotiated price (or residual value) for the vehicle. This process usually takes a few days to complete.
2. After you purchase the vehicle, you must find a buyer with good credit. Sites such as

Swapalease.com are good places to find a buyer.

3. Once you find a buyer whose credit has been approved, you then go through the transfer of title/tags/taxes process again.

Finding Your Next Lease

Before you start your next search, think about what worked well and did not in your last vehicle lease/purchase. Make a list of things that are important to you:

- No down payment?
- Short terms?
- Low monthly payment?
- The car of your dreams?

Once you have a few key variables defined, you can start your quest for the perfect vehicle to lease or purchase. Lease assumption sites such as Swapalease are a great place to start.

Lease assumptions allow you to get into a great vehicle lease with low terms, no down payment and potentially lower monthly payments than what you could get at a dealer.

You can get yourself into a great vehicle lease with low terms, no down payment and potentially lower monthly payments than what you could get at a dealer. It is a way for you to drive a vehicle that you might not have otherwise been able to afford.

In addition, there is very little negotiation. In lease assumption, it is an upfront process – the lease price is what you pay.

Glossary Terms

Acquisition Fee
A fee charged by some leasing companies for originating the loan, just as mortgage lenders charge points as an origination fee. This fee is often not specified in a contract, but rolled into the capitalized cost when calculating monthly payments.

Add-Ons
Also known as options. These are features added on to the car often by the dealer such as a CD stereo, anti-theft system, detailing and undercoating. Some items are purely decorative, and do not add any value to the car.

Adjusted Capitalized Cost
The basis used to calculate lease payments, including the vehicle price, any associated fees, optional services, and then subtracting any cap cost reduction (down payment). Also known as Net Capitalized Cost. See definition for Capitalized Cost.

Amortization
The method of retiring a standard auto loan. In it, a steady stream of constant payments pays down the loan principal and interest. The first payments are comprised almost entirely of interest; the last almost entirely of principal.

Amount Due at Lease Signing
The total amount due before the consumer can take delivery of a leased vehicle. It can include any security deposit, title fee, capitalized cost reduction, monthly payments paid at signing and registration fees.

Amount Financed
The principal that is financed. It could include the cost of the car, the cost of an extended warranty, the cost of credit life insurance and other items rolled into the payments.

Annual Percentage Rate (APR)
A yearly rate of interest that includes fees and costs paid to acquire the loan. Lenders are required by law to disclose the APR. The rate is calculated in a standard way, taking the average compound interest rate over the term of the loan, so borrowers can compare loans. There is no APR in a lease; instead, the cost of money is expressed as the money factor.

Balloon Payment Loan
A type of loan in which a consumer agrees to pay a large, pre-determined amount at the end of the term.

Base Monthly Payment
The monthly lease payment before any applicable taxes or fees have been added to it. It is computed

using two factors; the total lease term Depreciation and total lease term Rent Charge. Each factor is converted to a monthly figure and both components are added together.

Base Price
The cost of a car without options. This price includes standard equipment and the manufacturer's warranty and is printed on the Monroney sticker.

Blue Book
Formally, it refers to the Kelley Blue Book, an industry guide dealers use to estimate wholesale and retail vehicle pricing. In common parlance, "the blue book price" can actually refer to a price looked up in one of the many guides to pricing. The books now come in a variety of hues, are issued by many organizations, and are commonly available online or in the reference sections of public libraries.

Capitalized (Cap) Cost
A leasing term that refers to the price of the car. The lower the capitalized cost, the lower the monthly lease payment. The cap cost is negotiable and can be reduced by a cash down payment, trade-in or a manufacturer's rebate; it can be increased by the loan acquisition fee or costs left over from a previous lease.

Capitalized Cost Reduction
A reduction in the capitalized cost resulting from cash down, trade-in allowance, factory rebate, or dealer discount. Simply referred to as a down payment. Typically shortened to Cap Cost Reduction or Cap Reduction.

Closed-End Lease
The most common type of car lease. The lessee may return the car at the end of the lease term, pay any end-of-lease costs, such as the disposition fee, and the lease agreement is over. In a closed-end lease, the lender assumes the risk of predicting the value of the vehicle (its residual value) at the end of the lease's term. Closed-end lease payments are somewhat higher than open-end lease payments.

Co-Lessee
An individual who signs the lease with another individual or company and is responsible for compliance with the lease terms in the event the lessee does not fulfill his or her obligations. A co-lessee may be utilized to help obtain credit approval or simply to put two people such as a husband and wife on a lease together. See also Lessee.

Consumer Leasing Act
A federal law passed in 1976 and amended in 1996 that spells out the requirements for disclosure of leasing costs and terms. Generally, the law covers vehicles leased for personal or family use; for periods in excess of four months; and for a total contractual obligation of less than $25,000. The Federal Reserve Board publishes a consumer guide to leasing that covers the leasing plans covered by the act.

Credit Life Insurance
A type of life insurance that helps repay the loan if the consumer becomes disabled. It is optional coverage. When taken out, the cost of the policy is sometimes rolled into the loan principal amount.

Current Lease Buyout
This is the figure that one may purchase a leased vehicle for prior to scheduled lease termination. Typically, this fee is calculated by adding the residual value, the total of the remaining monthly payments, and any early termination or purchase option fees, which may apply. In some instances this fee is negotiable with the Lessor

Dealer Charges
Charges for extra services or products sold by the dealer, including rust-proofing, undercoating and extended warranties.

Dealer Holdback
An allowance, usually between 2 percent and 3 percent of MSRP, provided by manufacturers to dealers. A holdback allowance may allow the dealer to pay the manufacturer less than the invoice price. A buyer could obtain a car below invoice price and the dealer would still make a profit.

Dealer Incentives
Programs offered by manufacturers to increase the sales of slow-selling models or to reduce excess inventories. Dealers may elect to pass on the savings to the buyer.

Dealer Invoice
The amount that a dealer is invoiced by the manufacturer for a vehicle and any options.

Dealer Preparation or Dealer Prep
An additional charge to consumers that dealers try to impose on buyers. It represents pure profit for the dealers, who have already been paid by the

manufacturer for the cost of preparing the car for sale.

Dealer Sticker Price
This is the Monroney sticker price plus the suggested retail price of dealer-installed options, dealer preparation and undercoating. It usually appears on a separate sticker.

Default
The condition that occurs when a consumer fails to fulfill the obligations set out in the loan or lease.

Deposit
An amount of money held by the dealer to hold a deal for a period of time until the paperwork is complete; usually applied toward the down payment. Also see security deposit.

Depreciation
An asset's decline in value over the course of its useful life. Autos depreciate steeply in their first few years, beginning at the moment they are driven off the lot. In an auto lease, a charge for depreciation is the chief part of a consumer's monthly payment.

Destination Charge
The fee charged for transporting the vehicle to the dealer from the manufacturer or port of entry. This charge is to be passed on to the buyer without any markup.

Direct Financing
A smart buyer's practice. A buyer who lines up financing through an outside financial institution rather than through the dealer is said to have direct financing. This doesn't mean dealer financing

is a worse deal -- on the contrary, some dealers offer deeply discounted financing. But arranging the financing separately allows the buyer to focus on one thing -- getting the best price on a car, rather than mixing pricing and financing. Consumer advocates urge buyers to keep the deals separate: Get the best price on a vehicle, and then see if the dealer can beat the pre-arranged financing.

Disposition Fee
A fee charged by some lessors at the end of a lease. The sum, spelled out in the lease, charges consumers for the privilege of giving back the vehicles they had leased.

Down Payment
A payment in cash or trade-in value that reduces the amount of a car's purchase price that is financed.

Early Termination
The termination of a lease before its maturity date.

Early Termination Charge
Charges that the lessee must pay if the car is turned in early before the term of the lease is over.

Equal Credit Opportunity Act
A federal law that prohibits discrimination in credit transactions on the basis of race, color, religion, national origin, sex, marital status, age, source of income or the exercise of any right under the Consumer Credit Protection Act.

Excess Mileage Charge
A charge per mile for miles driven over the amount contracted in the lease. This charge may vary not

only by lessor, but also by the amount of miles contracted per lessee.

Excess Wear and Tear
Potential additional charges if the vehicle is damaged or has wear beyond what is normally expected for the lease term. Examples of Excess Wear include cracked windshields, body damage, broken equipment, defaced interiors, etc.

Excess Wear Charge
Most leases set limits for wear and tear on the car during the lease term. The lessee must pay charges for exceeding the limits when turning in the car at the end of the lease.

Extended Service Contract (ESC)
An agreement purchased to supplement the factory warranty of a vehicle used to cover against breakdown and mechanical failures. These agreements can prove valuable, however they vary widely in coverage, and cost. The terms and conditions of a particular contract should be reviewed carefully.

Extended Warranty
Also known as service contract. A contract that covers certain car repairs or problems after the manufacturer's or dealer's warranty expires. Extended warranties are sold by car manufacturers, dealers and independent companies. With a new car, the extended warranty usually must be purchased by the end of the first year of ownership.

Fair Market Value
The amount that a willing buyer would pay at a certain point in time for the vehicle in an arms-length transaction.

Federal Consumer Leasing Act Disclosures
These disclosures outline the fundamental aspects utilized to calculate the lease and include any warnings of fees or penalties, which may be assessed by the lessor at lease termination. Federal Consumer Leasing Act Disclosures will be found on all lease contracts written in the last several years.
Finance lease
See open-end lease.

Gap Insurance
A type of insurance offered to auto lease customers. It pays the difference between what you own and what the vehicle is worth in the event the car is stolen or destroyed.

Gross Capitalized Cost
Refers to the agreed upon value of the vehicle and any other items the lessee pays over the lease term such as an Extended Service Contact, Acquisition Fee, Gap Insurance, Luxury Tax, and any outstanding prior credit or lease balance.

Holdback
See dealer holdback.

Insurance
In auto terms, a contract in which one party agrees to pay for another party's financial loss resulting from a collision, theft, or other damage. Leases and loans generally require consumers to maintain a certain level of insurance.

Interest
The cost of borrowing money, expressed as a percentage. For the best current interest rates on auto loans, use the bankrate.com (sm) auto loan search engine.

Invoice Price
The manufacturer's initial charge to the dealer. The price may not be the dealer's final cost because dealers receive rebates and other incentives from the manufacturer. The invoice price always includes freight, also known as the destination charge.
Top

Kelley Blue Book
The best-known of the car pricing guides. The company was founded by Les Kelley, a California used-car dealer. The first edition, in 1926, included values for such cars as a 1926 Packard sedan limousine with balloon tires ($3,825), and a 1921 Nash touring car with clock ($50). Today's editions have listings for more than 10,000 cars, vans and trucks.

Late Charge
A penalty assessed by the lessor to the lessee for failing to pay his or her payment in full by the contractual due date or within a specified grace period after that due date.

Lease
An agreement, usually for two to five years, that allows the lessee to drive a car for the term of the lease, but the lessee does not own the car. A monthly lease payment is usually lower than a car loan because the lessee is paying only for

depreciation on the car plus charges. The lessee is usually responsible for repairs, maintenance and insurance on the vehicle.

Lease Assumption
Refers to an outside party taking over a lease from the original lessee under the terms and conditions outlined in the original contract. Typically, a lease assumption means the original lessee walks away from the lease without any future liability and the new lessee assumes all liability for the lease contract.

Lease-End Buyout
This is the originally contracted amount that the lessee can purchase the leased vehicle for at scheduled lease termination. This figure consists of the Residual Value plus the Purchase Option Fee if applicable. In some cases this figure may be viewed as a worst-case scenario because many leasing companies will negotiate this amount with the lessee in order to hedge potential losses associated with the sale of the vehicle through other channels.

Lease Charge
See Rent Charge.

Lease Extension
The continuation of an existing lease, at the original monthly payment, usually on a month-by-month basis.

Lease-Like Loan
Also known as payment saver loan. It combines features of a lease and a conventional auto loan and is most often offered by credit unions.

Payments can be as much as 30 percent less than a conventional amortized loan, because a lease-like loan has a big balloon payment at the end. (See amortization.) It requires no down payment or security deposit. Mileage allowance is usually higher at 18,000 miles per year. At the end of the loan, the borrower can sell or trade in the car and pay off the loan balance, or keep the car and refinance the amount owed, or return the car to the lender as payment for the balance.

Lessee
The primary driver of the vehicle who signs the lease and is responsible for compliance with the contracts terms and conditions set forth. The lessee can be an individual or company.

Lessor
The owner of the leased vehicle and the entity who sets forth the lease terms and conditions. Typically the lessor is a bank or vehicle manufacturer's financial subsidiary.

Market Value
See fair market value.

Mileage Allowance or Mileage Limitation
The number of miles, specified in a lease, that a car may be driven over the life of the lease.

Mileage Charge
Extra charges the lessee must pay if the car is driven over the lease's mileage allowance, usually 12,000 to 15,000 miles per year.

Money Factor
A leasing term that expresses the cost of borrowing. It is similar to the interest rate paid on

a conventional car loan, but it is expressed as a difficult-to-understand fraction. To convert the money factor to a recognizable interest rate, multiply it by 24. For example, a money factor of .00345 x 24 = 9 percent interest. The money factor is negotiable, and consumers who lease a new car should look for a money factor close to the current interest rate charged for new-car loans.

Monroney Sticker
The sticker on the car window that shows the base price, the manufacturer's installed options with the manufacturer's suggested retail price (MSRP), the manufacturer's destination charge, and the car's fuel economy (mileage). This label is required by federal law and it is only removed when the car is sold by the purchaser. Named after A.S. "Mike" Monroney, a longtime Oklahoma congressman who wrote the Automobile Information Disclosure Act.

Monthly Sales/Use Tax
Unlike purchasing a vehicle the customer does not pay a lump sum sales tax amount upfront in a lease. Instead the lessee will pay tax on a monthly basis for the duration of the lease period. This tax amount is typically determined by where the vehicle will primarily be garaged. For instance, if a vehicle is leased and will be garaged in a county or locale where sales tax is figured at six percent the lessee will pay an additional six percent on top of the Base Monthly Payment.

MSRP
Stands for Manufacturer's Suggested Retail Price. It represents the manufacturer's recommended selling price for a vehicle and each of its options.

National Automobile Dealers Association
A trade organization that publishes the NADA Official Used Car Guide, which provides retail prices for most used cars to consumers, and provides trade-in values in a confidential list to dealers.

National Vehicle Leasing Association
A trade group for automotive leasing companies that can provide direction on understanding leasing contracts and terms.

Negative-Equity Financing
Financing for new car buyers who owe more on their trade-in than the car is worth. Financial advisors say at least 30 percent of cars traded in have a negative equity balance. For example, if the outstanding balance on a car loan is $14,000, but the trade-in allowance is only $12,000, the loan is "upside-down" by $2,000. New federal regulations that went into effect Oct. 1 make it clearer to consumers through the lease paperwork when they have negative equity. Under the new rules, a space for negative equity appears on the new finance contract and $2,000 would be added to the finance amount of the new auto loan. See also upside-down.

Odometer Statement
A federal form used to disclose a vehicle's mileage in connection with a transfer of vehicle ownership. A specific lease odometer statement is utilized in various lease transactions including terminations as well as Lease Assumptions and Transfers of Equity. Individuals should be aware that failure to complete a disclosure or false statements might result in fines or imprisonment.

Open-End Lease
Sometimes called a finance lease. It usually offers lower payments, but carries a risk for the consumer. Under an open-end lease, the lessee must pay any difference between the residual value of the car as stated in the lease and the fair market value of the car, if lower, at the end of the lease. The lessor pays for the appraisal that sets the value. If the consumer doesn't agree with it, the consumer may pay for a binding, independent appraisal by someone agreed to by both parties. Because the lessee is taking on the risk of having to come up with this extra payment, the payments are lower than for a closed-end lease.

Options
Also known as add-ons. These are features added to the car often by the dealer such as a CD stereo, anti-theft system, detailing and undercoating. Some items are purely decorative, known as "mop and glow," and do not add any value to the car.

Preparation Charges
See dealer preparation.

Principal
In a standard auto loan, the amount financed, which is due on a certain date and usually paid off through an amortized loan. Also see amortization.

Purchase Option
The terms of a lease under which amount that the lessee may pay the lessor at the end of the lease to purchase the vehicle. The price the lessee will pay is usually the residual value.

Purchase Option Fee
A fee that may or may not be charged by the lessor to cover costs associated with the selling of a leased vehicle to the original lessee at lease termination. The Purchase Option Fee typically ranges from $300.00 to $500.00.

Rebate
A manufacturer's reduction on the price of the car as an incentive to buyers. Rebates appeal to people with no credit or less-than-perfect credit who cannot qualify for the lowest-rate loan. A rebate may also appeal to first-time buyers who don't have a lot of cash for a down payment or another car to trade in.

Reconditioning Reserve
Another name for the security deposit paid when leasing a vehicle.

Rent Charge
The interest paid on a lease. It can be thought of as the equivalent of interest on a conventional installment loan. It is one of the factors used in establishing Base Monthly Payment. Also known as the Lease Charge.

Required Vehicle Insurance
Refers to the liability and physical damage policy requirements set forth by the lessor. Not only will specific dollar amounts be set, but also limits on deductibles will be included. Most contracts contain provisions for the lessor to be provided proof of insurance on request and the ability to collect for minimum insurance requirements if necessary.

Residual Value
The original estimate of the wholesale value of the leased vehicle at scheduled lease maturity. This value will vary depended on miles contracted in lease. You may or may not be able to purchase the vehicle at lease end for residual value because some leasing companies charge an additional Purchase Option Fee.

Rule of 78
A type of financing where the loan is weighted so all of the interest is paid off in the first year.

Security Deposit
Sometimes called reconditioning reserve. An amount, often the same as one month's payment, the dealer holds to be sure that the car will be returned in good condition. It is to be returned, less fees and damage charges, at the end of the lease.

Service Contract
See extended warranty.

Simple Interest Loan
A method of allocating the monthly payment between interest and principal. The interest charged is determined by the unpaid principal balance on the loan, the interest rate, and the number of days since the last payment. The rest of the payment goes to the principal. Making early payments or additional payments will reduce the loan's principal and cut the total interest paid over the life of the loan.

Sticker Price
This shows the base price, the manufacturer's installed options with the manufacturer's suggested retail price (MSRP), the manufacturer's destination charge and the fuel economy (mileage). It is the Monroney label affixed to the car window and is required by federal law. The label may not be removed by anyone other than the purchaser.

Term
The length of the loan or lease, usually 24, 36, 48 or 60 months.

Termination Fee
See Disposition Fee.

Title
The written evidence that proves the right of ownership of a specific vehicle.

Total Monthly Payment
This is made up of the following three factors broken down to a monthly basis and added together: Depreciation, Rent Charge, and Monthly Sales/Use Tax.

Trade-In Value
The amount that the dealership will credit you for the vehicle you provide as partial or full payment for another vehicle. Amount credited is frequently about 5 percent below the wholesale value of the vehicle.

Transfer of Equity
Similar to a Lease Assumption; however, the original lessee usually remains responsible or liable in some way shape or form for the original lease contract.

Up-Front Costs
The costs that must be paid at the time of signing a car lease agreement. These can include the first month's payment, a refundable security deposit, a capitalized cost reduction or down payment, taxes, registration and other fees.

Upside-Down
A position that consumers find themselves in when the outstanding balance of an auto loan is higher than the current fair market value of the car. It is most common in the early years of a lease or loan, when car is depreciating rapidly but the balance owed remains very high. Also see depreciation or negative equity.

Vehicle Identification Number (VIN)
A number assigned to the vehicle by the manufacturer. Each number is unique and appears on the vehicle's registration and title.

Warranty
A guarantee, from a dealer or a manufacturer, that a vehicle will perform as expected or specified. A warranty usually covers specified mechanical problems for a set number of miles or amount of time.