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consumer car leasing guide

# Common Car Dealer Leasing Tricks

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Car leasing is somewhat more complicated than paying cash or buying with a conventional car loan. This gives dealers an opportunity to mislead or confuse leasing customers.

Dealers often resort to common tricks to encourage leasing when it may not be in customers' best interest, or to trick qualified leasing customers into paying too much.

This is why it is so important for consumers to understand how auto leasing works and to be able to make independent lease-buy decisions, without dealer "help."

**LeaseGuide.com (www.LeaseGuide.com) is the Internet's leading source of consumer car leasing information and advice, helping automotive consumers since 1995.**

## Top Dealer Tricks

### *1. "We will take your old car in trade, pay off your old loan balance — no matter how much you owe — and get you into a better car for lower payments."*

Not exactly true. He's leaving out part of the story.

The dealer *will* pay off your old loan, as promised. However, what will actually happen, assuming you owe more on your old car than it's worth (you're upside down), is that the dealer will give you fair credit for your car's trade value (hopefully) and add the remaining loan balance (negative equity) to the price of your new car.

Because your new payments are based on leasing, not buying (which he may not tell you), your payments will likely be low, as promised, although the overall lease deal may be terrible.

The lease could easily be based on a vehicle price that is higher than MSRP, a very high interest rate, and a long lease term, all of which is disguised by the low payment.

Automotive consumers can prevent this trick from being successful by understanding leasing and how it works.

### *2. "We will make the remaining payments on your old lease if you will lease a new car from us today."*

This technique can be a big problem.

What most consumers incorrectly assume is that the dealer is promising to somehow take over responsibility for the lease. The simple fact is that dealers don’t take over leases.

What is actually happening is that the dealer is simply making the remaining payments and returning the car to the lease company for you.

If the car has damages or excessive mileage, the lease company will send the bill to you, not the dealer.

If the dealer fails to make those final payments, the lease company will come to you, not the dealer.

If the dealer fails to return the car to the lease company, you will be held responsible, not the dealer.

Furthermore, the dealer will very likely add all, or some, of those remaining payments back into the price of your new car — and possibly not tell you about it.

To avoid problems, understand exactly how the dealer intends to pay off your lease, and how the vehicle will be returned to the lease company. Also understand that you will be responsible, as stated in your contract, for any excessive mileage and wear on the vehicle.

### *3. "You are getting a nice 3.4% rate on this lease, which is better than our loan rates."*

A 3.4% rate would be very good, except that's probably not the lease interest rate you are actually getting.

The rate you are being quoted is most likely the lease "money factor" which is more accurately written as .0034. Money factor can be converted to annual interest rate by multiplying by 2400.

Therefore, a .0034 money factor is equivalent to 8.16% loan interest rate — not so good.

Often, dealer salespeople don't understand money factor and will misquote it as an honest mistake.

Make sure you, and the salesperson, understand exactly the money factor you'll pay in the lease. If the rate seems low, it might not be.

***4. "Sure, we'll take your old leased car in trade and give you a great deal on a new lease."***

Trading a leased car is usually not a good idea.

The reason is that most people will not have "equity" in their old leased car to help them buy or lease a new car. Leases are designed to have negative equity until the end of the lease term, or until near the end of the term.

Regardless of what the dealer promises, there are many potential problems.

In the worst case, the dealer takes your old leased car, simply returns it to the lease company, and you get a huge bill from the lease company for early termination or buyout.

Or, if he actually wants the car for his used car lot, he can buy the car from the lease company and add the buyout cost, minus trade-in credit, to the price of your new car. This could be a large amount of money, making your new car payments higher than expected.

If you are at the end of your lease, and have confirmed that you have no trade equity, it's best to simply return your car to the lease company.

***5. "Leasing is more flexible than buying because you can get out early or swap cars anytime you want."***

Not true.

Dealers know that some people like to swap cars often and want the flexibility to get out of a particular car when they choose. Leasing is proposed as the way to be able to do that.

What the dealer doesn't tell you is that leasing is designed in a way that makes it both difficult and expensive to terminate before the normal end date.

Furthermore, leasing doesn’t provide for swapping cars in the middle of the contract term.
If you read your lease contract, before you sign it, you'll quickly find that none of the claims are true.

Avoid this problem by reading your contract. If the promises are not in writing, it isn’t true.

***6. "Leasing will always be a better deal for you than buying, because your payments are significantly lower for the same car."***

It is true that lease payments are lower than loan payments for the same car. This fact often prompts dealers to suggest that leasing is a better deal, especially when they are working with a "payments" customer.

The truth is that leasing is not automatically a better deal. In fact, it’s possible to get a terrible lease deal and still have the payments be lower than a comparable purchase loan.

Dealers frequently stretch out lease terms to five years or more to make the payments even lower.

Leasing is not a good deal if you are not a good leasing candidate. That is, if you drive more than 15,000 miles a year, leasing may not be right for you. Your dealer may not explain that to you.

The best way to avoid this problem is to understand leasing and know how to determine if leasing is right for you. Don’t let the dealer make that decision for you.

***7. "Leasing is better than a loan because it doesn't show up as a debt liability on your credit report. It's like renting."***

Not true.

Leasing is not like renting.

Leasing shows up on your credit report as a debt obligation just like a loan. It increases you debt-to-income ratio just like a loan or mortgage. If you are concerned about your debt load, leasing doesn't help.

If you are late making lease payments, your credit is damaged, just like with a loan. Furthermore, leasing requires a check of your credit history and credit score, the same as buying with a loan.

***8. "The best way to acquire a new car is to lease first and then purchase the car at lease-end. It's like "lease-to-own" in real estate."***

This is false.

Although all leases provide the option to purchase at lease-end, there are no lease-to-own programs for automobile financing, as such. Leases are not designed to build ownership equity.

There are some balloon loans, such as GMAC's SmartBuy, that work much like a lease-to-own program, but with higher payments than a conventional lease.

Although leasing offers lower payments and may allow you to drive more car initially than might otherwise be affordable, buying that car at lease-end adds additional cost and makes the total cost of the lease-then-buy scenario greater than if you had simply purchased the car at the beginning.

Of course, if the convenience of having low initial payments is worth the extra cost to you, then that's your decision. Just don't let a dealer convince you that the extra cost doesn't exist.

***9. "Rebates and price discounts don't apply to leasing."***

Some dealers take advantage of the fact that most of their customers don't understand leasing when making this kind of statement.

Some will say that leasing is always based on "sticker price." Not true.

Leasing is always based on negotiated, discounted, or rebated price. Some rebates may not apply to leasing if there are already special lease deals in place from the manufacturer. These restrictions are usually stated in the fine print and may be difficult to confirm.

Prices should always be negotiated when leasing, just as if buying with cash or with a loan. How is vehicle is financed doesn't affect it's selling price.

***10. "Price doesn't matter in a lease because we sell the car to the lease company and they lease it back to you for the payment you want."***

Nonsense.

As mentioned above, leasing is always based on negotiated, discounted, or rebated price. The lower the price, the smaller the monthly payment.

It's true that the dealer sells the car to the lease company, but at the price that *you* settle on with the dealer. That becomes the price on which the monthly payment will be calculated. A finance company or lease company doesn’t care about the price of the lease.

As already suggested, you should always negotiate your best price for any car you intend to lease. The amount of your monthly payment is directly affected.

***11. "We require all our leased cars to have extended warranties, rust proofing, paint protectant, window etching, and maintenance contracts."***

This is false and deceptive.

There is nothing about leasing that makes these high-profit add-on items necessary.

Lease companies do not require these items, as some dealers might suggest. Dealer can’t dictate what is required for lease financing since they are not the source of that financing.

The cost of the items will increase your monthly lease payments in two ways. First, the items increase the lease price of the vehicle. Second, the items do not increase lease-end residuals – they are worthless in terms of increasing lease-end resale value.

Refuse the extra profit items or, if they are already on the car, refuse to pay for them.

***12. "You don't qualify for our advertised special deal because your credit score is too low."***

Maybe this is true, and maybe not.

This could be a common “false credit score” trick.

The dealer may tell you your score is low so that he can charge you an interest rate (money factor) that is higher than the normal rate charged by the finance company. The difference between the rate he charges you and the rate he actually gets from the finance company is pure profit.

The only way for you to know whether this statement is true or not is to already know your FICO credit score before you visit the dealer. MyFICO.com is the web site for Fair Isaac Corp., the company that creates your credit score. You can get your score for all three credit reporting companies from the web site.

If you find that your score is below about 680 or 700, it may be true that you don’t qualify for the advertised special deal. Manufacturers often restrict such deals to “well qualified” customers.

***13. "You owe additional money up-front even though we advertised '$XXXX due at lease inception'."***

This is deceptive advertising and a way to make additional profit. A dealer making this statement is changing the advertised deal.

Advertising “$XXXX due at lease inception” means that $XXXX should be *all* the cash money you will need to get the advertised lease payment.

Part of the $XXXX should go for tax, tag, registration, first month's payment, possibly a security deposit -- and the remainder applies to down payment (cap cost reduction).

If the dealer changes the deal such that the entire $XXXX goes for down payment, and charges you extra for tax, tag, registration, and first month's payment, he has effectively increased the price of the car in the deal, and increased his profit.

If this happens to you, insist on getting the deal EXACTLY as advertised. Do not write a check for more than the advertised “due at lease inception” amount.

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