

**AUTOMOBILE**

**FINANCING**

**AND**

**LEASING**



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## **ALLOWANCE**

The amount of money a dealer offers a customer on a trade-in.

## **AMOUNT FINANCED**

The principal amount of a loan. The amount financed equals the cost of the vehicle (including seller price, license, tax, accessories, service contract, DMV fees)

## **AS IS**

No warranty provided by the dealer on the purchase of used vehicle.

## **ACTUAL CASH VALUE**

The true dollar value of a trade-in to a dealership.

## **ACQUISITION FEE**

May be added to the initial value (capitalized cost) or paid-up front

## **ADDITIONAL INSURED and LOSS PAYEE**

In a lease transaction, the vehicle is owned by the lessor. To protect the lessor, insurance is required by the lessee. As owner, the lessor must be named as “additional insured” on the liability insurance policy, and as “loss payee” on the collision and comprehensive insurance required. Insurance limits are usually \$100,000/ \$300,000/ \$50,000.

## **BANKRUPTCY**

Must have proof of discharge copy of court discharge is required.

## **BENEFIT OF LEASING**

No used-car hassles  
Lower Tax Bite  
Lower Maintenance Headaches  
More cars, more after

## **BUMP**

An increase in the customer’s price or payment.

## **CASH REPORTING FORM 8300**

Generally, any person in a trade or business who receives more than \$10,000 in a single transaction or in a related transaction must file form 8300.

## **CAPITALIZED COST (CAP COST)**

The vehicle selling price plus any lessee costs, fees, taxes, warranty, accessories, etc., is used as the basis for calculating the lease payment.

## **CAP COST REDUCTION (CONTRIBUTION)**

A reduction of the capitalized cost, paid by the lessee either by cash, rebate, or applying equity from the lessee's trade-in. This is often incorrectly called a down payment. Sales tax must be paid on any contribution amount.

## **CANCELLATION POLICY**

This clause does not allow any contract cancellation. Any exception to this policy must have prior approval.

## **CO-BUYER**

A person who purchases or leases a vehicle in addition to the primary buyer. Both buyers are equally responsible for the payment of the loan/lease.

## **CO-SIGNER**

A person who buys a vehicle in addition to the primary buyer. Both are equally responsible for the repayment of the loan.

## **CLOSED-END LEASE**

A type of lease agreement in which the lessee is not responsible for the value of the vehicle at the end of the lease. The lessee is liable for excess wear and tear. It is also called a walk-a-way lease.

## **DISPOSITION FEE**

If a vehicle is returned at the end of the lease, the lessee is responsible for the fee. Contact your Dealer Relationship Manager for the dollar amount.

## **EQUITY**

The money value of a property or an interest in a property over claims or liens against it.

## **EXCESS MILEAGE CHARGE**

Leases allow mileage adjustments tailored to the customer's driving pattern. Mileage is assessed based on projected miles driven during the term of the lease.

## **FIRST-TIME BUYER**

An individual with no prior auto credit history.

## **FINANCE RESERVE**

The amount of profit received from the lender for writing the contract rate is higher than the lender's buy rate.

## **FRONT-END**

Gross profit generated by the sale of a vehicle and its accessories.

## **FUNDING**

The process of the lender paying the dealer for the assignment of a completed contract package.

## **GHOST**

An applicant with no credit history.



## **GUARANTEED AUTOMOBILE PROTECTION (GAP)**

Included in most leases, is a provision that reduces the monetary liability between the actual cash value of the vehicle and the payoff amount on a lease minus the deductible; when the vehicle is deemed a total loss or stolen.

## **INCENTIVE**

Money paid to a dealer or customer to stimulate the sale of a particular product or service.

## **INVOLUNTARY REPOSSESSION**

Involuntary repossession takes place when a lessor simply stops making payments or otherwise defaults, doesn't contact the leasing company to explain, and doesn't return the leased vehicle. The lease company will then have your vehicle taken from you and will begin collection procedures against you.

## **KELLY BLUE BOOK**

A publication used by lenders and dealers to determine the retail and wholesale value of almost every vehicle.

## **KNOW YOUR TRADE-IN VALUE**

When trading a leased car, the transaction is handled almost exactly like any other trade. The dealer will make you an offer of what he is willing to pay you for the vehicle, which should be the fair trade-in value –not retail market value. Make sure you check with Edmunds ([www.edmunds.com](http://www.edmunds.com)) and Kelley Blue Book ([www.kbb.com](http://www.kbb.com)) to determine if your dealer's offer is fair.

## **LEASE**

A contract between the lessor and the lessee for a specified period at a specified payment. The title to the car remains in the name of the lessor as owner of the asset.

## **LESSEE**

The party paying for the use of the vehicle. (lease client)

## **LESSOR**

The party funding the lease and also the owner of the vehicle. It can be one or more of the following; the originating dealer, leasing company, or financial institution.

## **LEASE ASSUMPTION**

In a third-party lease assumption or "transfer" or "assignment" or "sublease" or "takeover". Someone else takes over the lease from you and release you from further

payments. The other party starts making the payments, buys insurance, and maintains the vehicle just as if they were the original lessee.

### **LEASE PAYMENTS**

Lease payments are made up to two parts: a *principal charge* and a *finance charge*. The depreciation part of each monthly payment compensates the leasing company for the portion of the vehicle's value that is lost during your lease. The finance part is interested on the money the lease company has tied up in the car while you're driving it.

### **MANUFACTURER'S SUGGESTED RETAIL PRICE**

The final price is stated on the vehicle's window sticker (MSRP).

### **MILEAGE ALLOWANCE**

Lessee's estimate of mileage that will be driven during the term of the lease, which can be adjusted to accommodate the client's driving pattern.

### **NEGATIVE EQUITY**

The sum of the trade-in allowance minus the pay-off produces a negative value.

### **NEGATIVE EQUITY TRADE**

This is one of those situations that seem obvious at first—if the lease-end purchase price is higher than the vehicle's trade-in value, don't use it as a trade. Simply return it to the lease company, get out clean, and buy/lease your new car without a trade.

However, if you owe excessive mileage and wear fees if you return the vehicle, trading might deserve a further look, even with negative equity.

### **NSF**

Abbreviation for non-sufficient funds

### **ONE-PAY OPTION**

The customer can choose to pay the amount financed by a specific date, or after that date, the dealer will obtain financing.

## **OPEN-END LEASE**

The lessee guarantees the value of the leased vehicle at term, regardless of miles and condition. Also known as finance or equity lease.

## **ONE-PAY LEASE (SINGLE PAY)**

Permits lessees to prepay all monthly lease payments in a single payment in exchange for a lower money factor/rate. It allows the convenience of not having to make monthly payments. A one-pay lease is designed to overcome the objection from cash buyers of making monthly payments.

## **PAY OFF**

The amount due the lien holder to release the title of the vehicle being traded.

## **PREPAY MILES UPFRONT**

If you know at the beginning of your lease that you will be driving extra miles, most leasing companies will allow you to “buy” the miles up front – usually at a reduced rate – and simply spread the extra cost by increasing your monthly payment amount. This is good because it eliminates having to make a large payment at the end of the lease.

## **POSITIVE EQUITY TRADE**

If the trade-in value is **higher** than your lease-end contract purchase price, fine. The amount of the difference – your **positive equity** – can be used as trade-in credit to lower the price of your new vehicle, assuming your dealer offers you at least the fair trade-in amount that you found in your research. You should always consider this option at the end of a lease.

## **PRICE IS IMPORTANT IN LEASING**

When you lease, you negotiate a purchase price with the dealer just as you would if you were buying. This key point is not well known and dealers have even told customers that, because it’s a lease, price is always full sticker price. This is simply not true. Generally, the only time you would not need to negotiate the price is when the dealer is offering a special advertised deal in which the price and other factors of the lease are already set to attract your business.

## **RATE FACTOR**

The lease rate factor (money factor) is not an interest rate.

## **RECOURSE**

The dealer buys the contract back from the lender in a situation of default.

## **RESIDUAL VALUE**

The value of the leased vehicle at the end of the lease is sometimes referred to as walk-away value or guaranteed value.

In addition to the remaining depreciation payments mentioned previously, you must then add the **residual value** from your contract to finally arrive at the payoff amount for an early buyout.

## **SECURITY DEPOSIT**

The value of the leased vehicle at the end of the lease term is sometimes referred to as walk-away value or guarantee value.

## **TOTAL PROFIT**

Front-end profit plus back-end profit

## **TRADE-IN ALLOWANCE**

The dollar amount a dealer offers a customer for a trade-in.

## **UPSIDE-DOWN**

A situation where a customer owes more on the trade-in than the vehicle is worth. This produces negative equity.

## **WALK-AWAY LEASE**

A closed-end type of lease, in which the lessee has no responsibility for the residual value of the vehicle at lease termination, other than excess miles and excess wear and tear.

If you consider two different cars, both costing \$30,000 when new, where one is worth \$25,000 after two years and the other is worth only \$22,000. The first car will cost less to lease because of its smaller depreciation amount.

Different make and models of automobiles can have different depreciation rates. The vehicles having the lowest depreciation make the lease deals.

Generally, European and Japanese automobiles have lower depreciation than American brands.



Manufacturer's Suggested Retail Price / MSRP – is the full price for a vehicle as displayed on its window sticker, including optional packages.

### **CAPITALIZED COST**

When you and your dealer sit down and agree on a price for an automobile lease, this become the capitalized cost or “cap cost”. The cap cost will be usually less than MSRP.

### **CAPITALIZED COST REDUCTION**

Capitalized cost (lease price) can be reduced by rebates or cash down payments.

### **RESIDUAL VALUE**

The wholesale worth of a car at the end of its lease term, after it has depreciated, is called the residual value. Since nobody can truly predict the future, residuals are only educated guesses based on historical resale value data for specific automobile makes and models.

A rule-of-thumb: The best cars to lease are those which in 24 months residual are at least 50% of their original MSRP value. Keep in mind, that the higher the residual, the lower the lease payments.

### **Monthly Lease Payment Formula**

A lease payment is made of three parts:

- 1) Depreciation Fee
- 2) Finance Fee
- 3) Sales Tax

Lease Payment = Depreciation Fee + Finance Fee + Sales Tax

### **DEPRECIATION FEE**

The depreciation fee portion of your payment simply pays the leasing company for the loss in value of its cars. You pay off an equal portion of the total expected depreciation each month.

Depreciation Fee + (Net Cap Cost – Residual) – Term

Remember: Net cap cost is the cap cost, or selling price you negotiate with the dealer plus any add-on fees. A good lease deal is when you have the lowest possible net cap cost with the highest possible residual.

## **FINANCE FEE**

The finance fee portion of your monthly lease payment is like interest on a loan pays the leasing company for the use of their money.

$$\text{Finance Fee} = ((\text{Net Cap Cost} + \text{Residual}) \times \text{Money Factor})$$

Also be aware that you are paying a finance charge on both depreciation and residual.

$$\text{Monthly Finance Fee} = \text{Lease Charge} - \text{Term}$$

## **TOTAL MONTHLY PAYMENT**

Now, add the depreciation fee and the finance fee that you calculated.

$$\text{Total Monthly Payment} = \text{Depreciation} + \text{Finance Fee}$$

### Example calculation using the Leasing Formula

Let's assume you have decided on a 36-month term lease of a Mercedes Benz C230 Sedan that has a sticker price of \$34,250 (MSRP).

You have managed to negotiate the price down to \$33,700 (cap cost). You decide to make a \$3,000 down payment. **Your Net Cap Cost** is therefore

$$\$33,700 - \$3,000 = \$30,700$$

Now, the dealer tells you that the Money Factor is

$$.00255 \times 2,400 = 6.12\%$$

and residual percentage is 60% MSRP. So your Residual Amount in dollars is

$$\$34,250 \times 60\% = \$20,550$$

Now let's work on Math:

$$\text{DEPRECIATION FEE} = \$30,700 - \$20,550 = \$10,150 / 36 = \$281.95$$

$$\text{FINANCE FEE} = (\$30,700 + \$20,550) \times .00255 = \$130.69$$

$$\begin{aligned} \text{MONTHLY LEASE PAYMENT} &= \$281.95 + \$130.69 = \$412.64 + \text{Tax (34.04)} \\ &= \$446.69 \end{aligned}$$

Sales Tax Not Included

## FIRST PAYMENT

This means you make your first lease payment at the time you sign the contract.

Use one of the popular referral or pricing services now available on the web:

- 1) Invoice Dealers
- 2) Cars Direct
- 3) Autobytel
- 4) Autoweb

## **Do you typically drive your cars more than 15,000 miles a year?**

Lease contracts limit the number of miles you can drive to 10,000-15,000 miles per year. If you exceed your limit, you're slapped with "excess mileage" charges at the end of the lease. Sometimes additional miles – if you know you'll be driving more – can be "bought" upfront at the time you sign your lease, at a lower per-mile cost.

## **How Leasing Works**

Automobile leasing is based entirely on the concept that you pay for the amount by which a vehicle's value depreciates during the time you're driving it. Depreciation is the difference between a vehicle's original value and its value at lease-end (residual value), and is the primary factor that determines the cost of leasing.

## **Money Factor**

When you lease, you're tying up the leasing company's money while you're driving their car. Remember, they spent their money to buy your car from the dealer so that they could lease it to you. They rightfully expect you to pay interest on that money, the same as with a loan.

This interest is expressed as a money factor, sometimes called a *lease factor*, and is specified as a small decimal number such as .00255. (Note: dealers will sometimes confuse you by quoting money factor as a larger decimal such as .00255, which means .00255, because it sounds like an attractively low annual interest rate.

Money factors can be converted to annual interest rate (APR) by multiplying by 2400 (yes, it is always 2400 and is not related to the length of the loans in months). For example, a money factor of .00255 multiplied by 6.12 %



### PRICING INFORMATION

- |   |                    |                                  |
|---|--------------------|----------------------------------|
| A. Manufacturer's Suggested Retail Price (sticker price) of vehicle. Include prices for all optional equipment on a vehicle.  | \$ <u>52,740</u>   | MSRP                             |
| B. Be sure to include invoice Prices for all optional equipment on vehicle. This is the dealer's base cost.   | \$ <u>49,710</u>   | Dealer Invoice Price             |
| C. Determine if there are rebates or factory-to-dealer incentives currently in effect on your vehicle, which reduces the dealer's overall cost.   | \$ <u>-0-</u>      | Rebate                           |
| D. Holdbacks are paid to the dealer by the manufacturer after vehicles are sold or leased, and further reduces the dealer's cost for a vehicle.   | \$ <u>2% = 994</u> | Holdback                         |
| E. Subtract any rebates and holdbacks from dealer invoice price. This is the actual dealer's cost for the vehicle, and your starting point for negotiation.   | \$ <u>48,716</u>   | Net Dealer Cost<br>(B-C-D)       |
| F. Subtract dealer's cost from MSRP (sticker price) to determine how much profit he could potentially make if he sold/leased the vehicle to you at full price. Negotiate your price based on this figure. | \$ <u>4,024</u>    | Dealer Profit<br>Potential (A-E) |

## LEASE INFORMATION

- G. This is the vehicle price you negotiated with the dealer. \$ 51,500 Cap Cost
- H. Destination charge, acquisition fees, and other charges that are added to your Cap Cost. \$ 795 Fees
- I. Trade-in credit and/or down payment Amount. \$ 3,000 Cap Cost Reductions
- J. Adjusted cost of your vehicle. This is the cost that your lease is based on. \$ 49,295 Net Cap Cost  
(G + H – I)
- K. This is the estimated value of the vehicle at the end of the lease and comes from your dealer. Ask them to give you this figure. \$ 31,644 Residual
- L. This is the lease finance rate, expressed as a small decimal number such as .00315, and comes from the dealer. Ask them to give you this figure. .00275 Money Factor
- M. The number of months in the lease. 36 Lease Term
- N. Use the Lease Payment Formula:  

$$(J-K) / M + (J + K) \times L$$
 \$ 490.30 Monthly Lease Payment  

$$490.30 + 222.59 = \$ 712.89$$
- O. In most states and in Canada, sales tax is calculated based on your monthly payment. Simply multiply your local tax rate by your payment amount. \$ 58.81 Sales Tax 8.25%  
(N x tax rate)
- P. The sales tax is added to your monthly lease payment to determine your total monthly payment amount. \$ 771.70 Total Monthly Payment  
(N + O)

