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Ratchet Up Your Leasing Compliance

By Gil Van Over

Hallelujah! We are witnessing a leasing revival. The industry is once again discovering the joy of leasing and all of the benefits for the consumer, the dealer, the lessor and the manufacturer.

The dark side, however, is beginning to discover a new vein in the gold mine of dealer non-compliance and is firing up its dealer attack mechanisms. Here are some of the gold nuggets they are looking for.

- o Itemization of Gross Capitalized Cost: This is an optional disclosure—which means a consumer has to ask for according to Regulation M.

But some captives include this as a required disclosure on their lease agreements. So, in the spirit of creating a truly transparent transaction, your F&I Managers should provide a copy of this disclosure without the customer asking for it.

This disclosure, however, includes two key elements that are sometimes missing and, as a result, can give to non-disclosure and deceptive claims for the dark side.

1. **Agreed Upon Price:** The agreed upon price of the vehicle disclosed on the lease agreement must be consistent with the price the customer agreed to in the sales process. You should address any increase—added fees and service contracts, for example—as a part of the itemization of gross cap cost. Without the disclosure, you run the risk of triggering the potentially deceptive practice of selling air.

2. **Negative Equity:** Negative equity must be disclosed in the itemization of gross capitalized cost as an add to the agreed upon price. Regulation M requires the disclosure if the gross capitalized cost on the lease agreement includes negative equity.

Disclosure of Lease Starts: The amount due at lease inception is usually comprised of cap cost reduction, first payment, security deposit, and non-capitalized taxes and fees. The disclosure of how these are paid can lead to Regulation M disclosure issues.

The cash down must be just that, cash down, verifiable by a cash receipt. If your store is providing a credit for the first payment or a portion of the lease starts, you must disclose this as a non-cash credit and include it with any rebate. Regulation M also permits the disclosure of credit card lease starts separate from cash. Check with your lessor before programming this one.

Buyer's Order: Hah! Many dealers are trying to fit the leasing structure onto a retail Buyer's Order. Stop it. It doesn't work. Create an Order for Leased Vehicle that has all of the reps, warrants, covenants and alternative dispute resolutions that appear on your retail order, but change the structure part to reflect a true lease transaction.

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