

AUTO LEASING, RENTAL & REPAIR GUIDE

The New York City Department of Consumer Affairs

*AUTO
LEASING*

Car leasing has become a popular alternative to buying or renting. Ads for leases are everywhere. The dealers pitch a small down payment and reasonable monthly payments for a car you never thought you could afford.

But leasing a car is a complicated process. Auto leases are legal agreements that involve technical and often confusing language.

If you are a sharp negotiator and understand the jargon, you can find good deals. But when auto dealers seek to take advantage of consumers not in the know, you could wind up paying thousands of dollars more than you should.

*Leasing vs.
Buying*

Leasing a car is simply another way of financing a vehicle — not necessarily cheaper or more expensive than buying a car. The main difference is that when you buy a car, it's yours. How you use it is up to you, and you assume all risks.

When you lease a car, you don't own it, but you are liable for what happens to it. For example, if you own a car and it gets scratched, you can decide whether or not to repair it. But if you are leasing a car, a dealer likely will charge you to make the repair at the end of the lease.

Leasing a car offers several **benefits**:

- *Smaller down payment.* When you buy a car, a 20% down payment is standard. If you lease a car, your up-front payments can be thousands less than if you buy. Your down payment can range from 4% to 7% of the purchase price, plus sales tax and registration, depending on the lease deal you negotiate.
- *Lower monthly payments.* Comparative prices vary, but it is possible to save a lot on monthly payments when you are leasing instead of financing a new car.
- *Short-Term responsibility.* Since you may turn in the car when the lease is over, leasing offers the convenience of not having to get rid of an old car.

There are also several **disadvantages** to leasing a car. These include:

- ❖ *Hidden costs.* Leasing can involve “hidden” costs that are charged to the consumer at the back end of a lease, such as excess wear and tear or excess mileage charges.
- ❖ *Covering the difference.* If a leased vehicle is stolen or wrecked in an accident, you could be responsible for any costs claimed by the lessor greater than what the insurance company pays for the loss.
- ❖ *Money for nothing.* If you choose to return the vehicle at the end of the lease, you will have nothing to show for the money you spent.

Leasing is not for everyone. For those who can afford it, paying cash in full is usually the cheapest way to drive away in a new car.

If you plan to finance a car, however, you must decide between the higher down payment of buying a car versus the lower down payment, but higher back-end charges, of leasing. Which option best fits your budget?

Ask yourself these questions:

How often do I get a new car?

If you purchase a new car every three or four years, then leasing can be of comparable

value to buying — if you can avoid leasing’s hidden charges. If you purchase a new car less often, buying may be the better choice.

Can I afford a large down payment?

With a lease, you don’t have to pay as much money up front compared to when you buy. If you prefer to have lower initial costs, leasing may be the better option.

How much do I drive?

Lease agreements include an annual mileage allowance of between 10,000 and 15,000 miles. If you exceed the limit, you could be charged as much as 25 cents per mile. This could cost you thousands of dollars at the end of the lease. Purchasing a new car may be your best option if you think you will exceed the mileage allowance.

How well do I maintain the car?

By signing a lease, you authorize the leasing company to judge whether the car is being returned in suitable condition at the end of the lease. You also agree to make the required repairs. If you expect that the car will get dents and scratches or its interior will be damaged, you should consider buying it.

To make it through the complicated process of leasing a car, you have to get familiar with the lingo used by auto dealers. Many use technical language to gain the upper hand. Doing your homework and understanding these terms will help level the playing field when you negotiate with the salesperson.

Can you follow Lease Language?

- *Gross capitalized cost* — This is the price you would pay for the vehicle if you were to buy it outright, plus any other costs added to the deal, such as optional equipment or service contracts. You should negotiate this price and take advantage of any rebates or dealer incentives.
- *Capitalized cost reduction* — The down payment you are required to make at the start of the lease.
- *Security deposit* — This is required for most leases, but you must be sure it is refundable.
- *Front-end charges* — The acquisition fee and bank charges. Negotiable.
- *Residual value* — The projected value of the vehicle at the end of the lease. If you decide to purchase the car when the lease ends, this is the price you will probably pay.
- *Money factor* — This is the lease’s finance charge, built into the monthly payment. It is represented by a five-digit number (for example, .00314). To convert the money factor into an equivalent interest rate, multiply it by 2,400.
- *Monthly payment* — This sum includes the total depreciation of the car plus the interest charge and any other fees, including sales tax.
- *Disposition fee* — The fee the dealer charges to “dispose” of the vehicle at the end of the lease, and it is negotiable. It does not include charges for excess wear and tear and mileage penalties.

Exercise your rights as a consumer

- *Total of payments over lease term* — What you will pay over the life of the lease. It is the sum of the capitalized cost reduction, acquisition fees, all of the monthly payments, and any disposition charges due when you return the car.

There are now laws in place to assure that critical information, such as the cost of the vehicle, is disclosed before you sign the lease.

All lease charges must be clearly itemized at the top of the lease, not scattered throughout. Dealers are required to use a form that provides you with price disclosures.

New York State was the first to require its auto dealers to provide consumers with basic price information. One of the main provisions of the *Motor Vehicle Retail Leasing Act* is the requirement that, upon request, dealers must provide a sample lease agreement.

New York State's Lemon Law protects you if the car you lease turns out to be a lemon. If you successfully sue, you can get back your down payment plus all of the monthly payments you have made (excluding interest charges). The lease would also be voided, and you would not be subject to early termination penalties.

Negotiating a lease agreement

Begin negotiating with the dealer by discussing the price of the car.

First, find out the INVOICE PRICE of every vehicle you are considering. This is what the dealer pays the manufacturer for the car and should be the point at which you begin negotiating.

Also, any MANUFACTURER REBATES AND INCENTIVES should be subtracted from the invoice price, giving you a new, lower price at which you should begin bargaining.

The salesperson may push, but you should avoid making decisions based on what the monthly payment would be for the life of the lease. Only by knowing all of the figures can you get the best possible deal.

A common ploy among salespeople is manipulating the numbers to lower the monthly payment. While this might seem like a good deal, the dealer may impose excessive charges at the end of the lease to make up for the lower monthly charge.

Before closing the deal, consider more than just price

Since many of leasing's costly traps affect your bank account at the back end of the lease, agreeing on the price of a vehicle is only the first step in the negotiating process.

There are several other issues to consider before you sign on the dotted line.

- Be sure the lease clarifies the MILEAGE ALLOWANCE AND EXCESS CHARGES as well as what would be considered "excessive" wear and tear.
- Make sure all the numbers are filled in on the lease and that they match the figures you agreed upon. Never sign a lease without checking every page and ask for a copy immediately after you sign it.
- Find out what the FINANCE CHARGE, or "money factor," will be. By law, auto dealers are not required to disclose this complicated figure, but since this number affects how much you pay, you should insist on seeing it.
- Check to see that the contract includes an OPTION TO PURCHASE the vehicle at

*Getting out of
your lease*

Approximately half of all leases are terminated before the date specified in the contract. But when you terminate a contract prematurely, you are subject to penalty fees.

Make sure the lease specifies your right to terminate the lease early, and what it will cost you.

If a leased vehicle is stolen or totaled, the lease may hold you responsible for the GAP AMOUNT. This is the early termination payoff amount, not including any past-due amounts, minus the amount for which the vehicle is insured, before the insurance deductible and any other policy deductions are subtracted.

A GAP COVERAGE plan in the lease protects you. Gap coverage can take one of two forms.

One is a waiver by the lessor or assignee of the gap amount if the vehicle is stolen or totaled.

The other is a contract by a third party to cover the gap amount.

Either way, you may remain responsible for

- the insurance deductible
- other amounts deducted from the insured amount of the vehicle by your insurance company
- any past-due or other amounts you owe under the lease

You may also be responsible for your monthly payments until the lessor receives your insurance proceeds.

By law, dealers are limited as to how much they can charge for gap coverage, though some will offer it free of charge.

You can voluntarily terminate your lease after 50% of the scheduled lease term, as long as you are not in default and your payments are current. But you will still be subject to early termination charges, although the charges could be waived if you have worked out a lease for a new car.

Ending the lease before the midway point, however, will be considered a breach of contract, and your credit rating could suffer.

Think about early termination charges when you negotiate your lease. Early termination charges can include:

- a disposition fee specified in the lease
- your liability for remaining payments
- any past due lease payments or unpaid parking tickets
- any additional early termination charges disclosed in the lease

*The end of
your lease*

When your lease is up, you do not simply return the car to the dealer and walk away. In fact, this phase of a lease can be quite costly.

Negotiating a sound deal from the outset, you protect yourself from excessive disposition fees, wear and tear charges, and excess mileage charges.

Though you are bound by the lease you signed, there are ways to further protect yourself and save some money at the end of the lease.

- *Get an estimate.* Bring your car to any authorized dealer one month before the end of the lease for an estimate of any necessary repairs. Since you are not required to have the dealer do the work, shop around for a better price.
- *Get a condition report of the car.* When you drop off the car, ask for an itemized list detailing the car's condition. By law, you can appeal wear and tear charges to the State Attorney General, and this condition report will help support your claim.
- *Beware of the "rollover."* A dealer may offer to waive expensive end-of-lease charges if you agree to lease another car. In some cases, these dealers quietly roll the charges into the new lease.
- *Negotiate the Purchase Price.* Approximately 25% of those who lease exercise their option to buy the car. If you decide to purchase the car, bargain with the dealer, who may sell it for a lower price than the lease calls for.

Remember, although leasing a new car is a complicated and expensive transaction, you are protected by leasing laws that are designed to simplify this process for consumers. Always have dealers disclose critical price information so you can assess which deal is the best value.

If you feel you have been ripped off, the New York City Department of Consumer Affairs can help. DCA has been successful in helping consumers resolve problems with auto dealers. If you have complaints regarding your lease, call the Citizen Service Center at **3-1-1**.

AUTO RENTAL

When renting a car, consumers can find themselves signing a rental contract without fully understanding its terms. This can lead to unnecessary fees or even full liability for damage to the car in case of an accident.

If you are over the age of 25 and have a clean driving record and a credit card, it shouldn't be hard for you to rent a car. Here is what to expect when dealing with a car rental firm:

- ❖ **Your driving record.** Some car rental companies will check driving records and reject customers with moving violations, accidents, DWI or other convictions. Call beforehand to find out the company's policy.
- ❖ **Age policies.** If you're under 25, you should be prepared to shop around for a rental company that will rent to you. Expect to pay significantly higher rates. Under New York State Law, it is illegal for a car rental company to refuse to rent to any consumer 18 years of age or older, solely on the basis of age, if insurance is available. But many car rental companies cannot get insurance for cars rented to younger drivers. They can legally refuse to rent to drivers under the age of 25. Companies that rent to younger drivers may legally charge more.
- ❖ **Credit card policies.** Under New York State Law, it is illegal for a car rental firm to refuse to rent to a consumer because he or she does not have a credit card. But a rental firm may legally require you to pass a credit check, or make a reasonable

deposit. In this case, it might be necessary to reserve your vehicle more in advance, to give you time to pass the credit check. If you feel you are being discriminated against because you don't have a credit card, you should contact the New York State Attorney General.

*How to
compare car
rental prices*

Rental plans and prices may be higher or lower, depending on the car's size, how long the rental, and whether rental occurs during a peak time period or season.

Prices can also vary between the national and individual branches of each rental firm. Some establishments offer a choice between various plans for the same type of car.

If you are an Automobile Association of America (AAA) member, you may be entitled to discounts on car rentals. Your credit card company may also offer rental protection when you use your card for payment.

In getting estimates, keep in mind the following:

- ❖ **Car Size.** There are no standard definitions for "compact," "mid-size" and "luxury" cars. Prices for the same size car can vary widely among rental firms. One company will call a Toyota Tercel an "economy" car and another a "compact." To get a more accurate price, find the cost of renting a specific model and brand, for example, Ford Taurus or Probe.
- ❖ **Peak-period and peak-season rates.** The cost of a car rental is higher during peak demand periods. Rental companies will often set a minimum duration for the rental -- for example, the entire 3-day Labor Day Weekend. If you must travel on a weekend or holiday, you could save money by making reservations well in advance. If you can travel in off-peak and off-season periods, ask about lower rates for those dates.
- ❖ **The rental fee and the mileage charge.** Most rental plans include a RENTAL FEE and a MILEAGE CHARGE. The rental fee is the amount you are charged per day, per week or per weekend, no matter how far you drive the vehicle. The mileage charge is a fee for each mile you drive. The most common types of mileage plans offer a certain number of free miles and then a per-mile charge for anything over the free mileage amount. Some plans, however, offer unlimited mileage, which is usually linked with a higher rental fee. When renting a car, choose the plan that best fits your needs.

*Price
confirmations*

The amount you pay for renting a car could depend on how you contact the rental company. You may pay more if you call a car rental firm's toll-free hotline, than if you contact an individual rental car office directly.

If you reserve a car through a company's toll-free number, don't assume that a local rental office will honor the price quote given by the central office.

A call to the local car rental office might result in a lower rate. Whenever you call for car rental price quotes, confirm the information given to you by a national firm's central office by placing a follow-up call to the individual car rental dealer where you want to rent the car.

If you are given different estimates, find out which one will be honored when you make arrangements to pick up the rental car.

Advertised rates and hidden charges

The advertised rates you see in big, bold headlines in car rental ads rarely tell the whole story.

Look at the fine print to find a host of hidden charges not part of the basic advertised rate. These charges can raise a consumer's total car rental bill to more than double the advertised rental rate.

They usually cover additional insurance fees, gasoline and mileage charges, younger driver surcharges and one-way drop-off fees.

By law, car rental firms can't advertise, quote or charge a rental fee that does not include all charges, except taxes and mileage. Here are some of the optional fees that can affect your base rental charge:

- ❑ **Refundable/Deposit Charge.** This fee can come to hundreds of dollars. It is usually made on a credit card and not processed unless you fail to return the car at the assigned time. This can cut into your ability to use the card, depending on your credit card limit.
- ❑ **Airport Surcharges and Drop-Off Fees.** Surcharges are often imposed by airport authorities, but they may be applied at off-airport rental sites. Drop-off fees may be applied when a car is returned to a location other than the pick-up point.
- ❑ **Taxes.** Taxes may be lower if you pick up the car at a suburban, rather than a city location.
- ❑ **Additional Driver or Underage Driver Fees.** You may be charged more if the driving is shared with another person, or if the driver is under 25.
- ❑ **Out-of-State Charges.** You may be charged more if you drive the car out of the state in which you rented it.
- ❑ **Equipment Rental Fees.** You will probably have to pay more for items such as ski racks or extra seats. Reserve these in advance.
- ❑ **Hidden Charges.** Read all the fine print and question the rental firm thoroughly to pinpoint hidden charges. When you see an ad for a special offer, check if the discount rate applies in your particular area.

Optional insurance plans

For an extra charge, most car rental companies offer a number of optional, "strongly recommended" insurance plans. These options may include:

- Collision damage waiver (CDW), which guarantees the rental company will cover any damages to the car
- Liability Insurance Supplement (LIS), liability insurance for damages to persons or property caused by the rental vehicle
- Personal Effects Coverage (PEC) or Protection (PEP) insurance, which covers you for any of your property stolen from the rental car
- Personal Accident Insurance (PAI) or other medical coverage for passengers in the rental vehicle

In New York State, it is illegal for a car rental firm to offer a collision damage waiver as part of a rental agreement that does not exceed thirty days. New York State's strong consumer protection laws limit your liability for car damages to \$100, unless you have been negligent.

In many other states, however, it is legal for the car rental company to hold you liable for all damage to the vehicle, no matter who caused it.

Although the optional CDW costs an extra \$9 to \$15 per day, it requires the rental company to pay for any damages to the car. Without CDW, you are responsible for damages. So unless your personal auto insurance policy picks up the coverage, you could be liable for the full value of the damaged car.

If you buy CDW, read the small print for the exclusions. For example, CDW can be revoked if an unauthorized driver was operating the car, or if an authorized driver was negligent by driving on unpaved roads, out of state, while intoxicated, etc.

A rental firm may require one or more of its insurance plans. Call the New York State Consumer Protection Board's Consumer Helpline, **1-800-697-1220**, to make sure these plans are actually mandatory, and not just "strongly recommended."

An optional insurance plan can jack up the cost of your rental. Before paying any extra fees for insurance coverage, consider the following:

- ❑ Are you paying for coverage twice? Before renting, check with your insurance (auto, home-owner's, and medical) and/or credit-card agents, to see if (and how much) they cover car rentals. Business travelers may be covered by their employer's insurance. You may already have one or more of the insurance plans being offered as part of your coverage. If so, your insurance company may reimburse you if you have to pay for any damages to a rental car.
- ❑ Ask your insurance agents about "exclusions" in your coverage. For example, some policies exclude four-wheel drive vehicles, minivans, or similar vehicles. Rentals of more than 15 days may also be excluded.

If you are covered through a membership organization, check for liability limits. Certain organizations offer their members a maximum limit on liability for loss or damage to certain rental companies. For example, AAA members currently receive a \$3,000 limit on liability on a Hertz rental, even if no CDW is purchased — but the driver must be 25 years old or older to qualify.

Under New York State law, a rental car company can only hold you responsible for up to \$100 for any damage to the vehicle. But you might have to pay more if the damage is a result of the driver's "willful and wanton" misconduct. This includes DWI, driving impaired by drug use, speed-racing, driving while engaged in a criminal act, letting an unauthorized person drive, or failing to give the rental firm a proper accident report.

Fill 'er up?

The consumer usually has to pay for fuel. Most rental cars come with a full tank of gas. Some companies automatically charge consumers for this. Others only charge if this tank of gas is not replaced. In such cases, you should replace all of the gas before you return the car, because the rental firm is likely to charge more than the market

Drop-off and return policies

Many car rental companies do not allow “one-way rentals,” where consumers drive the car to another city and drop the vehicle off there.

Other companies do allow such one-way rentals. But they generally charge a heftier daily or weekly rental rate and impose heavy drop-off fees.

Reservations

Under NYC’s Consumer Protection Law Rules, rental car firms must honor all reservations within one-half hour after the reserved time, at the reserved location, and at the reserved price. (One exception: a rental company may specifically state that it does not guarantee reservations.)

If the vehicle you reserved is unavailable, they must provide you with a car that seats as many passengers, and that is suitable to your needs.

The reservation must be honored at the price originally promised by the rental company at the time of reservation. But if the company warns you that they do not guarantee reservations, the firm is under no legal obligation to honor your reservation, and you should be prepared to make alternative plans.

Look before you rent

Some local offices will not guarantee a rental unless it was reserved through the national company’s toll-free reservation desk. Check that your reservation is guaranteed.

Before agreeing to take possession of any rental car, check for any visible dents, damages, or defects. You should start the car and see if the headlights, brakes, and other equipment perform properly.

Avoid renting a car with any defect, and never take possession of a car with a safety-related defect.

If you must take a car with a dent, scratch, or some other defect that does not affect safety, make certain the car’s condition is clearly and specifically noted on the rental contract. Otherwise, when you return the car you may be charged for damage you did not cause.

Resolving complaints

To file a complaint about a discriminatory car rental policy, contact the Office of the New York State Attorney General at (800) 771-7755.

To make a complaint about an auto rental firm, call the Citizen Service Center at **3-1-1**.

AUTO REPAIR

Be sure you have your receipt with the rental agency’s name and address on it.

Find a reliable repair shop before an emergency

All repair shops in New York State must be licensed by the NEW YORK STATE DEPARTMENT OF MOTOR VEHICLES, which is also the agency responsible for handling all consumer auto-repair complaints.

Follow these suggestions when you need a car repair service:

- Hire licensed repair shops only. New York State law requires repair shops to post their license numbers on the premises, on highly visible, easy-to-read green signs.
- Ask your friends and relatives for referrals. Call the manufacturer of your car, for example Chevrolet or Toyota, to locate authorized repair shops in your area. These repair shops may not offer you the best deal, but they have expertise with your type of car. Check with the Department of Motor Vehicles and the Better

- Don't let small problems become large ones. If you suspect any trouble with the operation of your vehicle, personally check it out, or seek the service of an auto repair specialist as soon as possible.

Get the best deal

- Comparison shop for major repair rates. Get several estimates and investigate the condition of the repair shops. In New York State, licensed repair shops are required to provide an estimate upon request. The auto repair specialist may charge a reasonable fee for providing an estimate, which is usually deducted from the total repair charges.

- Make a detailed list of all problems you want the shop to address *before* talking with the auto repair specialist. Describing the problem accurately and completely will save you time and labor charges.

- Always request an itemized bill from the auto repair specialist. Check it against any estimate and authorization forms to confirm the shop is charging only for work that you formally authorized to have performed on your vehicle. If you think you may have been overcharged for parts, ask to see the supplier's auto parts price list. This list gives estimated retail prices, as well as wholesale prices.

Know your rights

- Never authorize any work unless you understand exactly what work and charges you are approving. Read the manufacturer's warranty carefully to see if the items requiring attention are guaranteed. If the necessary repairs are covered by a warranty, you should not have to pay for them. As a general rule, items that are subject to wear and tear are not covered by the manufacturer's warranty. Always read the small print in authorization forms and contracts. No work may legally be done without your permission.

- Under New York State Law, you are entitled to retrieve the old parts from your automobile which have been replaced, but you must request this *in writing before the work is done*.

Be suspicious if your new car is constantly in the shop. Under the New York State Lemon Law, consumers are entitled to a full refund if a new car constantly needs to be repaired. If your newly purchased car needs to be taken to a repair shop three or more times, contact the New York State Attorney General's office at (800) 771-7755 to find out more about your rights under the law.

To file a complaint against a repair shop, contact the New York State Department of Motor Vehicles at (518) 474-8943.

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The New York City Department of Consumer Affairs fosters a marketplace that consumers can trust and in which honest businesses can thrive.

If you would like more information about the work of the agency or our new strategic initiatives, please call **3-1-1** or contact:

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