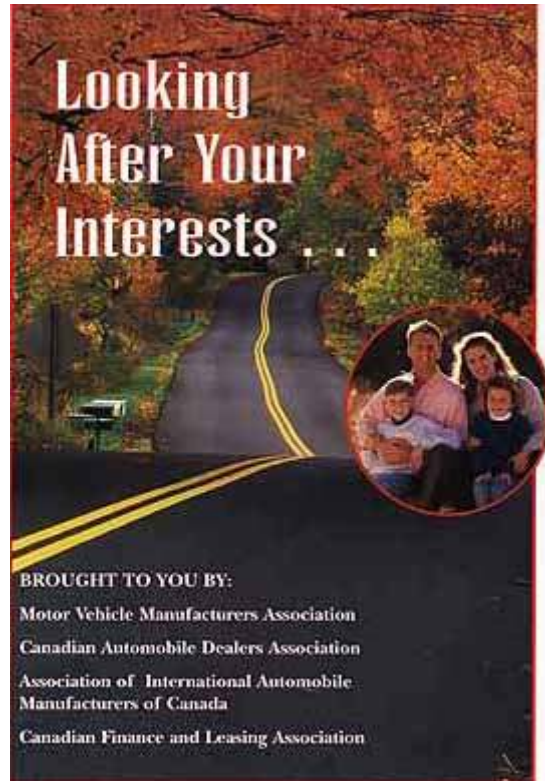
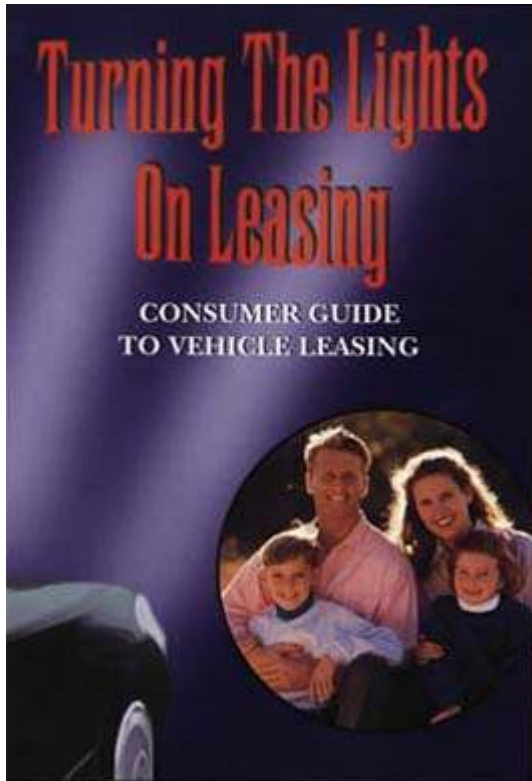


## Turning the Lights on Leasing

### CONSUMER GUIDE TO VEHICLE LEASING



#### BROUGHT TO YOU BY:

Canadian Vehicle Manufacturers Association  
Canadian Automobile Dealers Association  
Association of International Automobile Manufacturers of Canada  
Canadian Finance and Leasing Association

### OUR GOAL

*Leasing has become a very popular way for Canadians to obtain their vehicles. Even so, many people still find the topic to be a bit of a mystery. The goal of this booklet is to remove the mystery and help you decide whether or not leasing is right for you.*

### Turning the Lights on Leasing WHAT YOU SHOULD KNOW BEFORE YOU GET STARTED

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### THE LANGUAGE OF LEASING

Leasing has its own language, so we have provided a list of key terms at the back to assist you. These key terms appear in italics throughout the pamphlet and will be found on any lease contract you look at.

### WHAT IS LEASING?

Leasing is a way of obtaining a vehicle for a set period of time.

### IS LEASING FOR ME?

#### The advantages of leasing are:

- a lower monthly payment than you would pay on a loan for the same vehicle
- you pay tax only on the monthly payment rather than up front on the full price of the vehicle
- the opportunity to drive a new vehicle more often
- the comfort of knowing your vehicle is under warranty for the full duration in the case of the short term (2-3 years) lease
- you have options at lease end (return the vehicle, buy the vehicle if you lease has a purchase option, or let the leasing company sell it.)
- you avoid tying up your money in a vehicle.

### The disadvantages of leasing are:

- the carrying cost is high if you keep your vehicle on lease for a long period of time
- the lease can be costly if the lease is not based on the number of kilometers you realistically expect to drive
- you don't own the vehicle and do not build up "equity" with a lease as you do when you purchase a vehicle

Leasing is not for everyone. The least expensive way to obtain a vehicle is always to pay cash. If you cannot pay cash then the shortest borrowing term available to you will result in the lowest interest cost or "carrying cost". The faster you repay what you have borrowed, the lower your carrying costs. Carrying costs for a lease are higher than with a loan of the same term because you are only paying off the depreciation, and not repaying the entire value of the vehicle.

### THINGS YOU NEED TO KNOW

#### 1. Whether you lease or buy . . . you need to insure your vehicle.

In addition to insuring the vehicle, you must make sure that you have the amount of coverage required by your lease. This may be more than if you buy your vehicle.

#### 4. If you lease . . . you are responsible for repairing the vehicle.

You will need to repair the vehicle as necessary. If you do not properly repair the vehicle, you may be charged Excess Wear and Tear.

#### 5. Whether you lease or buy . . . you

**2. Whether you lease or buy . . . you are responsible for licensing and registering your vehicle.**

You are responsible for paying the license and vehicle registration fees during the term of the lease, just as if you bought the vehicle.

**3. Whether you lease or buy . . . you are responsible for maintaining your vehicle.**

Unless you have a lease that is a "full maintenance" lease, you are responsible for maintaining the vehicle according to the maintenance schedule set out in you Owner's Manual.

**are protected.**

There is a Canadian Motor Vehicle Arbitration Plan (CAMVAP)

CAMVAP is a free arbitration program available to you from participating manufacturers and leasing companies. If you qualify for arbitration under CAMVAP, the program will help you deal with any disputes between you and the manufacturer that might arise concerning manufacturing defects in you vehicle. Usually, the leasing company will work with the manufacturer to resolve your concerns. (This program is not currently available in Quebec.)

**IF YOU LEASE**

**You should know**

**1. There are different kinds of leases**

**Closed-End Leases:**

In a Closed-End Lease, you make a set number of lease payments during the term of your lease and return the vehicle to the leasing company at the end of the lease term. You are not required to make any additional payments unless there is physical damage to the vehicle, such as Excess Wear and Tear, or the number of kilometres you have driven is higher than the kilometre limit set out in the lease. At the end of the lease, your options are:

- return the vehicle
- buy the vehicle (if there is a purchase option)
- lease a new vehicle

Most manufacturer's leases are the close-end type.

**Open-End Leases:**

In an Open-End Lease, you make a set number of lease payments during the term of your lease and return the vehicle to the leasing company at the end of the lease term. Then an adjustment will be made. You will be required to make an additional payment covering the difference between the actual value of the vehicle at the end of the lease and the Residual Value stated on your lease contract. However, if the value of the vehicle is more than the residual value stated on your lease, then you are entitled to the difference.

For example, if the residual value in your lease is \$8,000.00, and the leasing company can only sell the vehicle for \$7,500.00, you will have to pay \$500.00. If the vehicle is sold for \$8,500.00, the leasing company will pay you \$500.00.

**2. There are payments required at the start of the lease**

**Refundable Security Deposit:**

**License and Registration Fees:**

You may be required to pay vehicle license and registration fees at the time the vehicle is delivered to you.

Most leases require you to pay a security deposit. The Security deposit will be refunded at the end of your lease, unless it is used to pay for any remaining amounts that you owe.

#### **First Lease Payment:**

You may be required to pay the first lease payment.

#### **Leased Vehicle Amount Reduction (Down Payment)**

You can lower your monthly payment by trading in a vehicle or paying an amount in cash. This is similar to a down payment on a loan. On some leases, a significant down payment may be required.

#### **5. You may not be allowed to remove the vehicle from the province or territory in which you leased it, without the prior permission of the leasing company.**

Most leases state that you must obtain permission from the leasing company to take the vehicle out of your province or territory if you will be out of your province or territory for an extended period of time.

#### **6. Your lease can be tailored to suit your driving needs.**

##### **With Closed-End Leases:**

You can negotiate the number of kilometres that you will need at the time you enter into your lease agreement. If you require additional kilometres it will increase your monthly payment. If you drive more kilometres than you have agreed to, you will be required to pay an Excess Kilometer Charge. You can usually "purchase" additional kilometres at the time you sign your lease at a lower cost than at the end of your lease term.

##### **With Open-End Leases:**

Open-end Leases normally have no kilometre restriction, however, the number of kilometres

#### **3. There may be an Acquisition Fee**

If your lease contains an Acquisition Fee it increases the carrying costs of the lease and must be included in the Total Lease Charges.

#### **4. Your lease may contain GAP Protection**

If the vehicle is in an accident and is damaged beyond repair, GAP protection will cover the difference (the gap), after you pay the deductible, between what you owe on the remainder of your lease and the amount of your insurance settlement. Many leases may include GAP protection but traditional vehicle loans usually do not.

### **THINGS YOU MAY WANT TO CONSIDER FOR YOUR LEASE**

#### **1. Purchase Options.**

You may choose to buy the vehicle if your lease contains a purchase option. Some leases give you the option to purchase the vehicle at any time, while other leases give you the option to purchase the vehicle only at the end of the lease.

If your lease has an option to purchase the vehicle, the purchase option price must be clearly stated.

#### **2. Right to Early Termination.**

you will not be allowed to end your lease early unless it is stated on you lease. If your lease contains this right, it should also contain the formula for calculating the early termination amount.

you drive will lower the market value of the vehicle at the end of the lease, increasing your costs at lease end.

## KEY TERMS

### Acquisition Fee:

This fee covers the cost of preparing and servicing your lease. If charged, this fee increases the carrying costs and must be included in the Total Lease Charges.

### Amount to be Amortized:

This is the difference between the Net Leased Vehicle Amount and the Residual Value and represents the Depreciation that you pay over the term of your lease.

### For example:

The Amount to be Amortized is calculated as follows:

Net Leased Vehicle Amount	\$20,000
minus Residual Value	<u>-\$12,000</u>
equals Amount to be Amortized	\$8,000

### Excess Kilometre Charge:

The cost you face if you drive your vehicle more kilometres than the maximum stated on your lease. This charge is set out as a number of cents for each kilometre over the stated maximum, plus applicable taxes.

### Excess Wear and Tear:

Every vehicle will experience normal wear and tear from every day use. Excess wear and tear is over and above expected normal wear and tear. Your lease should describe what excess wear and tear means.

Examples of excess wear and tear include:

- Bald or Mis-Matched Tires
- Body Damage
- Missing Parts or Interior Rips & Tears

### Lease Term:

### Annual Percentage Rate:

The Total Lease Charges expressed as an annual rate.

### Default:

Default occurs when you fail to comply with any terms of the lease. Your lease will set out specific circumstances which will result in your being in default.

### Depreciation:

This is the loss in the vehicle's value that occurs over time. The longer you keep the vehicle, and the more you drive it, the more the vehicle will depreciate.

In your lease, the depreciation is referred to as the Amount to be Amortized.

### Leased Vehicle Amount:

This is the amount you and the leasing company agree on for the vehicle and any other items such as accessories, extra equipment, freight, applicable taxes (such as air conditioning tax) and pre-delivery inspection.

Monthly Provincial and Federal/Harmonized taxes are not included and will be listed separately.

### Residual Value:

The Residual Value is, unless otherwise stated, the estimated wholesale Value of your vehicle at the end of your lease.

### Total Lease Charges:

The Total Lease Charges are the total carrying costs you pay over the term of the lease. This amount is similar to the cost of borrowing

