Part IV: E-Z Leasing

By Paul A. Eisenstein

She liked the looks of the Taurus wagon, and loved the low monthly payments, but there was one big problem. "I don't have a clue what I signed," sighs Detroit printer Karen Vaughn. "It just seems like they could have made it a lot simpler."

According to the National Vehicle Leasing Association, a third of American motorists will lease rather than buy their new cars and light trucks this year. Proponents proclaim leasing a way to get the maximum car for the minimum investment, great news with new car costs higher than ever.

Yet Vaughn isn't the only consumer turned off by the complex and often confusing language that makes up the typical leasing agreement. The simple truth is that leases aren't simple. They contain a variety of words and phrases, such as "Early Termination Clause," that can confuse you if you don't pay close attention.

But things are starting to change. In June 1995, a tough new disclosure law went into effect in New Jersey. It requires lenders to disclose a variety of information that will make it easier for consumers to understand what they're signing—and come up with numbers they can use to shop and compare.

Here's what other states now do:

- Clearly reveal the capitalized cost—the portion of the car's price being depreciated as part of the lease—as well as additional markups, taxes, fees and insurance;
- Disclose charges a customer might face at the end of the lease for such things as excessive wear-and-tear or additional mileage;
- State the formula used to calculate the Early Termination Clause, the often-hefty penalty for turning a car in ahead of schedule;
- Spell out the means of payment, including any trade-in, a cash down payment, manufacturer rebates, and finally, the monthly fee.

What you'll have is "a negotiable number," you can use as a bargaining chip with the dealer or take somewhere else to shop and compare, says Robert E. McKew, general counsel for the American Financial Services Association, which represents nonbank lenders like Household Finance and Ford Credit. McKew calls the new rules "an airtight formula" that should reduce the opportunity for unscrupulous dealers or lenders to commit fraud.

But a number of lenders have been moving aggressively on their own to come up with borrower-friendly leasing agreements. Kept short and simple, Ford's new form uses colorful icons to mark key sections. There's an alarm clock, for example, pointing out late-payment charges, and an odometer marking the section on excess mileage charges. A critical goal was to eliminate ambiguity. Ford also put together a well-illustrated brochure spelling out the standards its dealers will use when determining whether--and how much--to charge for excess wear-and-tear when returning your vehicle at the end of the lease.

"We felt we should write a lease that you didn't need a lawyer to understand," explains Michael Wagner, Ford's Consumer Lease manager. "We found that if we made it look friendlier, people took the time to read the document--and that leads to better understanding and customer satisfaction."

It may seem surprising to find lenders leading the push for simpler leasing language. But Rod Couts, director of the National Vehicle Leasing Association, says it's to the industry's advantage. "It will help prevent frivolous lawsuits," he contends. Besides, "if consumers understand the contract better, they'll be happier and more likely to lease the next time."