

Auto Leasing Scams

Car-leasing has been lauded as a more attractive alternative to buying, offering in the process the flexibility to drive a new car for less. The reality, however, is that leasing is an option that is fraught with many pitfalls for the average customer. Leasing regulation does not require as much disclosure as buying a vehicle. This has given rise to many leasing scams that trick the customer into believing they are into a good deal when, in effect, all he is getting is a rough deal on the dealer's terms.

Here we look at some of these common scams and how to avoid them

Artificially low interest rates:

Some dealers quote a lower interest rate when in reality it's much higher. They do this by either purposefully quoting the money factor as the interest rate or calculating the loan without amortizing some closing fees, like the security deposit, into the loan lease. Take the money factor for example: this is typically expressed as a four decimal digit, something like 0.004. Some dealers quote this as a 4% interest rate when in fact you need to multiply it by 24 to get a rough idea of the interest rate on your loan. In this example, the interest rate is a much higher 9.6% than the "quoted" rate of 4%.

Make sure you crunch the numbers and understand the formula they use to calculate their interest rate. Look out for any fees not factored into the calculation. If you are not satisfied, do not enter into the lease agreement.

Terminate your lease early for a low penalty

This is an all-time leasing scam. You ask your dealer how much you will pay if you want to terminate your lease and he tells you: "You want to get out early? Sure thing, you only pay an early termination fee of \$300". What he is quoting is only the small administrative penalty of early termination, there is a much stiffer penalty called early termination fee and this runs into thousands of dollars.

Do not confuse the early termination administrative penalty with the termination fee. Read the small print carefully and know exactly how much you will get charged should you terminate your lease before its scheduled end.

Pay for an extended warranty you don't need

This is another shell game to inflate the dealer's profit at your expense.

The dealer slides an extended-warranty into the deal whilst it's already factored into the monthly payments, or he tricks you into buying a 36-month warranty on a 24-month lease.

You do not have to pay extra money for a warranty already built into your payments or for one that goes well beyond your lease term.

They might slip an extended warranty in. Don't be fooled, the warranty is already factored in.

No security deposit

Any dealer who advertises a \$0 security deposit is not telling you the whole story. A security deposit is always factored in the lease under the provision for disposition fees.

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