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What compliance looks like: Consumer Leasing Act

by Gil Van Over

The Acts continue. So far in our journey to understand what Compliance Looks Like, we have covered the Gramm-Leach-Bliley Act, the FACT Act, the Equal Credit Opportunity Act, and the Truth in Lending Act. This week we address the Consumer Leasing Act, or Reg M.

The Consumer Leasing Act is chapter five of the Truth in Lending Act. This Act imposes disclosures, advertising and other requirements and restrictions on consumer leasing.

Required disclosures

The required disclosures required shall be given to the lessee, normally using a lease agreement provided by the leasing company. A lessor must provide the disclosures to the lessee (customer) prior to the consummation of a consumer lease. The dealership's required disclosures for each consumer lease include, but are not limited to:

- Description of the vehicle;
- Amount due at lease signing;
- Payment schedule and total amount of periodic payments;
- Total of payments;
- Payment calculation which includes the gross capitalized cost, capitalized cost reduction, adjusted capitalized cost, residual value, depreciation and any amortized amounts, rent charge, total of base periodic payments, lease term, base periodic payment, itemization of other charges, total periodic payment;



These disclosures must be made clearly and conspicuously in writing in a form the consumer may keep.

Common compliance issues

Some of the common compliance issues that dealers face include not properly disclosing the components of lease starts and not properly disclosing negative equity in the itemization of gross capitalized cost.

Lease starts – Reg M requires that the settlement of lease starts be accounted for on the lease agreement by disclosing the source of the settlement. The Reg allows for the disclosure of trade equity, rebates and non-cash credits, cash and credit cards. On a sign and drive lease, where the dealer is making the first payment from the gross of the deal, some dealers mistakenly disclose this as cash collected, not as a non-cash credit as it should be disclosed. Additionally, many dealers disclose credit card settlements as cash.

Negative equity – Just as on a retail transaction governed by Truth in Lending, negative equity on a

lease transaction is to be disclosed as prior loan or lease balance in the Itemization of Gross Capitalized Cost. Some dealers (and unfortunately lessors) are not properly disclosing the negative equity by including it in the Agreed Upon Sale Price.

Retention

A lessor shall retain evidence of compliance, other than the advertising requirements, for at least two years after the date the disclosures are required to be made.

One optional disclosure that dealers should seriously consider implementing is the Itemization of Gross Capitalized Cost. Many lessors have now included this optional disclosure on their lease agreements. For those lessors that have not embedded this disclosure in their lease agreements, they must provide a separate form that is to be provided to the customer if the customer asks for it. Just make this disclosure mandatory in your process.

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