

### Leasing Types

There are two types of leases available today, the "closed-end lease" and the "open-end lease".

#### Closed-End Lease

In the closed-end lease the residual value of the assets at the end of the lease is pre-determined before the lease is signed. At the end of the lease period, you have the option to purchase the assets for this price (plus a nominal administrative fee) or, the vehicle may simply be turned in to the dealer and you walk away. This is the most popular type of lease today.

#### Open-Ended Lease

The open-ended lease works the same way as the closed-end lease except that the residual value of the assets is estimated at the start of the lease. When the lease expires, the estimate is compared to the actual market value of the assets, and, you guessed it, you pay the difference which can be substantial. This type of lease is seldom used today for non-commercial leases while most consumers find closed-end leases best meet their needs.

### Terms And Definitions

#### IRR

The annual percentage rate (APR) for the lease. This rate is approximately equal to the money factor multiplied by 24.

#### CapCost

Or Capitalized Cost is analogous to the purchase price of the car on a conventional car loan. The cap cost is the price at which the dealer sells the car to the leasing company and is negotiated between you and the car dealer. This number includes the dealer's cost on the car plus a margin and is also used to calculate the monthly payment. The higher the Cap Cost the higher your payment. If a dealer tells you that the Cap Cost is the same as the MSRP, do not believe him (unless you are willing to pay sticker price for the car).

#### Security Deposit

A Capital Reduction (Cap Reduction for short) payment is cash paid by you at the signing of the lease that is applied towards the capitalized cost of the car. In other words, a cap reduction payment reduces the price at which the car is sold to the leasing company and thereby reduces the monthly payment. If you are trading in a vehicle, the allowance for your trade is usually applied as a cap reduction. The fine print in "teaser" ads with very low payments on expensive cars often will require cap reduction payments of one to two thousand dollars.

#### Early Termination Fee

If for some reason you are compelled to break the lease, you will almost certainly be obligated to pay this fee. Depending on the wording of the lease agreement, this fee could be very substantial. Therefore, you should be sure to understand the terms under which the lease may be broken before you sign the contract.