



Automobile Dealers Association of Indiana, Inc.

BULLETIN

BULLETIN NO. 8

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NEW LEASE DISCLOSURES EFFECTIVE OCTOBER 1, 1997

Ladies & Gentlemen:

Beginning October 1, 1997, Dealers will be required by changes in Regulation M to provide lease customers with additional disclosures explaining exactly what will take place in the transaction. The changes were accepted on April 1, 1997, and have been voluntary until next month.

Regulation M mandates the use of a revised lease contract form that clearly identifies certain disclosures and separates them from the rest of the information in the lease contract. Most Dealers use lease contracts supplied by various manufacturers, finance companies, banks, etc. ADAI had thought that most of these institutions would have already stocked you up with these revised forms, but a blurb from NADA insinuates the opposite. If you haven't yet received a supply of the new forms from your leasing partners you should call them and request a supply immediately. **If not, you may have a hard time getting your computer reprogrammed for the October 1 deadline... requiring hand prepared contracts.**

LEASE ADVERTISING will also come under the revised Regulation M guidelines on October 1, and from all indications we expect the enforcement of the new rules to be at an all time high. The Federal Trade Commission has stated time and time again that lease advertising is the most abused area in all advertising and they expect to clean it up.

While the number of items that must be disclosed under the new rules has been reduced, Dealers will have to ensure that all disclosures in lease ads are "readable and understandable".

TRIGGERING TERMS - If a lease advertisement includes either of the following two triggering terms - (a) the amount of any payment; or (b) the mention of any or no down payment or other payment which is required at the inception of a lease - then it must also state each of the following triggered terms: (1) the transaction is a lease; (2) the total amount of all monies due at lease inception; (3) the number and amounts of scheduled payments under a lease; and (4) that a security deposit is required.

For Regulation M compliance purposes these are the only items that need to be disclosed in a lease advertisement that contains a triggering term. The new rule eliminates the "old" Regulation M requirement to disclose the total of scheduled payments due under the lease, the option to purchase/purchase price, and lease-end charges, i.e., excess wear and tear charges, excess mileage charges.

DOWN PAYMENT - The disclosure of the total amount due at the lease signing must be *at least as prominent* as any statement of the down payment amount (including the fact that no down payment is required). The "equal prominence rule" also applies to other components of the total amount due at or before lease signing, such as refundable security deposit or lease acquisition charge. That is, the total amount due at or before lease signing must be displayed as prominently as the down payment reference.

"MOUSE TYPE" - As we stated earlier the FTC will require that all lease advertising disclosures be "readable and understandable". However, and you guessed it, they won't define "readable and understandable". The closest the FTC will come is to state that Dealers who make the required disclosures in "mouse type" will be in violation of federal law. This would suggest that disclosures made in tiny print or very rapid and broken sound bites over the radio and TV waves won't be acceptable by the FTC. Understand what we mean?

800 NUMBERS - The four disclosures that are required by Regulation M must appear in the advertisement itself. They cannot be made by referring to an 800 phone number. Regulation M will still allow for certain disclosures, specifically lease-end charges, to be made through the use of an 800 number. However, since these lease-end charges no longer have to be disclosed, the need for an 800 number would seem to be eliminated.

Undoubtedly, there will be a number of questions popping up concerning both the lease contracts and advertising disclosures. We'll do our very best to keep you informed and alerted. In the meantime we recommend that you call NADA and request a copy of "A Dealer Guide to Consumer Leasing: Regulation M". It contains the very best information we have seen on the subject.