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MANAGING 10-50 COMPANY VEHICLES

ARTICLE

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Fleet vs. Consumer Leasing

By Chris Brown

You see the advertisements: a 2010 Toyota Prius for only $179 a month for 36 months with $1,999 due at lease signing. It's usually followed by an exclamation point or two. You think, "I'm going to take advantage of this fantastic deal and put 10 of my account reps in those!"

If you're new to the concept of leasing for business and perhaps even new to the world of fleets in general, you might be wondering why those consumer leases look so much more attractive than a quote that a fleet leasing company might offer you.

It's a fair question. The answer is inherent to the nature of fleet leasing versus consumer leasing.

Both consumer and fleet leases take advantage of the same benefits of leasing, in that the lessee is only paying for the portion of the car or truck actually used. This results in a lower cash outlay, offers sales tax benefits and alleviates the hassle of having to sell the vehicle at the end of the term.

From here, consumer and fleet leases diverge.

Know the Difference

A consumer auto lease is written through a dealer or an independent car lease broker and financed by a bank or a captive funding company usually affiliated or owned by an auto manufacturer. The vehicle's residual value is set by the funding company. The term is generally set from two to four years; mileage is capped at 10,000- to 15,000-miles per year and the consumer is responsible for excessive wear and tear.

There are generally two types of fleet or commercial leases, open- or closed-end. A closed-end fleet lease resembles a consumer lease in that the residual value, term and mileage cap are predetermined.

In an open-end lease the lessee assumes responsibility for the vehicle's actual market value at the end of term; therefore there are no mileage or wear and tear charges. The term is open after 12 months of service.

Both closed- and open-end fleet leases are written by fleet leasing and management companies (affiliated with dealerships or as independents) that offer a range of fleet-related services beyond the financing of the vehicle.

Extensive studies of the differences and benefits for both closed- and open-end leases, the services offered by fleet leasing companies and criteria to obtain fleet status can be found at www.fleet-central.com.

Do the Payment Math

Consumer lease advertisements lead with the monthly payment amount. But the story changes when factoring in the down payment, which can be considerable. Dividing the "due at signing" amount over the term of the lease can add another $100 to the monthly cost.

An inherent benefit to a fleet lease is the lack of a down payment, which is advantageous for a business from a cash flow standpoint.

Help Get Me Out of This!

Terminating a consumer lease before end of term will trigger penalties and fees and can damage your credit if you try to walk away from the lease.

However, for a fee and minus the penalties, specialized lease transfer companies such as Lease Trader and swapalease.com connect consumers looking to exit their leases with new lessees. And it is possible for the consumer to sell the car himself and return what is owed on the car to the bank.

Open-end fleet leases can be terminated at any time after 12 months. Closed-end fleet leases, though set for a specific term, can be (in most cases) renegotiated with the leasing company. This flexibility is critical for commercial accounts, as drivers, mileage and financial conditions change regularly in the business world.

"You can't anticipate what your requirements are going to be over the next three or four years except to the extent that you know they'll be different than they are today," says Jack Leary, president of Motorlease, a fleet leasing and management company based in Farmington, Conn.

Avoid Mileage Pain

Low monthly rates for consumer leases are possible because they have caps of 10,000- to 15,000 annual miles. Mileage penalties on consumer leases run from 10- to 25-cents a mile. The penalty will be hefty for the consumer who puts an extra 3,000 miles on the vehicle.

Again, open-end fleet leases do not have a mileage cap. Mileage caps for closed-end fleet leases are custom written to the company's driving patterns, which, as you are probably well aware, call for many more annual miles. There are mileage penalties for closed-end fleet leases but they are less than those for consumer leases.

This is where lease flexibility comes into play: If your drivers expand their territories and are now driving 25,000 miles per year instead of 20,000, talk to your leasing company. You should be able to renegotiate the lease midstream. You won't get those miles for free, but the lessor can restructure the lease to reflect the new residual value of the car with the higher miles, which will end up substantially less than the mileage penalty cost.

Getting Dinged for Dents

When you return a consumer lease, a condition report is taken on behalf of the finance company and you'll be billed for excessive "wear and tear." Be sure to understand what constitutes excessive wear and tear in your consumer lease contract.

Closed-end fleet leases have a wear and tear stipulation as well. However, the assessment on a consumer lease is generally stricter than on a fleet lease, as the financing company is looking for a more retail-ready unit.

On a closed-end fleet lease,- the leasing company will also assess a charge for the reasonable cost to fix the damage, though the leasing company enjoys better wholesale repair rates, which can be passed on to the lessee.

"We [fleet lessors] expect to get back a fleet-type car," says Jeff Barron, president of Ellis Brooks Leasing, a fleet leasing and management company based in San Francisco. "We're going to take it to the auction knowing it's supposed to have some nicks and dings."

Paperwork and Hassle: What is Your Time Worth?

Multiple consumer leases are all written separately, each with their own details and terms, and are guaranteed and billed separately. The consumer must handle the tax, title and registration of each vehicle.

A fleet lease is handled under a master contract, with streamlined billing and one payment. The lessor handles the tax, title and registration, which alleviates added time and work, especially when vehicles are to be used in different states. New leases can be generated by one phone call and the vehicle is delivered to the lessee.

There is a still some negotiation that happens in fleet leasing, but the goal is to arrive at a comfort level between the lessor and lessee for fair pricing and a swift, painless transaction.

When a Consumer Lease Works

All things considered, there are situations that make sense for a business to take advantage of a consumer lease, such as when the employee has low business miles that are not likely to change, he or she takes good care of the car and is stable with the company.

Because consumer leases are subsidized by the manufacturer, the savings are attractive if you can live within the parameters. However, be sure to check with a fleet lessor on a consumer lease deal - if the manufacturer offers a cash rebate equivalent, the fleet leasing company has the same advantage and may be able to offer a similar deal.

Two Different Philosophies

On a consumer lease, the vehicle is returned to the dealer, but the owner - the bank - completes the transaction. As this is a non-personal, transaction-based deal, rules and penalties don't need to be flexible. The consumer shops a new lease and the bank moves onto the next customer.

In a fleet program, the vendor has a financial incentive to be reasonable to preserve the ongoing relationship with the lessee, says Barron. "Our goal is to structure the lease so in the end, we're still friends. We want that repeat business."

"Retail vehicle leases are designed to put a vehicle on the street," Leary says. "With a fleet deal, the end user is getting more than just a vehicle. Fleet agreements are designed to provide levels of assistance to the fleet operator with selection, spec'ing, maintenance, insurance and registrations. What the lessee is paying for only begins with the delivery of the vehicle."

The Changing Reimbursement Dynamic

The leasing landscape has changed in the wake of the recession. This has affected the dynamics for companies that choose to reimburse employees for work miles driven, says Leary of Motorlease.

One of the perceived benefits of a reimbursement program is that it allows drivers the freedom to use the monthly stipend to take advantage of heavily subsidized consumer leases. (Even though, Leary notes, the fleet driver most likely took a hit on mileage charges at lease end.)

Now, as consumer leasing has gotten much more stringent, drivers with a few dings on their credit cannot obtain those consumer leases with the low payments. And manufacturers are offering fewer heavily subsidized lease deals and fewer leases in general. "Now the driver has to go out and actually pay what the vehicle costs to operate," Leary says.

Faced with the prospect of having to put $5,000 down to buy the same desired model, the fleet driver's stipend isn't enough to cover this, which ties up a lot of personal cash. The driver may opt for a vehicle that doesn't fit in terms of functionality for the job or the company's image.

However, a fleet lessor may be able to offer a lease on that same model through the driver's company that would not be possible for the driver on a consumer lease.

Sidebar: Six Ways to Avoid Wear and Tear Surprises

Follow these tips to minimize wear and tear charges on closed-end fleet leases.

1. Don't rely on the driver to inspect the vehicle before turn in; have a third party within your company do a separate inspection for a more unbiased view. "Drivers have a tendency to say the car is in better shape than it actually is," says Leary. "In order to maintain trust with your fleet supplier, you need to be able to fess up and assess the car's true condition."

2. Don't wait until the day before you're supposed to turn in the vehicle to inspect it. Inspecting a week or two before will give you more flexibility to decide how to handle the repair.

3. Don't be afraid to question your leasing company on damages. The leasing company should be able to provide an estimate for repairs. You'll have more confidence doing this if the driver and a third party within your company have inspected the vehicle.

4. Have a discussion with the lessor on wear and tear before the lease program is initiated, not after the first bill comes in. Understand the lessor's definition of wear and tear. "We want the client to know from the get-go what we think is excessive and what we're willing to live with," says Leary.

5. Know what should be fixed before turn-back and what is best left to the leasing company. Motorlease requires clients to return vehicles so that they pass state inspection. This means fixing broken glass, broken head or taillights, cracked windshields and body parts that became detached from the car.

6. Report damage to the leasing company when it happens. Get an estimate for it, and ask the leasing company if it's something you should get repaired before turn-in, or wait and let the leasing company make the repair. Some damage may make sense to repair under your company's insurance, if it doesn't affect your insurance rates too much, says Barron.

"Don't turn it in and bury your head in the sand and hope the leasing company doesn't notice," says Leary.