

Consumer Satisfaction with Vehicle Leasing

A survey of vehicle lease holders revealed that lower payments and driving a nicer vehicle were important factors in leasing. Information on leasing was most frequently obtained from the dealer. Over half of the respondents had compared the cost of leasing to other alternatives. Three-fourths negotiated the price before agreeing on leasing terms. Although respondents were satisfied with leasing, about half had leased for less than two years and may not have encountered end-of-lease problems which are frequently cited. Also, respondents represented only two vehicle dealerships. The importance of leasing with a reputable dealer is recognized.

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Background

Automobile leasing has grown tremendously in recent years and is expected to continue growing. In 1984 only 11.6% of total new car sales were leased (Weiser, 1995) while nearly one-third of all cars were leased in 1995 (New rules seek to simplify car leasing, 1996). The Federal Reserve Board says that the percentage of leases is as high as 70 percent among certain luxury cars. (Fed releases inadequate auto leasing rules, 1996). Industry analysts predict that by 2001 half of all new vehicles will be leased (Bartlett, 1995).

Advantages of Leasing

A number of factors attract consumers to automobile leasing. Affordability is one of the major reasons. When one compares the monthly payments and the need for little or no down payment required for a lease with financing a car, a lease seems less expensive. Another key factor is that leasing saves time and money on repairs and maintaining a car. A car that is leased for two or three years is generally covered by the manufacturer's warranty. Thus, the leaser avoids costly replacement of brakes, tires, and other systems. The maintenance that is involved with a leased vehicle is usually limited to oil changes or tire rotations. In addition, leasing is an easier way to move from one vehicle to another. Consumers who lease do not have to worry about trading-in or selling a used vehicle (Olsen, 1996).

Disadvantages of Leasing

Along with the growth in popularity of leasing many consumers have had complaints about their experiences with leasing cars. The complaints have

included a range of problems including no credit for trade-ins, large charges at the end of a lease, and consumers who end up with a lease when they thought they were purchasing a car (Longo, 1995). The Better Business Bureau AUTO LINE program reports an increased number of leased vehicle cases (Weiser, 1995). The Consumer Federation of America (CFA) and the National Association of Consumer Agency Administrators (NACAA) reported that complaints about auto leasing to state and local consumer protection agencies almost doubled from 1994 to 1995. Consumers most frequently complained that they did not understand the contract that they signed (Ponder, 1996).

Leasing an automobile is a complex financial transaction. Terms used in leasing differ from terms used in financing an automobile. Some of the terms used in leasing are capitalized costs, capitalized cost reduction, residual value, acquisition fee, inception fees, money factor, lease term, and after-market items. Some of these terms are not specified in the contract or the documentation given to the consumer (O'Loughlin, 1996). While there are many terms to consider, consumers may not realize that many of these are negotiable (Bartlett, 1995). The dealer may negotiate many leasing deals in a year, but for many consumers, leasing is a new experience. Because the transaction is complex, the opportunity to deceive consumers is greater. For example, the Attorney General in Florida conducted a state-wide investigation which resulted in over \$4,000,000 in restitution to victims of leasing scams (O'Loughlin, 1996).

Consumers who fail to meet the leasing terms and conditions can experience additional costs at the end of the lease term. For example, consumers who exceed the mileage limitations will generally pay an

excess mileage fee. Consumers who have open ended leases may have to pay the difference between the actual value at the end of the lease and the estimated value. It can be very difficult to determine the consumer's price with leasing. In this type of environment consumers need to recognize their position and work toward reducing problems. They need to learn about the products, ask questions and be sure sales personnel can answer them (Eastwood, 1997, p. 239).

It may be difficult for consumers to assess the lease versus borrow question. Sometimes the method of evaluating the question is too complex for consumers while other times the methods may be oversimplified and not provide adequate information. Thus, consumers might focus on different factors when selecting a lease (Nunnally & Plath, 1989, p. 385).

Need for Consumer Education

Based on the growth in car leasing and the growth in complaints about car leasing, there appears to be a need for consumer education about car leasing. Remar Sutton, president of the Consumer Task Force on Automotive Issues, said that "leasing an automobile is so complex that few people understand the process." (Heath, 1995). Jack Gillis, author of *The Car Book*, echoes this statement by saying that "the paperwork has become so obscenely complex that the average person can't make heads or tails of it" (Heath, 1995).

"Being informed is a crucial aspect of making optimal purchases" (Eastwood, 1997, p.167). Automobiles are generally considered a durable good and have properties of experience goods. This means that consumer often can evaluate usefulness, features and utility only after the product has been used. Because of the high price of an automobile, most consumers cannot buy and try several brands. They need to gather information first. Because they purchase this durable infrequently, the information problem can be increased (Eastwood, 1997, p. 238).

Although an automobile lease might not be considered a durable good, it could have several similar properties. Consumers might better evaluate its utility after using a lease. Lack of familiarity with the product would indicate that they need to gather information first. Many consumers may rely on advertisements or dealers to gather information for making a decision. If they have not leased an automobile before, consumers might not be aware of what information is relevant, where to get it and how to interpret the information. Sellers could be more knowledgeable and able to control the information presented to the consumer.

In September 1996, the Federal Reserve Board released new disclosure rules which will go into effect in October 1997. Under the new rule, car dealers will disclose to consumers how they calculate monthly lease payments. The dealers will also have to tell lease customers the basic price of a vehicle and spell out possible penalties for terminating the lease early (New rules seek to simplify car leasing, 1996). These rules will apply to leases of \$25,000 or less.

Some consumer advocates feel that this new rule is still inadequate in providing necessary information to consumers. Mary Ponder, CFA Senior Projects Director, says "Consumers need a finance rate in order to compare leasing offers. A federally mandated, standardized annual lease rate would assure uniform disclosure of lease cost information" (Fed releases inadequate auto leasing rules, 1996).

Purpose

The purpose of this study was to learn what features were attracting consumers to leasing vehicles, which consumers were leasing vehicles, and their level of satisfaction with leasing. In addition, the study attempted to determine how consumers got information and made decisions about leasing.

Methodology

A survey was developed to collect information on usage of leased vehicles. The survey was pilot tested and some questions were revised to improve clarity. The criteria for inclusion in the study was current usage of a leased vehicle which necessitated the use of a purposive sample. Two automobile dealers representing different geographic areas were contacted and asked to provide randomly selected names of consumers currently leasing vehicles. One dealer was located in a small town in a rural community and the other dealer was located in an urban area. The first dealer provided 30 names and the second dealer provided 100 names. Sixty-six usable surveys were returned giving a response rate of 50.8%. Responses were coded and analyzed using means and frequencies. Chi-square was used to test for significant relationships.

Findings

Descriptive Statistics

A limitation of the sample was that it does not represent a random sample of all persons who lease a

vehicle. The results showed that these lease holders were more likely to be married, with a college education, a relatively high level of household income, and not retired. Eighty-three percent were married and 57.6% had a college degree. One-fifth earned less than \$20,000, but 37.1% earned more than \$80,000. Only 14.1% were retired. Two-thirds were men and one-third were women. See Table 1.

Table 1

Characteristics of the Sample (N = 66)

	<u>N</u>	<u>Percentage</u>
Age		
< 35	13	19.7
36-45	26	39.4
46-55	10	15.2
56-65	9	13.6
>65	8	12.1
Marital status		
Married	55	83.3
Other	11	16.7
Gender		
Male	42	63.6
Female	24	36.4
Household income		
< \$20,000	1	1.6
\$20-39,999	11	17.7
\$40-59,999	21	31.8
\$60-79,999	10	16.1
=>\$80,000	23	37.1
Residence:		
Rural	21	31.8
Urban	45	68.2
Education		
HS or less	13	21.2
Some college	14	21.2
BS or more	38	57.6
Retired		
Yes	9	14.1
No	55	85.9

The majority of the respondents were leasing one vehicle. The average monthly lease payment was \$346 (SD = \$122). The typical leasing period was 36 months. Slightly over half had used a leased vehicle for more than 2 years. When asked what features attracted them to leasing, responses and percentage responding were (more than one answer was permitted): lower monthly payments, 57.5%; drive a nicer vehicle, 57.5%; drive a newer model, 48.4%, and tax purposes, 33.3%. When asked whether the use was primarily business or personal, one half said personal

and one-half said a combination of business and personal. See Table 2.

Table 2

Vehicle Leasing Characteristics (N = 66)

	<u>Mean(SD)</u>	<u>Range</u>
Monthly payments	346(122)	138-999
Length of lease	35.3(8.67)	24-60
	<u>N</u>	<u>Percentage</u>
Number vehicles leased		
1	40	60.6
2	18	27.3
3 or more	8	12.1
Experience with leasing		
6 months	11	16.7
1 year	11	16.7
2 years	9	13.6
> 2 years	35	53.0
Length of leasing period		
24 months	14	21.2
25-35	9	13.7
36 months	33	50.0
48 months	7	10.6
60 months	3	4.5
Plan to keep leased vehicle		
Full term	52	78.8
> full term	3	4.5
Other	11	16.7
Satisfaction with leasing		
Very satisfied	32	48.5
Satisfied	34	51.5
Dissatisfied	0	----
Very dissatis.	0	----
Would lease again		
Yes	53	85.5
No/unsure	13	14.5
Features that attracted to leasing (More than one answer was possible)		
Lower payments	38	57.5
Nicer vehicle	38	57.5
Newer model	32	48.4
Tax purposes	22	33.3
Other	12	18.2
Primary use of leased vehicle		
Bus/personal	33	50.0
Personal	33	50.0

Obtaining Information about Leasing

When asked where they obtained information about leasing, dealers were named by 74.2% of respondents. Half said family and friends, and 27.2% said the media (print, radio or TV). Forty-four percent

said that they had sufficient information about leasing and two-thirds said the information was very useful. Of those who indicated that additional information was needed, 28.8% reported needing more information about extra fees, and 22.7% wanted to know more about residual value of the leased vehicle. See Table 3.

Table 3
Information and Decision about Leasing (N = 66)

	N	Percentage
Where obtained information (More than one answer was possible)		
Dealer	49	74.2
Family/friends	37	56.1
Media	18	27.2
Usefulness of information		
Very useful	43	69.4
Of some use	23	30.6
Needed other information (More than one answer was possible)		
Had enough	29	43.9
More extra fees	19	28.8
Residual value	15	22.7
How end early	12	18.2
More on terms	10	15.2
Excess mileage	9	13.6
More on cost	7	10.6
Other	4	6.1
Warranties	1	1.5
Negotiated price before agreeing on leasing terms		
Yes	47	73.4
No	19	26.6
Compared cost of leasing to other alternatives		
Vs. loan	35	58.3
Vs. purchase	14	23.3
Didn't compare	7	11.7
Other	4	6.7
Missing	6	---
Best value		
Lease/lease	30	53.6
Lease/buy	9	16.1
Buy/trade own	8	14.3
Buy/sell own	7	12.5
Other	2	3.6
Missing	10	---

Overall 81.6% compared the cost of leasing to buying. Respondents were more likely to compare leasing payments to loan payments (58.3%) than leasing to cash purchase of a vehicle (23.3%). One-half thought the best value was to lease for a given period and then to lease again compared to all other

alternatives. Respondents reported that they were either very satisfied (48.5%) or satisfied (51.5%). Only 14.5% were not sure about leasing again.

Chi-square was used to test for significant relationships among the variables. The size of the sample necessitated collapsing income into two categories: household income less than or equal to \$60,000 or household income greater than \$60,000.

A Chi square test showed a relationship between household income and number of cars leased ($\chi^2 = 12.43$, $p = .001$) and household income and how long respondents had leased ($\chi^2 = 10.28$, $p = .001$). Respondents with lower household incomes had a tendency to lease one car while those with higher household income tended to lease more than one car. Respondents with higher household income had a tendency to lease for more than two years. There was a relationship between experience with leasing and whether respondents would lease again ($\chi^2 = 4.53$, $p = .033$). Those who would lease again were more likely to have leased for two or more years. And, those with household income less than \$60,000 tended to say they were "satisfied" with leasing while those with household income greater than \$60,000 said they were "very satisfied" ($\chi^2 = 3.88$, $p = .049$).

Discussion and Implications

Most advertising for vehicle leasing emphasizes the benefits of lower monthly payments. For these respondents, lower payments and driving a nicer vehicle had the same level of importance while driving a newer model was also quite important.

The frequent use of dealers for information shows that consumers were essentially gaining information from sources that were likely to be biased in favor of leasing. Consumers in the study were not dissatisfied with leasing, and about half said they had received enough information. From the responses, it appeared that consumers would like more information on specific items such as extra fees and residual value. About half had leased for less than two years and probably had not ended a lease.

Literature citing leasing problems indicates that problems often occur at the end of a lease when excess mileage, excess wear and tear, and residual value must be dealt with. More consumers in this study may express dissatisfaction when they have experienced the end of a lease. But, it is possible that the dealers in this study have satisfactory relationships with their clients, and problems at the end-of-lease will be avoided.

Negotiating the price is frequently mentioned as an important technique to use when leasing vehicles. Most of these consumers had negotiated the price. The findings indicate that most of the respondents were acting in their best interest by comparing prices and negotiating for the best value. It would be useful to repeat the study with a larger sample to determine if these consumers are representative of the population.

Leasing is very different than purchasing a vehicle but many consumers may not be fully aware of the differences. Consumer educators can help consumers clarify their needs and match leasing or purchasing with those needs. Consumer educators can help consumers understand the risks and benefits of leasing and the leasing process. They can assist consumers in understanding the terms used with leasing, the costs involved, the conditions of the lease, and how to compare one lease with another.

The new disclosure rules provide an opportunity for further research. In the future, consumer educators may want to learn if the rules are providing sufficient information for making decisions about leasing.

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Endnotes

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Use of a Leased Vehicle

This survey is about satisfaction with leasing a vehicle. Your responses will help us to provide information and programs on leasing.

1. Are you currently leasing any vehicles?
 - Yes
 - No (Go to 9)
2. How many vehicles do you lease? _____
3. For how long have you driven a leased vehicle?
 - a. 6 months
 - b. 1 year
 - c. 2 years
 - d. Longer than 2 years
4. How long do you plan to keep the vehicle that you leased?
 - a. Full term
 - b. Less than full term
 - c. Other (please describe)
5. How many months was the original lease? _____
6. How much are your monthly lease payments? \$__7.
- Are you satisfied with leasing?
 - a. Very satisfied
 - b. Satisfied
 - c. Dissatisfied
 - d. Very dissatisfied
8. If you have leased, would you do it again?
 - a. Yes
 - b. No
 - c. It depends on _____
9. If no, would you lease a vehicle sometime in the future?
 - a. Yes (Go to 11)
 - b. No (Go to 10)
10. If no, why not? (Go to 17)

11. What features attracted you to leasing? (Check all that apply)

- a. Lower monthly payments
- b. Drive a nicer vehicle
- c. Use as a business expense
- d. Drive a newer model vehicle
- e. Other (please describe)

12. How do you use a leased vehicle?

- a. Business
- b. Business and personal
- c. Personal

13. Where did you obtain information about leasing? (Check all that apply)

- a. Magazines
- b. Dealers
- c. Friends and relatives
- d. Newspaper
- e. Radio
- f. TV

14. How useful was the information that you obtained?

- a. Very useful
- b. Somewhat useful
- c. Not at all useful

15. What other information about leasing would have been useful? (Check all that apply)

- a. I had sufficient information
- b. More about cost
- c. More about leasing terms
- d. More about extra fees
- e. More about easy termination of lease
- f. More about ending the lease (residual value of vehicle, other)
- g. More about warranties
- h. More about excess mileage
- i. Other _____

16. Did you negotiate the price of the vehicle before agreeing on the leasing terms?

- a. Yes
- b. No
- c. (If you have comments, please include)

17. Did you compare the cost of leasing to other alternatives?

- a. Leasing versus monthly loan payments
- b. Leasing versus cash purchase
- c. Other (please describe)
- d. Did not compare

18. Which do you believe is the best value for your money?

- a. Purchasing and trade in own vehicle
- b. Purchasing and sell own vehicle
- c. Leasing for a given period and then obtaining a lease on another vehicle
- d. Leasing and then purchasing the leased vehicle
- e. Other (please describe)

19. What other comments do you have about your experience with leasing vehicles?

20. Please tell us about yourself.

Age

- a. 25 or less
- b. 26 to 35
- c. 36 to 45
- d. 46 to 55
- e. 56 to 65
- f. Over 65

21. Marital status

- a. Married
- b. Separated or divorced
- c. Widowed
- d. Never married

22. Gender

- a. Male
- b. Female

23. Household income

- a. Less than \$20,000
- b. \$20,000 to \$39,999
- c. \$40,000 to \$59,999
- d. \$60,000 to \$79,999
- e. \$80,000 and over

24. Residence:

- a. Rural
- b. Urban

25. Education

- a. Less than High School graduate
- b. High School graduate
- c. Trade school or some college
- d. College graduate or advanced degree

26. Occupation

Please list _____

27. Retired

- a. Yes
- b. No