

DOERING LEASING CO.

2005

NEWSLETTER

Issue #12

Is There a Penaltyfor Terminating a Lease Contract Early?

In most cases it would be wrong to say there is an additional cost for early termination.

If your vehicle is leased from Doering Leasing Co., there is no penaltyfor ending your lease contract early.

The term penalty implies that the person driving the vehicle has done something wrong and should be penalized. It is true that when breaking a lease early a lessee can be billed back for various reasons, however it is not because someone is being penalized or because the contract is being altered in some way to increase the overall cost of the original contract.

A lease is simply a financial contract outlining the repayment terms of a loan with a vehicle being used as collateral. The terms of a lease contract offer certain privileges and benefits to the lessee, but also obligate the lessee to make payments based on a specific schedule.

The part that is often not considered is that there are two integral parts of a lease. Part #1 is the financial aspect, basically a balloon note, (a loan with a balance due sometime in the future after a specified number of payments are made). Part #2 is the collateral, an auto-

mobile and its actual market value.

It is important to know that automobiles lose value on a daily basis. The amount of value being lost has nothing to do with how it is financed. In fact, even if the vehicle was paid for with cash, it is the same car, traveling to the same places, and losing the same value as it would be had it been leased.

A cash buyer is paying for the loss of value upfront while the lessee is paying for the loss of value on a monthly basis.

After two years of payments on a lease, for example, the balance owed on the contract might be \$20,000. This number is set in stone and based on the original agreement.

When terminating a lease early, the collateral for the loan, the automobile, is sold and the proceeds are used to payoff the lease obligation due.

Quite often with an auto lease, the value of the vehicle will be lower than the amount owed on the contract. The

value of the vehicle when sold may be \$19,000. In this case, the lessee would be billed \$1,000 because \$20,000 is still owed per the terms of the contract.

This is not a penalty. The vehicle's value simply does not match the balance of the loan/lease. This is because the vehicle has lost more value than has been paid so far. It is also possible to have equity in a lease when the vehicle is worth more than the lease balance due.

Keep in mind the vehicle has the same value no matter how it was financed. If you paid cash, the car has lost the exact same amount of value as a leased vehicle. The difference is a cash buyer is paying for the loss of value upfront while the lessee is paying for the loss of value on a monthly basis.

Since new cars lose a lot of value in their first year of use, it's only natural for a lessee to be upside-downduring the lease contract.

There are many other variables affecting the value of a car, but how it is financed has absolutely no effect.

The bottom line is that leasing is not better or worse than financing a vehicle. It has a unique set of advantageous tax and cash flow benefits for individuals and companies.

Kelley Blue Book Rates Resale Values Imports Score High

Kelley Blue Book recently rated the vehicles expected to hold their value over the next five years in an industry publication called *Used Car News*. It should be no surprise that none of the top three American manufacturers were on the list. The list was developed based on perception of quality, availability, historical brand performance, and overall design.

In no specific order, some of the top vehicles are the: Acura TL, BMW 5 -Series, Lexus GX 470, Mini Cooper, and the Porsche Cayenne. Kelley Blue Book named the Honda Civic and Honda Odyssey as the best sedan and the best minivan for resale value. BMW was rated number one for overall brand resale value.

The American manufacturers are catching up and will probably have some vehicles on future lists. Most vehicles rating poorly were high-production and lower demand vehicles including the Ford Taurus and the Pontiac Aztec. The typical Japanese or German vehicle retains 50-65% of its value over three years while the domestic vehicles retain about 30-45% of their value over the same period.

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High Tech Car Keys

Most keys still are "cut" in some way or another. Keys have a unique key code which makes it possible for a dealership to duplicate. Duplicated keys can typically be used for entry into a vehicle, yet will not usually start the car. They need to be programmed to operate with the car.

The reason for the introduction of keys with security features is usually anti-theft related, however the convenience of a keyless automobile is becoming a factor. Without the proper computer chip to operate the vehicle, a thief is unable to make the vehicle start.

We are commonly seeing three variations of the computer chip keys. The first is most widely seen in the GM and Ford products. GM's key is called the "passkey." It includes a non-programmable chip within the key. Any key cut for the car that has the chip will make the vehicle run. This is the most basic form of security-enabled key.

The second type of key must be programmed to the particular vehicle it is made for. If an additional key is needed for whatever reason, that key must be programmed to the vehicle with all the other keys present.

Some manufacturers are providing the third type of key most commonly called the "advanced key" on 2005 and newer vehicles. This feature allows you to leave a key in your pocket and push a button inside the vehicle to start it. This process integrates with the locking mechanism and security system with the vehicle. As you approach your vehicle with an advanced key, the doors automatically unlock.

The most important thing to remember is if you misplace your keys, you can not simply stop at a dealership and have a new key made. Most of the time, a service appointment is needed to reprogram the original keys and program the new key. In a few cases, the keys must be ordered from over-seas and take up to one week to arrive.

On average, the cost for a new key is \$150.00 including programming.



Types of Leases

The leasing business has been around for well over 75 years. As a result, there is a broad selection of lease products for businesses. Car dealers offer only one type of lease called a closed-end lease. This is the most basic consumer-based lease.

Independent leasing companies, like Doering Leasing Co., offer a broad range of leases to suit your needs, your tolerance for risk, and your payment preferences:

Closed-End Lease: A lease with a fixed purchase option, fixed term, a mileage limitation, and requirements for condition of the vehicle at lease-return. If a lessee drives 25,000 miles per year rather than the 15,000 miles allowed, there are charges for over-mileage when the vehicle is returned.

Most importantly, a closed-end lease has a purchase option. If you return the vehicle and do not purchase the vehicle at lease-end, there is no cost other than over-mileage or damage charges.

A \$36,000 Dodge Durango may have a \$16,000 purchase option at the end of the lease. If the vehicle is worth \$12,000 at lease-end, you may return the vehicle and the bank takes the \$4,000 loss. You have saved \$4,000 more than the person who walked in and bought the same vehicle.

Closed-end leases are the only type of leases car dealers offer.

Open-End Lease: ("Financed Lease") An open-end lease is a lease with a fixed purchase option, fixed term, an *estimated mileage provision*, and no requirement for condition of the vehicle at lease-end.

The most important factors of an open-end lease are the purchase option (balloon payment) and the value of the vehicle at the time it is turned in. If the purchase option is \$9,000 and the vehicle is worth \$8,000 (no matter the mileage or condition), the customer pays the \$1,000 difference. If the vehicle is worth \$10,000, the customer receives a *refund*. Open-end leases are true fleet leases.

Full-Service Lease: A full-service lease includes all service, wear items and emergency services as part of the lease package. Such leases are quite expensive as you are really buying an insurance policy guaranteed by another party against catastrophic damage/loss to the vehicle and routine maintenance and wear items.

Doering Leasing Co. offers full-service leases primarily with box trucks, tanker trucks, and stake trucks. Costs typically range from \$100-450/month plus mileage charges. Please call to discuss your options.

Address Changes

If you change your personal or business mailing address and/or phone number, it is very helpful if you notify us.

We must be able to forward registration information, parking tickets, warranty recalls, insurance information, and lease maturity notifications.

Mail forwarding may get our mail to you for a period of time, but forwarding expires. Please use that time to notify us of any changes.

Even your mobile phone number and e-mail address are helpful for us to have. Please call or e-mail with any changes.

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Lifecycle Analysis

Lifecycle analysis is a formal process of determining what is commonly called "total cost of ownership." We're a leasing company, so we prefer to call it lifecycle analysis.

All smart businesspeople and individuals should select fleet vehicles that hold the most value and cost the least to operate. Lifecycle analysis is a formalized process for doing this used by many fleet managers.



A good lifecycle analysis uses acquisition cost, estimated future value, fuel cost, estimated maintenance cost, interest, insurance, and repair expenses to determine "cost per mile."

Most vehicles cost between \$.30/mi and \$2.00/mi to operate. A Toyota Corolla has a very low lifecycle cost versus a Ford Focus. The Corolla will depreciate less and have fewer maintenance problems than the Focus. The actual lifecycle cost may be \$.33/mi for the Corolla versus \$.38/mi for the Focus even though the Corolla cost thousands more. Using acquisition cost or interest rate as the sole criteria for a vehicle decision often leads to a very dissatisfying decision. Doering Leasing Co. deals with this analysis frequently and can impart the knowledge learned through our own analysis as well as our clients' analysis and experiences.

Vehicles that depreciate the least, lease the best. That being said, a vehicle that depreciates the least is the best vehicle whether you lease or purchase.

Return on Investment

How does leasing contribute to your bottom-line? There is a reason bankers, accountants, and fellow business owners are the primary sources of Doering Leasing Co.'s new clients.

Leasing affords you lower payments, no down payment, and no taxes paid upfront. The lessee pays only for the *portion of the vehicle they use* while the owner pays for the entire vehicle and ties up cash. It is commonly accepted that most small businesses can earn a 10-20% return on cash held in the business. Extra cash can be used to expand facilities, hire new staff members, or buy new technology.

Leasing is simply a different way of financing vehicles with very substantial tax benefits and cash flow advantages.

Here's an example using a Honda Accord:

	<u>LEASE</u>	<u>BUY</u>
Monthly Payments	\$350	\$445
Out of Pocket Expenses	\$350	\$3,750
Est. Annual Tax Write-Off	\$4,200	\$2,800
Sales Tax Paid	55%	100%

Break-in Period Affects Vehicle Longevity

At Doering Leasing Co., we believe that the first 500 miles or so of a new vehicle should be considered a "break-in period." Most new vehicle manufacturers have a section in their drivers manual describing their recommended break-in period. There are a few import manufacturers suggesting they have no break-in period and that your vehicle should be "driven with spirit" from the first mile.

The simplest way to break in a vehicle is to avoid the extremes. It is important to limit the quick acceleration and fast braking (where possible) on a new engine. Even after the break-in period, fast acceleration on a cold engine is very harmful, as is excessive idling on a gas engine. In the winter, it is best to let an engine warm up over a few minutes of calm driving before any hard acceleration.

In reality, if no break-in period is observed, your vehicle will probably run fine for the duration of a typical lease, 35,000 to 70,000 miles. A vehicle that is properly broken in will get better gas mileage, use less oil, have fewer oil leaks, run quieter and smoother, last longer and be far more reliable. That being said, once a vehicle is warm, the occasional burst of hard acceleration can actually help clean out parts of the engine and emissions system. Lack of any hard driving at all is a typical cause of check engine lights.

Appreciation

The staff of Doering Leasing Co. would like to thank you for your past and continued business. We strive to keep you satisfied.

As your transportation experts, our intent is to help reduce your transportation costs.

We pride ourselves on our high level of service and partnering with our clients to implement fleet management programs.

If there is anything we can do for you now or in the future, please do not hesitate to contact us. Thank you again!

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What is Our Product ?

SERVICE

Doering Leasing Co. strives to meet the transportation needs of every customer with the highest level of professionalism.

We continually strive to reduce your transportation expenses and create the most efficient programs for your corporate needs.

Doering Leasing Co.'s services range from providing one-stop-shopping for your vehicles to service and warranty needs.

We meet in your office and provide all the information necessary for you to make an informed, hassle-free, and objective decision.

BUSINESS PARTNER

Doering Leasing Co.'s staff has your best interests at heart. We are the leasing experts. Our goal is to educate you about leasing and communicate knowledge that is helpful to you and your company resulting in decreased costs, increased cash flow, and growth of your business.

Please don't hesitate to ask for our help.

FINANCE OPTIONS

Every contract we write is customized to meet the needs of our client. From high mileage contracts to executives with special needs, we are very accommodating.

We work with multiple local and national funding sources allowing us to have a selection of the most competitive rates and programs in the country.

Often contracts are created without security deposits, fees, and down payments.

There are many types of lease contracts which each have their own way of calculating depreciation and interest expenses.

A properly written contract with payments matching the actual use of a vehicle allows leasing to be hassle free. In addition to typical dealer-leases, Doering Leasing has numerous alternatives depending on your needs.

We are the leasing experts with well over 85 years of experience. Each member of our staff strives to add value to you and to your business.