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Tough talking

Lessors' reputations are at stake due to end-of-lease charges

Mark Smulian

Kelvin Mackenzie still has an influential voice even if the days when, as *The Sun* editor, he accused Freddie Starr of dining on a hamster are long past.

So when he recently took to his old paper's pages to lambast Mercedes-Benz Finance (MBF) for what he described as a rip-off for billing him £1,800 for end-of-lease work, it stoked fears for the leasing industry's image.

He has said he will go to court, and suggested that MBF managing director, Robert Middleton, deals with the bill in a manner

most people would find physically impossible.

But Mackenzie's robust strictures are the tip of an iceberg as concern mounts in the vehicle leasing industry that customer unhappiness over these charges might do serious damage to its reputation.

Once an industry gets labelled a 'rip-off', it can prove extremely hard to lose the moniker.

Areas of dispute

Most commonly, arguments between lessors and customers centre on whether the condi-

tion of a vehicle, when it is handed back at the end of a lease term, is to do with 'fair wear and tear' – or something else.

Leasing companies might have been tolerant about vehicle conditions before the credit crunch. Their priority at the time was to get their cars back from customers so they could be quickly re-sold for tidy profits.

The recession has changed things. With resale more difficult, the vehicles that sell most rapidly are those in the best condition, and if they need repairs at the end of a lease the cost must be accounted for.

But lessors' increasing lack of tolerance

COMMENT: END-OF-LEASE CHARGES

Customers should call lessors in advance

Paul Harrison

Customers who decide to lease cars value the flexibility of these agreements and the generally lower cost of repayments – this is because a customer is paying for the use of the car, rather than buying it outright.

Because most leased cars will eventually be returned to the leasing company which owns them, customers are expected to return a car in road-worthy condition.

Lessors will then either lease the car out on a second agreement or sell it on the used car market.

Any damage or faults beyond 'fair wear and tear' must be repaired at the expense of the lessee, as explained in the terms and conditions of an agreement.

I think the vast majority of customers – particularly businesses – understand this

principle and will carry out any necessary repairs.

My advice for all lease customers would be to contact your leasing company before the end of the agreement and discuss any existing damage to the car.

If it is likely that you may incur a charge then you should arrange for a full independent inspection to be carried out and shop around for the best repair quotes.

Before returning the vehicle, I would also recommend taking photos of the car so you have a record of its condition.

Any missed repairs that the leasing company has to pay for will be carried out at a workshop convenient for them, so do not expect the very cheapest cost of repair when you receive the resulting invoice – but the repairs must have been necessary to ensure the car is of satisfactory quality.

End-of-lease charges will cause discontent among those customers who have not taken the time to read the conditions of the agreement they signed up to.

The FLA receives very few complaints linked to industry practice in this area, as all of our finance company members adhere to our Lending Code to treat customers fairly.

However, improved public awareness would be no bad thing to help protect the industry's reputation.

I would welcome better education and clearer information on excess charges, perhaps a 'damage directory' for customers to take away indicating likely charges if a car is returned damaged.

The author is head of motor finance at the Finance & Leasing Association

regarding vehicle condition might not do them many favours.

Graham Hill, who runs the GHA Finance motor finance brokerage and author of *An Insider Guide To Car Finance*, says he has “received a lot of feedback on end-of-lease charges imposed” and that none has been favourable to the reputations of lenders or the industry.

He has some sympathy with the industry when customers make extravagant claims for ‘wear and tear’, and acknowledges that some leasing companies face large losses in resales and are looking at ways to recover these.

“But recover them at what cost?” he asks. “I am having more and more clients refuse to use a funder because of a bad end-of-lease return experience.”

Reputations matter, are easily lost, and are only slowly, if ever, won back after costly public relations work.

David Singleton, news editor of *PR Week*, warns: “If any industry has an opinion-former like Kelvin Mackenzie waging war on it, it is something you would want to nip in the bud or you could have a PR crisis.

“The industry does have a defence but people like Kelvin Mackenzie tend to have a better story to tell, and if something like this gets onto social networking nowadays it can spiral.

“The industry would have every reason to be concerned and it needs to state its side of the story as strongly as it can.”

Customers fight back

When customers feel aggrieved they often turn to local trading standards authorities, but so far such complaints are rare, according to Peter Stratton, Trading Standards Institute motor industry specialist.

“There have been a number of people concerned about the situation in which leased car customers find themselves,” he says.

“The British Vehicle Rental and Leasing Association publishes guidance for companies to send to customers to warn them about the condition a car being returned should be in, but to my mind that is probably a bit late and it should be made clear what is expected at the start of the lease.”

Stratton advises that customers returning a vehicle should protect themselves by being present when it is examined for the lessor and keep a note of any disagreement about its condition.

They should also thoroughly photograph the vehicle on a phone camera so that they have evidence in any dispute.

Mercedes-Benz public relations manager Rob Halloway declined to comment directly on Mackenzie’s case, and says: “The Mercedes-Benz return standards are based on

industry standard guidelines issued by the BVRLA.

“Our objective is to have as little work to do on a vehicle as possible in order to minimise defleet time and resourcing, and the costs to customers.

“Mercedes-Benz Financial Services only charges back to customers the costs it incurs in bringing the vehicle up to the return standard in line the terms and conditions. No profit is made by us in this process.”

Halloway adds: “Our policies and procedures are clearly explained in all literature sent to customers.”

BVRLA chief executive John Lewis says the returns process “should be straightforward and transparent”, and points to the association’s conciliation service to resolve disputes.

He notes: “In previous years leasing companies have been more lenient with these charges, mainly because they were happy to share the benefits of a used car market that was over-performing against residual value expectations.

“Although the current market has picked up from the lows of 2008 and early 2009, it is certainly not over-performing against forecasts.”

Commercial reputations lost are hard to restore – the best strategy is not lose them in the first place.

Where it all goes wrong

A lawyers’s view on common areas of dispute at end-of-lease terms

James Baird

Financial leasing products are numerous and come in many differing shapes and sizes.

Leasing is an effective and widely used financial product, but there are common areas of concern arising at the end of leases which often lead to disputes between the lessee and the lessor and/or third parties.

In essence, all leases are contracts and the basic principles of contract law apply.

The parties to a lease are able to agree such terms as they think fit, and if one party subsequently breaches those terms then contract damages will follow in the ordinary way.

Often leases will have within them, or in a maintenance agreement running in parallel, detailed return conditions.

These return conditions set out the obligations on the lessee to maintain and repair the leased asset to a pre-agreed prescribed condition and to return the asset in a condition matching the specification in the return conditions.

As these return conditions can be very

detailed and onerous, the lessee should check them very closely before signing the lease to ensure that they will be able to comply with the return conditions, and also the expense of doing so.

Many disputes arise when leased assets are returned to a lessor in a condition not in accordance with any return conditions.

The lessor is within its contractual rights in such circumstances to recharge to the lessee the costs of placing the leased asset into a condition matching the return conditions.

A lessor would be able to sue the lessee for the recovery of those costs.

Excess mileage is another area which is often disputed. Leases especially for vehicles may contain limits on the number of miles the vehicle can be driven during the term of the lease, with a price per mile levy for each mile over that limit.

Lessees should check the terms of their leases carefully and ensure that the mileage limit set is appropriate for their planned use of the vehicle for the duration of the term of the lease.

If vehicles are returned with mileage over the

contractual limit, then the lessee will be liable in law to the lessor for the calculated amount due.

Perhaps the biggest area for generating disputes at the end of lease concerns title.

A lessor rarely wants to receive back leased goods, and will either sell title to an unconnected third party, or appoint the lessee as a sale agent to find a buyer and pay to the lessee a sales commission for doing so.

The lessor will also deploy options with the supplying dealer to transfer title for a sum back to the dealers.

The dealers then try and sell that title to the former lessee or other third parties.

Lessor’s need to be certain that lease products are sold correctly to potential lessees so that they understand that there is no contractual mechanism within the lease by which to transfer title, and that if the lessee wants title at the end of the lease, the lessor is not likely to be in a position to transfer title, but that a third party may do so but at a further cost.

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