

# Consumer leases



Factsheet

August 2011

Many stores offer you the choice of renting or leasing computers, electrical appliances or other household goods as a cheaper or more flexible option than buying.

If you don't have enough cash to pay for something upfront, leasing might seem an attractive option.

**But those monthly payments can quickly add up and you may have nothing to show for it at the end as the lease provider does not have to let you buy the goods.**



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## How do consumer leases work?

- ▶ With a **consumer lease**, you hire an item (for example, a home computer or television) over a period of time. You make regular rental payments (usually monthly) until the term of the contract finishes.
  - ▶ Despite the large amount of money you pay out, you do not automatically own the item at the end of the lease period. The item you are leasing remains the property of the company you have the lease agreement with.
  - ▶ Depending on the terms of your agreement, you may:
    - **Keep using the item** and continue paying rent on it.
    - **Return the item** (in good order) with no further payments needed.
    - **Make an offer to purchase** the goods, which may involve paying an additional amount of money (but the lease provider can refuse to sell them to you).
    - **Upgrade to a new model** after returning the old, and sign up for a new leasing agreement (which may be at a higher rate than before).
  - ▶ While the store may promote this as a more affordable option than buying an item outright, chances are you'll end up **paying more**.
- For example, your total lease payments always add up to *more* than the cash purchase price of the item – sometimes a lot more. You may also have to pay fees and charges on top of this. It can easily become more expensive than buying the goods outright with other forms of credit, including no-interest loans (for details, see 'Six steps to smarter borrowing' on pages 3–4).



## TIP Watch out for these hidden traps

### You don't automatically own the item

- ▶ Check the **terms of your agreement** to find out whether you'll own the item at the end of the lease or rental period.
- ▶ People often think they're buying an item by instalments only to find out they have no right to the item at all, or have to make an offer to buy it when they have made all of the payments. Don't rely on the salesperson's explanation, check the lease agreement.

### You are responsible if the item is damaged or stolen

- ▶ Even if an item is damaged, stolen or destroyed, you still have to keep making the payments, as set out in your agreement.
- ▶ So you need to think about taking out **insurance** to cover the replacement cost of the item if something goes wrong. Sometimes this is a condition of signing the agreement.

### Terms and conditions can be complicated

- ▶ If you do decide to go ahead with a lease agreement, make sure you know exactly what you're getting into. For example, you may be charged **account-keeping fees** as well as penalties if you miss repayments, break the agreement or pay it off early. (See steps 2-3 on page 3.)
- ▶ Make sure you check all the **terms and conditions** before you sign anything. Often the penalty for breaking a lease is that you still have to repay an amount equal to the rental payments for the full term of the lease, even though you have given back the goods you were renting.

### Leasing may not be the best way to buy something

- ▶ Beware of impulse buys and watch out for high-pressure salespeople. There is usually **no cooling-off period** with a consumer lease agreement, so shop around for the best deal before you buy.
- ▶ Take the time to explore all your purchasing options first. You may be better off waiting a while and saving up for the item.
- ▶ Consider **lay-by**. This option may not be widely promoted, but is usually available if you ask for it. With lay-by, you pay your purchase off in instalments, with no extra fees or charges. Of course, you have to wait until you've paid it off in full before taking your purchase home, but you will save a lot of money in fees and avoid getting hit with hefty interest charges.
- ▶ If you still want to go ahead with leasing, remember that many stores offer this option. So **shop around** for the best price on the goods and the best terms on the lease agreement.

### Only sign a business purpose declaration if you are really using it for business

- ▶ Only sign a **business purpose declaration** if you are really using the leased item for business and are able to claim your lease payments as a valid business expense for taxation purposes.
- ▶ By signing a business purpose declaration, you may lose valuable rights under the credit law.



## Six steps to smarter borrowing

### Step 1.

#### Work out if you can afford to borrow

- ▶ Before you enter into a leasing arrangement, use our **budget planner** at [moneysmart.gov.au](http://moneysmart.gov.au) to see exactly where you spend your money and how much you can afford in repayments.
- ▶ Think about whether you can save up the money for the item, or put it on **lay-by**. By using lay-by you won't pay interest or fees, so it will cost you less. You may also get a discount if you pay in cash.
- ▶ Alternatively, see if there are other cheaper forms of credit available.
- ▶ If you're on a low income, you may qualify for a loan through the **No Interest Loan Scheme (NILS®)**, which offers small loans for specific purposes, like buying a fridge or washing machine. To find your nearest provider, visit [goodshepvic.org.au](http://goodshepvic.org.au) or call ASIC's Infoline on 1300 300 630.
- ▶ Read our factsheets *No or low-interest loans* and *Rent to buy* at [moneysmart.gov.au](http://moneysmart.gov.au).

### Step 2.

#### Shop around for the best deal

- ▶ If you decide to go ahead and lease, make sure you know exactly what you're getting into. Just as you would shop around for the item itself, shop around to get the best deal on finance.
- ▶ Take time to **compare product features** and fees and charges. Even a small difference in fees or interest rates can make a big difference to what you have to pay.

### Step 3.

#### Know who and what you're dealing with

- ▶ Ask questions about the **terms and conditions** of the lease agreement so you know what you're getting into.
- ▶ Check the **total amount** you will pay for the item if you lease it – it may be turn out to be too expensive.
- ▶ Anyone who wants to engage in credit activities (including brokers) must be licensed with ASIC, or be an authorised representative of someone who is licensed. If they aren't, they are operating illegally.
- ▶ There is currently an exemption from licensing for credit assistance provided through some businesses (for example, retail stores and car yards). While the store may be exempt, the actual credit provider must still be licensed. If you are unsure who the provider is, ask the person you are dealing with to point out the name in your lease agreement.
- ▶ To find out if a credit provider is licensed, visit [moneysmart.gov.au](http://moneysmart.gov.au) or call ASIC's Infoline on 1300 300 630.
- ▶ Anyone engaging in credit activities (for example, by providing credit or assistance to you) must give you either a **credit guide** (with information such as their licence number, fees and details of your right to complain) or a written notice with details of your right to complain about their activities.



## Six steps to smarter borrowing

### Step 4.

#### Keep up with your repayments

- ▶ Keep up your repayments, to avoid being hit with **penalty fees** for missed or late payments – or to have the goods you are leasing taken away.

### Step 5.

#### Get help if you can't pay your debts

- ▶ **Act quickly** if you are having trouble making repayments. It may be difficult to face the problem, but ignoring it will only make things worse.
- ▶ If you can't make the full repayment, pay what you can. Contact the lease provider without delay.
- ▶ If you are experiencing financial difficulties, you may have the right to apply for a **hardship variation**. If the lease provider refuses, you can complain to its independent dispute resolution scheme for a variation on the grounds of hardship (see step 6 below).
- ▶ If you are already in a lease contract and you are in financial hardship, or feel you have been dealt with unfairly, you should **get advice**.
- ▶ There are places you can go to seek help – visit [moneysmart.gov.au](http://moneysmart.gov.au) for sample letters and information about support services such as financial counselling and legal assistance, call the National Debt Helpline on 1800 007 007 or call ASIC's Infoline on 1300 300 630.
- ▶ See our factsheet *Can't pay your debts?* at [moneysmart.gov.au](http://moneysmart.gov.au).

### Step 6.

#### Complain if things go wrong

- ▶ Try to resolve your problem with your lease provider first.
- ▶ If you aren't satisfied, take your complaint to your provider's **independent dispute resolution scheme**, the Australian Financial Complaints Authority (AFCA). Go to [afca.org.au](http://afca.org.au) or call 1800 931 678.
- ▶ If you think that a lease provider has acted unlawfully or in a misleading way, you can complain to ASIC online at [asic.gov.au](http://asic.gov.au) or call ASIC's Infoline on 1300 300 630.



[moneysmart.gov.au](http://moneysmart.gov.au)

ASIC Infoline: **1300 300 630**

#### Disclaimer

Please note that this is a summary giving you basic information about a particular topic. It does not cover the whole of the relevant law regarding that topic, and it is not a substitute for professional advice.

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