BUREAU OF CONSUMER FINANCIAL PROTECTION

12 CFR Part 1013
[Docket No. CFPB–2011–0026]

RIN 3170–AA06

Consumer Leasing (Regulation M)

AGENCY: Bureau of Consumer Financial Protection.

ACTION: Interim final rule with request for public comment.

SUMMARY: Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) transferred rulemaking authority for a number of consumer financial protection laws from seven Federal agencies to the Bureau of Consumer Financial Protection (Bureau) as of July 21, 2011. The Bureau is in the process of republishing the regulations implementing those laws with technical and conforming changes to reflect the transfer of authority and certain other changes made by the Dodd-Frank Act. In light of the transfer of the Board of Governors of the Federal Reserve System’s (Board’s) rulemaking authority for the Consumer Leasing Act of 1976 (CLA) to the Bureau, the Bureau is publishing for public comment an interim final rule establishing a new Regulation M (Consumer Leasing). This interim final rule does not impose any new substantive obligations on persons subject to the existing Regulation M, previously published by the Board.

DATES: This interim final rule is effective December 30, 2011. Comments must be received on or before February 17, 2012.

ADDRESSES: You may submit comments, identified by Docket No. CFPB–2011–0026 or RIN 3170–AA06, by any of the following methods:

• Electronic: http://www.regulations.gov. Follow the instructions for submitting comments.

• Mail: Monica Jackson, Office of the Executive Secretary, Bureau of Consumer Financial Protection, 1500 Pennsylvania Avenue NW., (Attn: 1801 L Street), Washington, DC 20220.

• Hand Delivery/Courier in Lieu of Mail: Monica Jackson, Office of the Executive Secretary, Bureau of Consumer Financial Protection, 1700 G Street NW., Washington, DC 20006.

All submissions must include the agency name and docket number or Regulatory Information Number (RIN) for this rulemaking. In general, all comments to the Bureau will be posted without change to http://www.regulations.gov. In addition, comments will be available for public inspection and copying at 1700 G Street NW., Washington, DC 20006, on official business days between the hours of 10 a.m. and 5 p.m. Eastern Time. You can make an appointment to inspect the documents by telephoning (202) 435–7275.

All comments, including attachments and other supporting materials, will become part of the public record and subject to public disclosure. Sensitive personal information, such as account numbers or social security numbers, should not be included. Comments will not be edited to remove any identifying or contact information.

FOR FURTHER INFORMATION CONTACT: Courtney Jean or Priscilla Walton-Fein, Office of Regulations, at (202) 435–7700.

SUPPLEMENTARY INFORMATION:

I. Background

The Consumer Leasing Act (CLA), 15 U.S.C. 1667–1667e, was enacted in 1976 as an amendment to the Truth in Lending Act (TILA), 15 U.S.C. 1601 et seq. The purpose of the CLA is to ensure meaningful and accurate disclosure of the terms of personal property leases for personal, family, or household use. The CLA and Regulation M require lessors to provide consumers with uniform cost and other disclosures about consumer lease transactions. The statute and the regulation generally apply to consumer leases for the use of personal property in which the contractual obligation has a term of more than four months and the lessee’s total contractual obligation under the lease exceeds a specified dollar threshold. Historically, the CLA has been implemented in Regulation M of the Board of Governors of the Federal Reserve System (Board), 12 CFR Part 213. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) amended the Consumer Financial Protection Act of 2010, 12 U.S.C. 5511 et seq., to reimburse the Board for the Consumer Leasing Act of 1976 (CLA) to the Bureau of Consumer Financial Protection, 1700 G Street NW., Washington, DC 20006.


[2] Section 1029 of the Dodd-Frank Act generally excludes from this transfer of authority, subject to certain exceptions, any rulemaking authority over a motor vehicle dealer that is predominantly engaged in the sale and servicing of motor vehicles, the leasing and servicing of motor vehicles, or both.

implementing the CLA (except with respect to persons excluded from the Bureau’s rulemaking authority by section 1029 of the Dodd-Frank Act).

II. Summary of the Interim Final Rule

A. General

The interim final rule substantially duplicates the Board’s Regulation M as the Bureau’s new Regulation M, 12 CFR Part 1013, making only certain non-substantive, technical, formatting, and stylistic changes. To minimize any potential confusion, the Bureau is preserving the numbering of the Board’s Regulation M, other than the new part number. While this interim final rule generally incorporates the Board’s existing regulatory text, appendices (including model forms and clauses), and supplements, as amended, the rule has been edited as necessary to reflect nomenclature and other technical amendments required by the Dodd-Frank Act. Notably, this interim final rule does not impose any new substantive obligations on regulated entities.

B. Specific Changes

The Bureau has made certain nomenclature and other non-substantive changes consistently throughout Regulation M. References to the Board and its administrative structure have been replaced with references to the Bureau. Conforming edits have been made to internal cross-references and to reflect the scope of the Bureau’s authority pursuant to the CLA, as amended by the Dodd-Frank Act. Appendix B, entitled “Federal Enforcement Agencies,” has been eliminated, because it was designed to be informational only and is unnecessary for purposes of implementing the CLA, as amended. Historical references that are no longer applicable, and references to effective dates that have passed, have been removed as appropriate.

III. Legal Authority

A. Rulemaking Authority

The Bureau is issuing this interim final rule pursuant to its authority under the CLA and the Dodd-Frank Act. Effective July 21, 2011, section 1061 of the Dodd-Frank Act transferred to the Bureau the “consumer financial protection functions” previously vested in certain other Federal agencies. The term “consumer financial protection function” is defined to include “all authority to prescribe rules or issue orders or guidelines pursuant to any

Federal consumer financial law, including performing appropriate functions to promulgate and review such rules, orders, and guidelines.”

The CLA is a Federal consumer financial law. Accordingly, effective July 21, 2011, except with respect to persons excluded from the Bureau’s rulemaking authority by section 1029 of the Dodd-Frank Act, the authority of the Board to issue regulations pursuant to the CLA transferred to the Bureau.

The CLA, as amended, authorizes the Bureau to prescribe regulations to update and clarify the requirements and definitions applicable to lease disclosures and contracts, and any other issues specifically related to consumer leasing, to the extent the Bureau determines such action necessary to carry out the purposes, prevent the circumvention, or facilitate compliance with the requirements of the CLA. These regulations may contain such classifications and differentiations, or provide for such adjustments and exceptions for any class of transactions, that the Bureau considers appropriate. The CLA also directs the Bureau to establish and publish model forms to facilitate compliance with the disclosure requirements of the CLA and to aid consumers in understanding the transactions to which the disclosure forms relate. Section 1100E of the Dodd-Frank Act directs the Bureau to adjust the dollar threshold for covered consumer lease transactions annually for inflation by the annual percentage increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), as published by the Bureau of Labor Statistics. In its existing regulation, the Board used its CLA authority to establish rules to promote meaningful and accurate disclosure in consumer lease transactions.

B. Authority To Issue an Interim Final Rule Without Prior Notice and Comment

The Administrative Procedure Act (APA) generally requires public notice and an opportunity to comment before promulgation of regulations. The APA provides exceptions to notice-and-comment procedures, however, where an agency for good cause finds that such procedures are impracticable, unnecessary, or contrary to the public interest or when a rulemaking relates to agency organization, procedure, and practice. The Bureau finds that there is good cause to conclude that providing notice and opportunity for comment would be unnecessary and contrary to the public interest under these circumstances. In addition, substantially all the changes made by this interim final rule, which were necessitated by the Dodd-Frank Act’s transfer of CLA authority from the Board to the Bureau, relate to agency organization, procedure, and practice and are thus exempt from the APA’s notice-and-comment requirements.

The Bureau’s good cause findings are based on the following considerations. As an initial matter, the Board’s existing regulation was a result of notice-and-comment rulemaking to the extent required. Moreover, the interim final rule published today does not impose any new, substantive obligations on regulated entities. Rather, the interim final rule makes only non-substantive, technical changes to the existing text of the regulation, such as renumbering, changing internal cross-references, and replacing appropriate nomenclature to reflect the transfer of authority to the Bureau. Given the technical nature of these changes, and the fact that the interim final rule does not impose any additional substantive requirements on covered entities, an opportunity for prior public comment is unnecessary. In addition, recodifying the Board’s regulation to reflect the transfer of authority to the Bureau will help facilitate compliance with the CLA and its implementing regulation, and will help reduce uncertainty regarding the applicable regulatory framework. Using notice-and-comment procedures would delay this process and thus be contrary to the public interest.

The APA generally requires that rules be published not less than 30 days before their effective dates. See 5 U.S.C. 553(d). As with the notice and comment requirement, however, the APA allows an exception when “otherwise provided by the agency for good cause found and published with the rule.” 5 U.S.C. 553(d)(3). The Bureau finds that there is good cause for providing less than 30 days notice here. A delayed effective date would harm consumers and regulated entities by needlessly perpetuating discrepancies between the amended statutory text and the implementing regulation, thereby hindering compliance and prolonging uncertainty regarding the applicable regulatory framework.

In addition, delaying the effective date of the interim final rule for 30 days would provide no practical benefit to regulated entities in this context and in fact could operate to their detriment. As discussed above, the interim final rule published today does not impose any new, substantive obligations on regulated entities. Instead, the rule makes only non-substantive, technical changes to the existing text of the regulation. Thus, regulated entities that are already in compliance with the existing rules will not need to modify business practices as a result of this rule.

C. Section 1022(b)(2) of the Dodd-Frank Act

In developing the interim final rule, the Bureau has conducted an analysis of potential benefits, costs, and impacts. The Bureau believes that the interim final rule will benefit consumers and
covered persons by updating and recodifying Regulation M to reflect the transfer of authority to the Bureau and certain other changes mandated by the Dodd-Frank Act. This will help facilitate compliance with the CLA and its implementing regulations and help reduce any uncertainty regarding the applicable regulatory framework. As discussed below, the interim final rule will not impose any new substantive obligations on consumers or covered persons and is not expected to have any impact on consumers’ access to consumer financial products and services.

Although not required by the interim final rule, covered persons may incur some costs in updating compliance manuals and related materials to reflect the new numbering and other technical changes reflected in the new Regulation M. The Bureau has worked to reduce any such burden by preserving the existing numbering to the extent possible and believes that such costs will likely be minimal. These changes could be handled in the short term by providing a short, standalone summary alerting users to the changes and in the long term could be combined with other updates at the firm’s convenience. The Bureau intends to continue investigating the possible costs to affected entities of updating manuals and related materials to reflect these changes and solicits comments on this and other issues discussed in this section.

The interim final rule will have no unique impact on depository institutions or credit unions with $10 billion or less in assets described in section 1026(a) of the Dodd-Frank Act. Also, the interim final rule will have no unique impact on rural consumers.

In undertaking the process of recodifying Regulation M, as well as regulations implementing thirteen other existing consumer financial laws,17 the Bureau consulted the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the National Credit Union Administration, the Board of Governors of the Federal Reserve System, the Federal Trade Commission, and the Department of Housing and Urban Development, including with respect to consistency with any prudential, market, or systemic objectives that may be administered by such agencies.18 The Bureau also has consulted with the Office of Management and Budget for technical assistance. The Bureau expects to have further consultations with the appropriate Federal agencies during the comment period.

IV. Request for Comment

Although notice and comment rulemaking procedures are not required, the Bureau invites comments on this notice. Commenters are specifically encouraged to identify any technical issues raised by the rule. The Bureau is also seeking comment in response to a notice published at 76 FR 75825 (Dec. 5, 2011) concerning its efforts to identify priorities for streamlining regulations that it has inherited from other Federal agencies to address provisions that are outdated, unduly burdensome, or unnecessary.

V. Regulatory Flexibility Act

The Regulatory Flexibility Act (RFA), as amended by the Small Business Regulatory Enforcement Fairness Act of 1996, requires each agency to consider the potential impact of its regulations on small entities, including small businesses, small governmental units, and small not-for-profit organizations.19 The RFA generally requires an agency to conduct an initial regulatory flexibility analysis (IRFA) and a final regulatory flexibility analysis (FRFA) of any rule subject to notice-and-comment rulemaking requirements, unless the agency certifies that the rule will not have a significant economic impact on a substantial number of small entities.20 The Bureau also is subject to certain additional procedures under the RFA involving the convening of a panel to consult with small business representatives prior to proposing a rule for which an IRFA is required.21 The IRFA and FRFA requirements described above apply only where a notice of proposed rulemaking is required,22 and the panel requirement applies only when a rulemaking...

18 5 U.S.C. 601 et seq.  
20 5 U.S.C. 609.  
21 5 U.S.C. 603(a), 604(a); 5 U.S.C. 553(b)(B).  
22 5 U.S.C. 609(b).  
23 As discussed above in part III, a notice of proposed rulemaking is not required for this rulemaking.

In addition, as discussed above, this interim final rule has only a minor impact on entities subject to Regulation M. The rule imposes no new, substantive obligations on covered entities. Accordingly, the undersigned certifies that this interim final rule will not have a significant economic impact on a substantial number of small entities.

VI. Paperwork Reduction Act

The Bureau may not conduct or sponsor, and a respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. This rule contains information collection requirements under the Paperwork Reduction Act (PRA), which have been previously approved by OMB, and the ongoing PRA burden for which is unchanged by this rule. There are no new information collection requirements in this interim final rule. The Bureau’s OMB control number for this information collection is: 3170–0006.

List of Subjects in 12 CFR Part 1013

Advertising, Reporting and recordkeeping requirements, Truth in Lending.

Authority and Issuance

For the reasons set forth above, the Bureau of Consumer Financial Protection adds Part 1013 to Chapter X in Title 12 of the Code of Federal Regulations to read as follows:

PART 1013—CONSUMER LEASING (REGULATION M)
§ 1013.1 Authority, scope, purpose, and enforcement.

(a) Authority. The regulation in this part, known as Regulation M, is issued by the Bureau of Consumer Financial Protection to implement the consumer leasing provisions of the Truth in Lending Act, which is Title I of the Consumer Credit Protection Act, as amended (15 U.S.C. 1601 et seq.). Information collection requirements contained in this part have been approved by the Office of Management and Budget under the provisions of 44 U.S.C. 3501 et seq. and have been assigned OMB control number 3170–0006.

(b) Scope and purpose. This part applies to all persons that are lessors of personal property under consumer leases as those terms are defined in § 1013.2(e)(1) and (h), except persons excluded from coverage of this part by section 1029 of the Consumer Financial Protection Act of 2010, Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), Public Law 111–203, 124 Stat. 953. The purpose of this part is:

(1) To ensure that lessors of personal property receive meaningful disclosures that enable them to compare lease terms with other leases and, where appropriate, with credit transactions;

(2) To limit the amount of balloon payments in consumer lease transactions; and

(3) To provide for the accurate disclosure of lease terms in advertising.

(c) Enforcement and liability. Section 108 of the Act contains the administrative enforcement provisions. Sections 112, 130, 131, and 185 of the Act contain the liability provisions for failing to comply with the requirements of the Act and this part.

§ 1013.2 Definitions.

For the purposes of this part the following definitions apply:

(a) Act means the Truth in Lending Act (15 U.S.C. 1601 et seq.) and the Consumer Leasing Act is Chapter 5 of the Truth in Lending Act.

(b) Advertisement means a commercial message in any medium that directly or indirectly promotes a consumer lease transaction.

(c) Bureau refers to the Bureau of Consumer Financial Protection.

(d) Closed-end lease means a consumer lease other than an open-end lease as defined in this section.

(e)(1) Consumer lease means a contract in the form of a bailment or lease for the use of personal property by a natural person primarily for personal, family, or household purposes, for a period exceeding four months and for a total contractual obligation not exceeding the applicable threshold amount, whether or not the lessee has the option to purchase or otherwise become the owner of the property at the expiration of the lease. The threshold amount is adjusted annually to reflect increases in the Consumer Price Index for Urban Wage Earners and Clerical Workers, as applicable. See the official commentary to this paragraph (f) for the threshold amount applicable to a specific consumer lease. Unless the context indicates otherwise in this part “lease” means “consumer lease.”

(2) The term does not include a lease that meets the definition of a credit sale in Regulation Z (12 CFR 226.2(a)). It also does not include a lease for agricultural, business, or commercial purposes or a lease made to an organization.

(3) This part does not apply to a lease transaction of personal property which is incident to the lease of real property and which provides that:

(i) The lessee has no liability for the value of the personal property at the end of the lease term except for abnormal wear and tear; and

(ii) The lessee has no option to purchase the leased property.

(f) Gross capitalized cost means the amount agreed upon by the lessor and the lessee as the value of the leased property and any items that are capitalized or amortized during the lease term, including but not limited to taxes, insurance, service agreements, and any outstanding prior credit or lease balance. Capitalized cost reduction means the total amount of any rebate, cash payment, net trade-in allowance, and noncash credit that reduces the gross capitalized cost. The adjusted capitalized cost equals the gross capitalized cost less the capitalized cost reduction, and is the amount used by the lessor in calculating the base periodic payment.

(g) Lessee means a natural person who enters into or is offered a consumer lease.

(h) Lessor means a person who regularly leases, offers to lease, or arranges for the lease of personal property under a consumer lease. A person who has leased, offered, or arranged to lease personal property more than five times in the preceding calendar year or more than five times in the current calendar year is subject to the Act and this part.

(i) Open-end lease means a consumer lease in which the lessee’s liability at the end of the lease term is based on the difference between the residual value of the leased property and its realized value.

(j) Organization means a corporation, trust, estate, partnership, cooperative, association, or government entity or instrumentality.

(k) Person means a natural person or an organization.

(l) Personal property means any property that is not real property under the law of the state where the property is located at the time it is offered or made available for lease.

(m) Realized value means:

(1) The price received by the lessor for the leased property at disposition;

(2) The highest offer for disposition of the leased property; or

(3) The fair market value of the leased property at the end of the lease term.

(n) Residual value means the value of the leased property at the end of the lease term, as estimated or assigned at consummation by the lessor, used in calculating the base periodic payment.

(o) Security interest and security mean any interest in property that secures the payment or performance of an obligation.

(p) State means any state, the District of Columbia, the Commonwealth of Puerto Rico, and any territory or possession of the United States.

§ 1013.3 General disclosure requirements.

(a) General requirements. A lessor shall make the disclosures required by § 1013.4, as applicable. The disclosures shall be made clearly and conspicuously in writing in a form the consumer may keep, in accordance with this section. The disclosures required by this part may be provided to the lessee in electronic form, subject to compliance with the consumer consent and other applicable provisions of the Electronic Signatures in Global and National Commerce Act (E-Sign Act) (15 U.S.C. 7001 et seq.). For an advertisement accessed by the consumer in electronic form, the disclosures required by § 1013.7 may be provided to the consumer in electronic form in the advertisement, without regard to the consumer consent or other provisions of the E-Sign Act.

(1) Form of disclosures. The disclosures required by § 1013.4 shall be given to the lessee together in a dated statement that identifies the lessor and the lessee; the disclosures may be made either in a separate statement that identifies the consumer lease transaction or in the contract or other document evidencing the lease. Alternatively, the disclosures required to be segregated from other information under paragraph (a)(2) of this section may be provided in a separate dated statement that identifies the lease, and the other required disclosures may be
provided in the lease contract or other document evidencing the lease. In a lease of multiple items, the property description required by § 1013.4(a) may be given in a separate statement that is included in the disclosure statement required by this paragraph.

(2) Segregation of certain disclosures. The following disclosures shall be segregated from other information and shall contain only directly related information: §§ 1013.4(b) through (f), (g)(2), (h)(3), (i)(1), (j), and (m)(1). The headings, content, and format for the disclosures referred to in this paragraph (a)(2) shall be provided in a manner substantially similar to the applicable model form in Appendix A of this part.

(3) Timing of disclosures. A lessor shall provide the disclosures to the lessee prior to the consummation of a consumer lease.

(4) Language of disclosures. The disclosures required by § 1013.4 may be made in a language other than English provided that they are made available in English upon the lessee’s request.

(b) Additional information: nonsegregated disclosures. Additional information may be provided with any disclosure not listed in paragraph (a)(2) of this section, but it shall not be stated, used, or placed so as to mislead or confuse the lessee or contradict, obscure, or detract attention from any disclosure required by this part.

(c) Multiple lessors or lessees. When a transaction involves more than one lessor, the disclosures required by this part may be made by one lessor on behalf of all the lessors. When a lease involves more than one lessee, the lessor may provide the disclosures to any lessee who is primarily liable on the lease.

(d) Use of estimates. If an amount or other item needed to comply with a required disclosure is unknown or unavailable after reasonable efforts have been made to ascertain the information, the lessor may use a reasonable estimate that is based on the best information available to the lessor, is clearly identified as an estimate, and is not used to circumvent or evade any disclosures required by this part.

(e) Effect of subsequent occurrence. If a required disclosure becomes inaccurate because of an event occurring after consummation, the inaccuracy is not a violation of this part.

(f) Minor variations. A lessor may disregard the effects of the following in making disclosures:

(1) That payments must be collected in whole cents;
(2) That dates of scheduled payments may be different because a scheduled date is not a business day;
(3) That months have different numbers of days; and
(4) That February 29 occurs in a leap year.

§ 1013.4 Content of disclosures.

For any consumer lease subject to this part, the lessor shall disclose the following information, as applicable:

(a) Description of property. A brief description of the leased property sufficient to identify the property to the lessee and lessor.

(b) Amount due at lease signing or delivery. The total amount to be paid prior to or at consummation or by delivery, if delivery occurs after consummation, using the term “amount due at lease signing or delivery.” The lessor shall itemize each component by type and amount, including any refundable security deposit, advance monthly or other periodic payment, and capitalized cost reduction; and in motor vehicle leases, shall itemize how the amount due will be paid, by type and amount, including any net trade-in allowance, rebates, noncash credits, and cash payments in a format substantially similar to the model forms in Appendix A of this part.

(c) Payment schedule and total amount of periodic payments. The number, amount, and due dates or periods of payments scheduled under the lease, and the total amount of the periodic payments.

(d) Other charges. The total amount of other charges payable to the lessor, itemized by type and amount, that are not included in the periodic payments. Such charges include the amount of any liability the lease imposes upon the lessee at the end of the lease term; the potential difference between the residual and realized values referred to in paragraph (k) of this section is excluded.

(e) Total of payments. The total of payments, with a description such as “the amount you will have paid by the end of the lease.” This amount is the sum of the amount due at lease signing (less any refundable amounts), the total amount of periodic payments (less any portion of the periodic payment paid at lease signing), and other charges under paragraphs (b), (c), and (d) of this section. In an open-end lease, a description such as “you will owe an additional amount if the actual value of the vehicle is less than the residual value” shall accompany the disclosure.

(f) Payment calculation. In a motor vehicle lease, a mathematical progression of how the scheduled periodic payment is derived, in a format substantially similar to the applicable model form in Appendix A of this part, which shall contain the following:

(1) Gross capitalized cost. The gross capitalized cost, including a disclosure of the agreed upon value of the vehicle, a description such as “the agreed upon value of the vehicle [state the amount] and any items you pay for over the lease term (such as service contracts, insurance, and any outstanding prior credit or lease balance),” and a statement of the lessee’s option to receive a separate written itemization of the gross capitalized cost. If requested by the lessee, the itemization shall be provided before consummation.

(2) Capitalized cost reduction. The capitalized cost reduction, with a description such as “the amount of any net trade-in allowance, rebate, noncash credit, or cash you pay that reduces the gross capitalized cost.”

(3) Adjusted capitalized cost. The adjusted capitalized cost, with a description such as “the amount used in calculating your base [periodic] payment.”

(4) Residual value. The residual value, with a description such as “the value of the vehicle at the end of the lease used in calculating your base [periodic] payment.”

(5) Depreciation and any amortized amounts. The depreciation and any amortized amounts, which is the difference between the adjusted capitalized cost and the residual value, with a description such as “the amount charged for the vehicle’s decline in value through normal use and for any other items paid over the lease term.”

(6) Rent charge. The rent charge, with a description such as “the amount charged in addition to the depreciation and any amortized amounts.” This amount is the difference between the total of the base periodic payments over the lease term minus the depreciation and any amortized amounts.

(7) Total of base periodic payments. The total of base periodic payments with a description such as “depreciation and any amortized amounts plus the rent charge.”

(8) Lease payments. The lease payments with a description such as “the number of payments in your lease.”

(9) Base periodic payment. The total of the base periodic payments divided by the number of payment periods in the lease.

(10) Itemization of other charges. An itemization of any other charges that are part of the periodic payment.

(11) Total periodic payment. The sum of the base periodic payment and any other charges that are part of the periodic payment.
(g) Early termination—(1) Conditions and disclosure of charges. A statement of the conditions under which the lessee or lessor may terminate the lease prior to the end of the lease term; and the amount or a description of the method for determining the amount of any penalty or other charge for early termination, which must be reasonable.

(2) Early termination notice. In a motor vehicle lease, a notice substantially similar to the following: “Early Termination. You may have to pay a substantial charge if you end this lease early. The charge may be up to several thousand dollars. The actual charge will depend on when the lease is terminated. The earlier you end the lease, the greater this charge is likely to be.”

(h) Maintenance responsibilities. The following provisions are required:

(1) Statement of responsibilities. A statement specifying whether the lessor or the lessee is responsible for maintaining or servicing the leased property, together with a brief description of the responsibility;

(2) Wear and use standard. A statement of the lessor’s standards for wear and use (if any), which must be reasonable; and

(3) Notice of wear and use standard. In a motor vehicle lease, a notice regarding wear and use substantially similar to the following: “Excessive Wear and Use. You may be charged for excessive wear based on our standards for normal use.” The notice shall also specify the amount or method for determining any charge for excess mileage.

(i) Purchase option. A statement of whether or not the lessee has the option to purchase the leased property, and:

(1) End of lease term. If at the end of the lease term, the purchase price; and

(2) During lease term. If prior to the end of the lease term, the purchase price or the method for determining the price and when the lessee may exercise this option.

(j) Statement referencing nonsegregated disclosures. A statement that the lessee should refer to the lease documents for additional information on early termination, purchase options and maintenance responsibilities, warranties, late and default charges, insurance, and any security interests, if applicable.

(k) Liability between residual and realized values. A statement of the lessee’s liability, if any, at early termination or at the end of the lease term for the difference between the residual value of the leased property and its realized value.

(l) Right of appraisal. If the lessee’s liability at early termination or at the end of the lease term is based on the realized value of the leased property, a statement that the lessee may obtain, at the lessee’s expense, a professional appraisal by an independent third party (agreed to by the lessee and the lessor) of the value that could be realized at sale of the leased property. The appraisal shall be final and binding on the parties.

(m) Liability at end of lease term based on residual value. If the lessee is liable at the end of the lease term for the difference between the residual value of the leased property and its realized value:

(1) Rent and other charges. The rent and other charges paid by the lessee and required by the lessor as an incident to the lease transaction, with a description such as “the total amount of rent and other charges imposed in connection with your lease [state the amount].”

(2) Excess liability. A statement about a rebuttable presumption that, at the end of the lease term, the residual value of the leased property is unreasonable and not in good faith to the extent that the residual value exceeds the realized value by more than three times the base monthly payment (or more than three times the average payment allocable to a monthly period, if the lease calls for periodic payments other than monthly); and that the lessor cannot collect the excess amount unless the lessee brings a successful court action and pays the lessee’s reasonable attorney’s fees, or unless the excess of the residual value over the realized value is due to unreasonable or excessive wear or use of the leased property (in which case the rebuttable presumption does not apply).

(3) Mutually agreeable final adjustment. A statement that the lessee and lessor are permitted, after termination of the lease, to make any mutually agreeable final adjustment regarding excess liability.

(n) Fees and taxes. The total dollar amount for all official and license fees, registration, title, or taxes required to be paid in connection with the lease.

(o) Insurance. A brief identification of insurance in connection with the lease including:

(1) Through the lessor. If the insurance is provided by or paid through the lessor, the types and amounts of coverage and the cost to the lessee; or

(2) Through a third party. If the lessee must obtain the insurance, the types and amounts of coverage required of the lessee.

(p) Warranties or guarantees. A statement identifying all express warranties and guarantees from the manufacturer or lessor with respect to the leased property that apply to the lessee.

(q) Penalties and other charges for delinquency. The amount or the method of determining the amount of any penalty or other charge for delinquency, default, or late payments, which must be reasonable.

(r) Security interest. A description of any security interest, other than a security deposit disclosed under paragraph (b) of this section, held or to be retained by the lessor; and a clear identification of the property to which the security interest relates.

(s) Limitations on rate information. If a lessor provides a percentage rate in an advertisement or in documents evidencing the lease transaction, a notice stating that “this percentage may not measure the overall cost of financing this lease” shall accompany the rate disclosure. The lessor shall not use the term “annual percentage rate,” “annual lease rate,” or any equivalent term.

(t) Non-motor vehicle open-end leases. Non-motor vehicle open-end leases remain subject to section 182(10) of the Act regarding end of term liability.

§ 1013.5 Renegotiations, extensions, and assumptions.

(a) Renegotiation. A renegotiation occurs when a consumer lease subject to this part is satisfied and replaced by a new lease undertaken by the same consumer. A renegotiation requires new disclosures, except as provided in paragraph (d) of this section.

(b) Extension. An extension is a continuation, agreed to by the lessor and the lessee, of an existing consumer lease beyond the originally scheduled end of the lease term, except when the continuation is the result of a renegotiation. An extension that exceeds six months requires new disclosures, except as provided in paragraph (d) of this section.

(c) Assumption. New disclosures are not required when a consumer lease is assumed by another person, whether or not the lessor charges an assumption fee.

(d) Exceptions. New disclosures are not required for the following, even if they meet the definition of a renegotiation or an extension:

(1) A reduction in the rent charge;

(2) The deferment of one or more payments, whether or not a fee is charged;
§ 1013.6 [Reserved]

§ 1013.7 Advertising.

(a) General rule. An advertisement for a consumer lease may state that a specific lease of property at specific amounts or terms is available only if the lessor usually and customarily leases or will lease the property at those amounts or terms.

(b) Clear and conspicuous standard. Disclosures required by this section shall be made clearly and conspicuously.

(1) Amount due at lease signing or delivery. Except for the statement of a periodic payment, any affirmative or negative reference to a charge that is a part of the disclosure required under paragraph (d)(2)(ii) of this section shall not be more prominent than that disclosure.

(2) Advertisement of a lease rate. If a lessor provides a percentage rate in an advertisement, the rate shall not be more prominent than any of the disclosures in § 1013.4, with the exception of the notice in § 1013.4(s) required to accompany the rate; and the lessor shall not use the term “annual percentage rate,” “annual lease rate,” or equivalent term.

(c) Catalogs or other multipage advertisements; electronic advertisements. A catalog or other multipage advertisement, or an electronic advertisement (such as an advertisement appearing on an Internet Web site), that provides a table or schedule of the required disclosures shall be considered a single advertisement if, for lease terms that appear without all the required disclosures, the advertisement refers to the page or pages on which the table or schedule appears.

(d) Advertisement of terms that require additional disclosure. (1) Triggering terms. An advertisement that states any of the following items shall contain the disclosures required by paragraph (d)(2) of this section, except as provided in paragraphs (e) and (f) of this section:

(i) The amount of any payment; or

(ii) A statement of any capitalized cost reduction or other payment (or that no payment is required) prior to or at consummation or by delivery, if delivery occurs after consummation.

(2) Additional terms. An advertisement stating any item listed in paragraph (d)(1) of this section shall also state the following items:

(i) That the transaction advertised is a lease;

(ii) The total amount due prior to or at consummation or by delivery, if delivery occurs after consummation;

(iii) The number, amounts, and due dates or periods of scheduled payments under the lease;

(iv) A statement of whether or not a security deposit is required; and

(v) A statement that an extra charge may be imposed at the end of the lease term where the lessee’s liability (if any) is based on the difference between the residual value of the leased property and its realized value at the end of the lease term.

(e) Alternative disclosures—merchandise tags. A merchandise tag stating any item listed in paragraph (d)(1) of this section may comply with paragraph (d)(2) of this section by referring to a sign or display prominently posted in the lessor’s place of business that contains a table or schedule of the required disclosures.

(f) Alternative disclosures—television or radio advertisements—(1) Toll-free number or print advertisement. An advertisement made through television or radio stating any item listed in paragraph (d)(1) of this section complies with paragraph (d)(2) of this section if the advertisement states the items listed in paragraphs (d)(2)(i) through (iii) of this section, and:

(i) Lists a toll-free telephone number along with a reference that such number may be used by consumers to obtain the information required by paragraph (d)(2) of this section; or

(ii) Directs the consumer to a written advertisement in a publication of general circulation in the community served by the media station, including the name and the date of the publication, with a statement that information required by paragraph (d)(2) of this section is included in the advertisement. The written advertisement shall be published beginning at least three days before and ending at least ten days after the broadcast.

§ 1013.8 Record retention.

A lessor shall retain evidence of compliance with the requirements imposed by this part, other than the advertising requirements under § 1013.7, for a period of not less than two years after the date the disclosures are required to be made or an action is required to be taken.

§ 1013.9 Relation to state laws.

(a) Inconsistent state law. A state law that is inconsistent with the requirements of the Act and this part is preempted to the extent of the inconsistency. If a lessor cannot comply with a state law without violating a provision of this part, the state law is inconsistent within the meaning of section 186(a) of the Act and is preempted, unless the state law gives greater protection and benefit to the consumer. A state, through an official having primary enforcement or interpretative responsibilities for the state consumer leasing law, may apply to the Bureau for a preemption determination.

(b) Exemptions—(1) Application. A state may apply to the Bureau for an exemption from the requirements of the Act and this part for any class of lease transactions within the state. The Bureau will grant such an exemption if the Bureau determines that:

(i) The class of leasing transactions is subject to state law requirements substantially similar to the Act and this part or that lessees are afforded greater protection under state law; and

(ii) There is adequate provision for state enforcement.

(2) Enforcement and liability. After an exemption has been granted, the requirements of the applicable state law (except for additional requirements not imposed by Federal law) will constitute the requirements of the Act and this part. No exemption will extend to the civil liability provisions of sections 130, 131, and 185 of the Act.

Appendix A to Part 1013—Model Forms

A–1—Model Open-End or Finance Vehicle Lease Disclosures

A–2—Model Closed-End or Net Vehicle Lease Disclosures

A–3—Model Furniture Lease Disclosures

BILLING CODE 4810–AM–P
### Federal Consumer Leasing Act Disclosures

**Date**

**Lessor(s)**

**Lessees**

<table>
<thead>
<tr>
<th>Amount Due at Lease Signing or Delivery</th>
<th>Monthly Payments</th>
<th>Other Charges (not part of your monthly payment)</th>
<th>Total of Payments (The amount you will have paid by the end of the lease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(itemized below)*</td>
<td>Your first monthly payment of $ _______ is due on $ _______, followed by $ _______ payments of $ _______ due on the _______ of each month. The total of your monthly payments is $ _______</td>
<td>Disposition fee (if you do not purchase the vehicle) $ _______</td>
<td>$ _______</td>
</tr>
<tr>
<td>$ _______</td>
<td></td>
<td></td>
<td>You will owe an additional amount if the actual value of the vehicle is less than the residual value.</td>
</tr>
</tbody>
</table>

### *Itemization of Amount Due at Lease Signing or Delivery*

<table>
<thead>
<tr>
<th>Amount Due At Lease Signing or Delivery</th>
<th>How the Amount Due at Lease Signing or Delivery will be paid:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitalized cost reduction $ _______</td>
<td>Net trade-in allowance $ _______</td>
</tr>
<tr>
<td>First monthly payment $ _______</td>
<td>Rebates and noncash credits $ _______</td>
</tr>
<tr>
<td>Refundable security deposit $ _______</td>
<td>Amount to be paid in cash $ _______</td>
</tr>
<tr>
<td>Title fees $ _______</td>
<td></td>
</tr>
<tr>
<td>Registration fees $ _______</td>
<td></td>
</tr>
<tr>
<td>Total $ _______</td>
<td>Total $ _______</td>
</tr>
</tbody>
</table>

**Your monthly payment is determined as shown below:**

Gross capitalized cost. The agreed upon value of the vehicle ($ _______ ) and any items you pay over the lease term (such as service contracts, insurance, and any outstanding prior credit or lease balance) $ _______.

If you want an itemization of this amount, please check this box. □

Capitalized cost reduction. The amount of any net trade-in allowance, rebate, noncash credit, or cash you pay that reduces the gross capitalized cost $ _______.

Adjusted capitalized cost. The amount used in calculating your base monthly payment $ _______.

Residual value. The value of the vehicle at the end of the lease used in calculating your base monthly payment $ _______.

Depreciation and any amortized amounts. The amount charged for the vehicle’s decline in value through normal use and for other items paid over the lease term $ _______.

Rent charge. The amount charged in addition to the depreciation and any amortized amounts $ _______.

Total of base monthly payments. The depreciation and any amortized amounts plus the rent charge $ _______.

Lease payments. The number of payments in your lease $ _______.

Base monthly payment $ _______.

Monthly sales/use tax $ _______.

Rent and other charges. The total amount of rent and other charges imposed in connection with your lease $ _______.

Early Termination. You may have to pay a substantial charge if you end this lease early. The charge may be up to several thousand dollars. The actual charge will depend on when the lease is terminated. The earlier you end the lease, the greater this charge is likely to be.

Excessive Wear and Use. You may be charged for excessive wear based on our standards for normal use [and for mileage in excess of _______ miles per year at the rate of _______ per mile].

Purchase Option at End of Lease Term. [You have an option to purchase the vehicle at the end of the lease term for $ _______ [and a purchase option fee of $ _______].] [You do not have an option to purchase the vehicle at the end of the lease term.]

Other Important Terms. See your lease documents for additional information on early termination, purchase options and maintenance responsibilities, warranties, late and default charges, insurance, and any security interest, if applicable.
Appendix A-1 Model Open-End or Finance Vehicle Lease Disclosures

[The following provisions are the nonsegregated disclosures required under Regulation M.]

<table>
<thead>
<tr>
<th>Year</th>
<th>Make</th>
<th>Model</th>
<th>Body Style</th>
<th>Vehicle ID #</th>
</tr>
</thead>
</table>

Official Fees and Taxes. The total amount you will pay for official and license fees, registration, title, and taxes over the term of your lease, whether included with your monthly payments or assessed otherwise: $_________.

Insurance. The following types and amounts of insurance will be acquired in connection with this lease:

___________. We (lessee) will provide the insurance coverage quoted above for a total premium cost of $___________.

___________. You (lessee) agree to provide insurance coverage in the amount and types indicated above.

End of Term Liability. (a) The residual value ($___________) of the vehicle is based on a reasonable, good faith estimate of the value of the vehicle at the end of the lease term. If the actual value of the vehicle at that time is greater than the residual value, you will have no further liability under this lease, except for other charges already incurred [and are entitled to a credit or refund of any surplus.] If the actual value of the vehicle is less than the residual value, you will be liable for any difference up to $___________ (3 times the monthly payment). For any difference in excess of that amount, you will be liable only if:

1. Excessive use or damage [as described in paragraph _____] [representing more than normal wear and use] resulted in an unusually low value at the end of the term.
2. The matter is not otherwise resolved and we win a lawsuit against you seeking a higher payment.
3. You voluntarily agree with us after the end of the lease term to make a higher payment.

Should we bring a lawsuit against you, we must prove that our original estimate of the value of the leased property at the end of the lease term was reasonable and was made in good faith. For example, we might prove that the actual value was less than the original estimated value, although the original estimate was reasonable, because of an unanticipated decline in value for that type of vehicle. We must also pay your attorney’s fees.

(b) If you disagree with the value we assign to the vehicle, you may obtain, at your own expense, from an independent third party agreeable to both of us, a professional appraisal of the ________ value of the leased vehicle which could be realized at sale. The appraised value shall then be used as the actual value.

Standards for Wear and Use. The following standards are applicable for determining unreasonable or excess wear and use of the leased vehicle:

Maintenance.
[You are responsible for the following maintenance and servicing of the leased vehicle:]

[We are responsible for the following maintenance and servicing of the leased vehicle:]

Warranties. The leased vehicle is subject to the following express warranties:

Early Termination and Default. (a) You may terminate this lease before the end of the lease term under the following conditions:

The charge for such early termination is:

(b) We may terminate this lease before the end of the lease term under the following conditions:

Upon such termination we shall be entitled to the following charge(s) for:

(c) To the extent these charges take into account the value of the vehicle at termination, if you disagree with the value we assign to the vehicle, you may obtain, at your own expense, from an independent third party agreeable to both of us, a professional appraisal of the ________ value of the leased vehicle which could be realized at sale. The appraised value shall then be used as the actual value.

Security Interest. We reserve a security interest of the following type in the property listed below to secure performance of your obligations under this lease:

Late Payments. The charge for late payments is:

Option to Purchase Leased Property Prior to the End of the Lease. [You have an option to purchase the leased vehicle prior to the end of the term. The price will be $___________ /[the method of determining the price].] [You do not have an option to purchase the leased vehicle.]
### Federal Consumer Leasing Act Disclosures

**Date**

<table>
<thead>
<tr>
<th>Lessor(s)</th>
<th>Lessee(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Amount Due at Lease Signing or Delivery</th>
<th>Monthly Payments</th>
<th>Other Charges (not part of your monthly payment)</th>
<th>Total of Payments (The amount you will have paid by the end of the lease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Itemized below)*</td>
<td>Monthly payments of $<em><strong><strong><strong>, followed by $</strong></strong></strong></em> each month. The total of your monthly payments is $_______</td>
<td>Disposition fee (if you do not purchase the vehicle) $_______</td>
<td>Total $_______</td>
</tr>
<tr>
<td>$_______</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Itemization of Amount Due at Lease Signing or Delivery:

<table>
<thead>
<tr>
<th>How the Amount Due at Lease Signing or Delivery will be paid:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitalized cost reduction $_______ Net trade-in allowance $_______</td>
</tr>
<tr>
<td>First monthly payment</td>
</tr>
<tr>
<td>Refundable security deposit</td>
</tr>
<tr>
<td>Title fees</td>
</tr>
<tr>
<td>Registration fees</td>
</tr>
<tr>
<td>Total $_______</td>
</tr>
</tbody>
</table>

Your monthly payment is determined as shown below:

- **Gross capitalized cost.** The agreed upon value of the vehicle ($_______) and any items you pay over the lease term (such as service contracts, insurance, and any outstanding prior credit or lease balance) $_______

  If you want an itemization of this amount, please check this box. ☐

- **Capitalized cost reduction.** The amount of any net trade-in allowance, rebate, noncash credit, or cash you pay that reduces the gross capitalized cost $_______

- **Adjusted capitalized cost.** The amount used in calculating your base monthly payment $_______

- **Residual value.** The value of the vehicle at the end of the lease used in calculating your base monthly payment $_______

- **Depreciation and any amortized amounts.** The amount charged for the vehicle’s decline in value through normal use and for other items paid over the lease term $_______

- **Rent charge.** The amount charged in addition to the depreciation and any amortized amounts $_______

- **Total of base monthly payments.** The depreciation and any amortized amounts plus the rent charge $_______

- **Lease payments.** The number of payments in your lease $_______

- **Base monthly payment** $_______

- **Monthly sales/use tax** $_______

  Total monthly payment $_______

**Early Termination.** You may have to pay a substantial charge if you end this lease early. The charge may be up to several thousand dollars. The actual charge will depend on when the lease is terminated. The earlier you end the lease, the greater this charge is likely to be.

**Excessive Wear and Use.** You may be charged for excessive wear based on our standards for normal use and for mileage in excess of ______ miles per year at the rate of ______ per mile.

**Purchase Option at End of Lease Term.** You have an option to purchase the vehicle at the end of the lease term for $_______ [and a purchase option fee of $_______] [You do not have an option to purchase the vehicle at the end of the lease term.]

**Other Important Terms.** See your lease documents for additional information on early termination, purchase options and maintenance responsibilities, warranties, late and default charges, insurance, and any security interest, if applicable.
Appendix A-2 Model Closed-End or Net Vehicle Lease Disclosures

<table>
<thead>
<tr>
<th>Year</th>
<th>Make</th>
<th>Model</th>
<th>Body Style</th>
<th>Vehicle ID #</th>
</tr>
</thead>
</table>

**Official Fees and Taxes.** The total amount you will pay for official and license fees, registration, title, and taxes over the term of your lease, whether included with your monthly payments or assessed otherwise: $ ________.

**Insurance.** The following types and amounts of insurance will be acquired in connection with this lease:

- ________ We (lessee) will provide the insurance coverage quoted above for a total premium cost of $ ________.
- ________ You (lessee) agree to provide insurance coverage in the amount and types indicated above.

**Standards for Wear and Use.** The following standards are applicable for determining unreasonable or excess wear and use of the leased vehicle:

- ________
- ________

**Maintenance.**

[You are responsible for the following maintenance and servicing of the leased vehicle:

- ________

[We are responsible for the following maintenance and servicing of the leased vehicle:

- ________

**Warranties.** The leased vehicle is subject to the following express warranties:

- ________

**Early Termination and Default.** (a) You may terminate this lease before the end of the lease term under the following conditions:

- ________

(b) We may terminate this lease before the end of the lease term under the following conditions:

- ________

Upon such termination we shall be entitled to the following charge(s) for:

- ________

(c) To the extent these charges take into account the value of the vehicle at termination, if you disagree with the value we assign to the vehicle, you may obtain, at your own expense, from an independent third party acceptable to both of us, a professional appraisal of the ________ value of the leased vehicle which could be realized at sale. The appraisal value shall then be used as the actual value.

**Security Interest.** We reserve a security interest of the following type in the property listed below to secure performance of your obligations under this lease:

- ________

**Late Payments.** The charge for late payments is:

- ________

**Option to Purchase Leased Property Prior to the End of the Lease.** [You have an option to purchase the leased vehicle prior to the end of the term. The price will be $ ________ /[the method of determining the price].] [You do not have an option to purchase the leased vehicle.]
Appendix A-3 Model Furniture Lease Disclosures

**Federal Consumer Leasing Act Disclosures**

Date ____________________________

Lessor(s) ____________________________ Lessee(s) ____________________________

<table>
<thead>
<tr>
<th>Item</th>
<th>Color</th>
<th>Description of Leased Property</th>
<th>Stock #</th>
<th>Mfg.</th>
<th>Quantity</th>
</tr>
</thead>
</table>

**Amount Due at Lease Signing or Delivery**  
First monthly payment $ ______, followed by ______ payments of $ ______ due on the ______ of each month. The total of your monthly payments is $ ______.

**Monthly Payments**  
Your first monthly payment of $ ______ is due on ______, followed by ______ payments of $ ______ due on the ______ of each month. The total of your monthly payments is $ ______.

**Other Charges (not part of your monthly payment)**  
Pick-up fee $ ______, Total $ ______

**Total of Payments**  
(The amount you will have paid by the end of the lease) $ ______

**Purchase Option at End of Lease Term.** [You have an option to purchase the leased property at the end of the lease term for $ ______ and a purchase option fee of $ ______. ] [You do not have an option to purchase the leased property at the end of the lease term.]

**Other Important Terms.** See your lease documents for additional information on early termination, purchase options and maintenance responsibilities, warranties, late and default charges, insurance, and any security interest, if applicable.

[The following provisions are the nonsegregated disclosures required under Regulation M.]

**Official Fees and Taxes.** The total amount you will pay for official fees, and taxes over the term of your lease, whether included with your monthly payments or assessed otherwise: $ ______.

**Insurance.** The following types and amounts of insurance will be acquired in connection with this lease: ____________________________________________.

____ We (lessee) will provide the insurance coverage quoted above for a total premium cost of $ ______.

____ You (lessee) agree to provide insurance coverage in the amount and types indicated above.

**Standards for Wear and Use.** The following standards are applicable for determining unreasonable or excess wear and use of the leased property:

**Maintenance.**

[You are responsible for the following maintenance and servicing of the leased property: ____________________________________________.

[We are responsible for the following maintenance and servicing of the leased property: ____________________________________________.

**Warranties.** The leased property is subject to the following express warranties:

__________________________________________

**Early Termination and Default.** (a) You may terminate this lease before the end of the lease term under the following conditions:

The charge for such early termination is: ____________________________________________.

(b) We may terminate this lease before the end of the lease term under the following conditions: ____________________________________________.

Upon such termination we shall be entitled to the following charge(s) for: ____________________________________________.
Appendix A-3 Model Furniture Lease Disclosures

Early Termination and Default. (continued)

(c) To the extent these charges take into account the value of the leased property at termination, if you disagree with the value we assign to the property, you may obtain, at your own expense, from an independent third party agreeable to both of us, a professional appraisal of the value of the property which could be realized at sale. The appraised value shall then be used as the actual value.

Security Interest. We reserve a security interest of the following type in the property listed below to secure performance of your obligations under this lease:

Late Payments. The charge for late payments is: ____________________________________________________________.

Purchase Option Prior to the End of the Lease Term.

[You have an option to purchase the leased property prior to the end of the term. The price will be [$ _______]/the method of determining the price].

[You do not have an option to purchase the leased property.]
Appendix B to Part 1013—[Reserved]

Appendix C to Part 1013—Issuance of Official Interpretations

Interpretations of this part issued by officials of the Bureau provide the formal protection afforded under section 130(f) of the Act. Except in unusual circumstances, interpretations will not be issued separately but will be incorporated in an official commentary to Regulation M (Supplement I of this part), which will be amended periodically. No official interpretations will be issued approving a lessor’s forms, statements, or calculation tools or methods.

Supplement I to Part 1013—Official Interpretations

Introduction

1. Official status. The commentary in Supplement I is the vehicle by which the Bureau of Consumer Financial Protection issues official interpretations of Regulation M (12 CFR part 1013). Good faith compliance with this commentary affords protection from liability under section 130(f) of the Truth in Lending Act (15 U.S.C. 1640(f)). Section 130(f) protects lessors from civil liability for any act done or omitted in good faith in conformity with any interpretation issued by the Bureau.

2. Procedures for requesting interpretations. Under Appendix C of Regulation M, anyone may request an official interpretation. Interpretations that are adopted will be incorporated in this commentary following publication in the Federal Register. No official interpretations are expected to be issued other than by means of this commentary.

3. Comment designations. Each comment in this commentary is identified by a number and the regulatory section or paragraph that it interprets. The comments are designated with as much specificity as possible according to the particular regulatory provision addressed. For example, some of the comments to § 1013.4(f) are further divided by subparagraph, such as comment 4(f)(1)–1 and comment 4(f)(2)–1. In other cases, comments have more general application and are designated, for example, as comment 4(a)–1. This introduction may be cited as comments I–1 through I–4. An appendix may be cited as comment app. A–1.

4. Illustrations. Lists that appear in this commentary may be exhaustive or illustrative; the appropriate construction should be clear from the context. Illustrative lists are introduced by phrases such as “including,” “such as,” “to illustrate,” and “for example.”

Section 1013.1—Authority, Scope, Purpose, and Enforcement

1. Foreign applicability. Regulation M applies to all persons (including branches of foreign banks or leasing companies located in the United States) that offer consumer leases to residents of any state (including foreign nationals) as defined in § 1013.2(p), except persons excluded from coverage of this part by section 1029 of the Consumer Financial Protection Act of 2010, Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111–203, 124 Stat. 1376. The regulation does not apply to a foreign branch of a U.S. bank or to a leasing company leasing to a U.S. citizen residing or visiting abroad or to a foreign national abroad.

Section 1013.2—Definitions

2(b) Advertisement

1. Coverage. The term advertisement includes messages inviting, offering, or otherwise generally announcing to prospective customers the availability of consumer leases, whether in visual, oral, print or electronic media. Examples include:
   i. Messages in newspapers, magazines, leaflets, catalogs, and fliers.
   ii. Messages on radio, television, and public address systems.
   iii. Direct mail literature.
   iv. Printed material on any interior or exterior sign or display, in any window display, in any point-of-transaction literature or price tag that is delivered or made available to a lessee or prospective lessee in any manner whatsoever.
   v. Telephone solicitations.
   vi. Online messages, such as those on the Internet.

2. Exclusions. The term does not apply to the following:
   i. Direct personal contacts, including follow-up letters, cost estimates for individual lessees, or oral or written communications relating to the negotiation of a specific transaction.
   ii. Informational material distributed only to businesses.
   iii. Notices required by Federal or state law, if the law mandates that specific information be displayed and only the mandated information is included in the notice.
   iv. News articles controlled by the news medium.
   v. Market research or educational materials that do not solicit business.

3. Persons covered. See the commentary to § 1013.7(a).

2(d) Closed-End Lease

1. General. In closed-end leases, sometimes referred to as “walk-away” leases, the lessee is not responsible for the residual value of the leased property at the end of the lease term.

2(e) Consumer Lease

1. Primary purposes. A lessor must determine in each case if the leased property will be used primarily for personal, family, or household purposes. If a question exists as to the primary purpose for a lease, the fact that a lessee discloses is not controlling on the question of whether the transaction is covered. The primary purpose of a lease is determined before or at consummation and a lessor need not provide Regulation M disclosures where there is a subsequent change in the primary use.

2. Period of time. To be a consumer lease, the initial term of the lease must be more than four months. Thus, a lease of personal property for four months, three months or on a month-to-month or week-to-week basis (even though the lease actually extends beyond four months) is not a consumer lease and is not subject to the disclosure requirements of the regulation. However, a lease that imposes a penalty for not continuing the lease beyond four months is considered to have a term of more than four months. To illustrate:
   i. A three-month lease extended on a month-to-month basis and terminated after one year is not subject to the regulation.
   ii. A month-to-month lease with a penalty, such as the forfeiture of a security deposit for terminating before one year, is subject to the regulation.

3. Total contractual obligation. The total contractual obligation is not necessarily the same as the total payments, as defined under § 1013.4(e). The total contractual obligation includes nonrefundable amounts a lessee is contractually obligated to pay to the lessor, but excludes items such as:
   i. Residual value amounts or purchase-option prices.
   ii. Amounts collected by the lessor but paid to a third party, such as taxes, licenses, and registration fees.

4. Credit sale. The regulation does not cover a lease that meets the definition of a credit sale in Regulation Z, 12 CFR 226.2(a)(16), which is defined, in part, as a bailment or lease (unless terminable without penalty at any time by the consumer) under which the consumer:
   i. Agrees to pay as compensation for use a sum substantially equivalent to, or in excess of, the total value of the property and services involved; and
   ii. Will become (or has the option to become), for no additional consideration or for nominal consideration, the owner of the property upon compliance with the agreement.

5. Agricultural purpose. Agricultural purpose means a purpose related to the production, harvest, exhibition, marketing, transportation, processing, or manufacture of agricultural products by a natural person who cultivates, plants, propagates, or nurtures those agricultural products, including but not limited to the acquisition of personal property and services used primarily in farming. Agricultural products include horticultural, viticultural, and dairy products, livestock, wildlife, poultry, bees, forest products, fish and shellfish, and any products thereof, including processed and manufactured products, and any and all products raised or produced on farms and any processed or manufactured products thereof.

6. Organization or other entity. A consumer lease does not include a lease made to an organization such as a corporation or a government agency or instrumenality. Such a lease is not covered by the regulation even if the leased property is used by (an employee, for example) primarily for personal, family or household purposes, or is carried out by or subsequently assigned to a natural person.

7. Leases of personal property incidental to a service. The following leases of personal property are deemed incidental to a service and thus are not subject to the regulation:
   i. Home entertainment systems requiring the consumer to lease equipment that enables
a television to receive the transmitted programming. 

ii. Security alarm systems requiring the installation of leased equipment intended to monitor unlawful entries into a home and in some cases to provide fire protection.

iii. Propane gas service where the consumer must lease a propane tank to receive the service.

8. Safe deposit boxes. The lease of a safe deposit box is not a consumer lease under §1013.2(e).

9. Threshold amount. A consumer lease is exempt from the requirements of this part if the total contractual obligation exceeds the threshold amount in effect at the time of consummation. The threshold amount in effect during a particular time period is the amount stated below for that period. The threshold amount is adjusted effective January 1 of each year by any annual percentage increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI–W) that was in effect on the preceding June 1. This comment will be amended to provide the threshold amount for the upcoming year after the annual percentage change in the CPI–W that was in effect on June 1 becomes available. Any increase in the threshold amount will be rounded to the nearest $100 increment. For example, if the annual percentage increase in the CPI–W would result in a $925 increase in the threshold amount, the threshold amount will be increased by $1,000. However, if the annual percentage increase in the CPI–W would result in a $949 increase in the threshold amount, the threshold amount will be increased by $900. If a consumer lease is exempt from the requirements of this part because the total contractual obligation exceeds the threshold amount in effect at the time of consummation, the lease remains exempt regardless of a subsequent increase in the threshold amount.

i. Prior to July 21, 2011, the threshold amount is $25,000.

ii. From July 21, 2011 through December 31, 2011, the threshold amount is $50,000.

2(g) Lessee: Guarantors. Guarantors are not lessees for purposes of the regulation.

2(h) Lessor: Arranger of a lease. To “arrange” for the lease of personal property means to provide or offer to provide a lease that is or will be extended by another person under a business or other relationship pursuant to which the person arranging the lease (a) receives or will receive a fee, compensation, or other consideration for the service or (b) has knowledge of the lease terms and participates in the preparation of the contract documents required in connection with the lease. To illustrate:

i. An entity that, pursuant to a business relationship, completes the necessary lease agreement before forwarding it for execution to the leasing company (to whom the obligation is payable on its face) is “arranging” for the lease.

ii. An entity that, without receiving a fee for the service, refers a customer to a leasing company that will prepare all relevant contract documents is not “arranging” for the lease.

2. Consideration. The term “other consideration” as used in comment 2(h)–1 refers to an actual payment corresponding to a fee or similar compensation and not to intangible benefits, such as the advantage of increased business, which may flow from the relationship between the parties.

3. Assignees. An assignee may be a lessor for purposes of the regulation in circumstances where the assignee has substantial involvement in the lease transaction. See cf. Ford Motor Credit Co. v. Cannon, 452 U.S. 155 (1981) (held that an assignee was a creditor for purposes of the pre-1980 Truth in Lending Act and Regulation Z because of its substantial involvement in the credit transaction).

4. Multiple lessors. See the commentary to §1013.3(c).

2(j) Organization. General. The term “organization” includes joint ventures and persons operating under a business name.

2(l) Personal Property:

1. Coverage. Whether property is personal property depends on state or other applicable law. For example, a mobile home or houseboat may be considered personal property in one state but real property in another.

2(m) Realized Value:

1. General. Realized value refers to either the retail or wholesale value of the leased property at early termination or at the end of the lease term. It is not a required disclosure. Realized value is relevant only to leases in which the lessee’s liability at early termination or at the end of the lease term typically is based on the difference between the residual value (or the adjusted lease balance) of the leased property and its realized value.

2. Options. Subject to the contract and to state or other applicable law, the lessor may calculate the realized value in determining the lessee’s liability at early termination or at the end of the lease term. To calculate the realized value, the lessor may use a multipurpose disclosure form provided the lessor is able to designate the specific disclosures applicable to a given transaction, consistent with the requirement that disclosures be clearly and conspicuously provided.

4. Number of transactions. Lessors have flexibility in handling lease transactions that may be viewed as multiple transactions. For example:

i. When a lessor leases two items to the same lessee on the same day, the lessor may disclose the leases as either one or two lease transactions.

ii. When a lessor sells insurance or other incidental services in connection with a lease, the lessor may disclose in one of two ways: As a single lease transaction (in which case Regulation M, not Regulation Z, disclosures are required) or as a lease transaction and a credit transaction.

iii. When a lessor includes an outstanding lease or credit balance in a lease transaction, the lessor may disclose the outstanding balance as part of a single lease transaction.
(in which case Regulation M, not Regulation Z, disclosures are required) or as a lease transaction and a credit transaction.

3(a)(1) Form of Disclosures

1. Cross-references. Lessors may include in the nonsegregated disclosures a cross-reference to items in the segregated disclosures rather than repeat those items. A lessor may include in the segregated disclosures numeric or alphabetic designations as cross-references to related information so long as such references do not obscure or detract from the segregated disclosures.

2. Identification of parties. While disclosures must be made clearly and conspicuously, lessors are not required to use the word “lessor” and “lessee” to identify the parties to the lease transaction.

3. Lessor’s address. The lessor must be identified by name; an address (and telephone number) may be provided.

4. Additional information. In transactions involving multiple lessors and multiple lessees, a single lessor may make all the disclosures to a single lessee as long as the disclosure statement identifies all the lessors and lessees.

5. Lessor’s telephone number. The regulation does not require that the lessee sign the disclosure statement, whether disclosures are separately provided or are part of the lease contract. Nevertheless, to provide evidence that disclosures are given before a lessee becomes obligated on the lease transaction, the lessor may, for example, ask the lessee to sign the disclosure statement or an acknowledgement of receipt, may place disclosures that are included in the lease documents above the lessee’s signature, or include instructions alerting a lessee to read the disclosures prior to signing the lease.

3(a)(2) Segregation of Certain Disclosures

1. Location. The segregated disclosures referred to in § 1013.3(a)(2) may be provided on a separate document and the other required disclosures may be provided in the lease contract, so long as all disclosures are given at the same time. Alternatively, all disclosures may be provided in a separate document or in the lease contract.

2. Additional information among segregated disclosures. The disclosures required to be segregated may contain only the information required or permitted to be included among the segregated disclosures.

3. Substantially similar. See commentary to Appendix A of this part.

3(a)(3) Timing of Disclosures

1. Consummation. When a contractual relationship is created between the lessor and the lessee is a matter to be determined under state or other applicable law.

3(b) Additional Information; Nonsegregated Disclosures

1. State law disclosures. A lessor may include in the nonsegregated disclosures any state law disclosures that are not inconsistent with the Act and regulation under § 1013.9 as long as, in accordance with the standard set forth in § 1013.3(b) for additional information, the state law disclosures are not used or placed to mislead or confuse or detract from any disclosure required by the regulation.

3(c) Multiple Lessors or Lessees

1. Multiple lessors. If a single lessor provides disclosures on behalf of several lessors, all disclosures for the transaction must be given, even if the lessor making the disclosures would not otherwise have been obligated to make a particular disclosure.

2. Basis of estimates. Estimates must be made on the basis of the best information reasonably available at the time disclosures are made. The “reasonably available” standard requires that the lessor, acting in good faith, exercise due diligence in obtaining information. The lessor may rely on the representations of other parties. For example, the lessor might look to the consumer to determine for which which leased property will be used, to insurance companies for the cost of insurance, or to an automobile manufacturer or dealer for the date of delivery. See commentary to § 1013.4(n) for estimating official fees and taxes.

3. Residual value of leased property at termination.

1. An automobile lessor offering a three-year or over lease may choose to place the description of the leased vehicle in the informational section of the disclosure statement. The lessor may disclose as an estimate of the residual value the value of the property at the end of the lease term. The lessor may disclose as an estimate of the residual value the value of the property at consummation, the estimate of the residual value must be reasonable and based on the best information reasonably available to the lessor (see § 1013.4(m)). A lessor should generally use an accepted trade publication listing estimated current or future market prices for the leased property unless other information or a reasonable belief based on its experience provides the better information. For example:

i. An automobile lessor offering a three-year or over lease assigns a residual value to the vehicle at the end of the lease term based on the lease term. If the lessor may disclose as an estimate of the residual value the value of the property at the end of the lease term, the estimate of the residual value must be reasonable and based on the best information reasonably available to the lessor under § 1013.4(m). A lessor should generally use an accepted trade publication listing estimated current or future market prices for the leased property unless other information or a reasonable belief based on its experience provides the better information. For example:

1. An automobile lessor offering a three-year or over lease assigns a residual value to the vehicle at the end of the lease term. The lessor may disclose as an estimate of the residual value the value of the property at consummation, the estimate of the residual value must be reasonable and based on the best information reasonably available to the lessor under § 1013.4(m). A lessor should generally use an accepted trade publication listing estimated current or future market prices for the leased property unless other information or a reasonable belief based on its experience provides the better information. For example:

5. Labeling estimates. Generally, only the disclosure for which the exact information is unknown is labeled as an estimate. Nevertheless, when several disclosures are affected because of the unknown information, the lessor may have the option of labeling all affected disclosures as an estimate. A lessor does not violate the regulation if a previously made disclosure is not consistent with the final disclosures, although the lessor may have been obligated to make new disclosures unless new disclosures are required under § 1013.5.

6. Lessee’s failure to perform. The lessor does not violate the regulation if a previously made disclosure is not consistent with the final disclosures, although the lessor may have been obligated to make new disclosures unless new disclosures are required under § 1013.5.

Section 1013.4—Content of Disclosures

4(a) Description of Property

1. Placement of description. Although the description of leased property may not be included among the segregated disclosures, a lessor may choose to place the description directly above the segregated disclosures.

4(b) Amount Due at Lease Signing or Delivery

1. Consummation. See commentary to § 1013.3(a)(3).

2. Capitalized cost reduction. A capitalized cost reduction is a payment in the nature of a downpayment on the leased property that reduces the amount to be capitalized over the term of the lease. This amount does not include any amounts included in a periodic payment paid at lease signing or delivery.

3. “Negative” equity trade-in allowance. If an amount owed on a prior lease or credit balance exceeds the agreed upon value of a trade-in, the difference is not reflected as a negative trade-in allowance under § 1013.4(b). The lessor may disclose the trade-in allowance as zero or not applicable, or may leave a blank line.

4. Rebates. Only rebates applied toward an amount due at lease signing or delivery are required to be disclosed under § 1013.4(b).

5. Balance sheet approach. In motor vehicle leases, the total column labeled “total amount due at lease signing or delivery” must equal the total for the column labeled “how the amount due at lease signing or delivery will be paid.”

5. Amounts to be paid in cash. The term cash is intended to include payments by check or other payment methods in addition to cash.
for returning a leased vehicle to the originating dealer as opposed to another location, that fact may be disclosed. By contrast, if the terms of the lease treat the return of the leased property to a location outside the lessor’s service area as a default, the fee imposed is not disclosed as an “other charge,” although it may be required to be disclosed under §1013.4(g).

4(e) Total of Payments

1. Open-end lease. The additional statement is required under §1013.4(e) for open-end leases because, with some limitations, a lessee is liable at the end of the lease term for the difference between the residual and realized values of the leased property.

4(f) Payment Calculation

1. Motor vehicle lease. Whether leased property is a motor vehicle is determined by state or other applicable law.

2. Multiple items. If a lease transaction involves multiple items of leased property, one of which is not a motor vehicle under state law, at their option, lessors may include all items in the disclosures required under §1013.4(f). See comment 3(a)–4 regarding disclosure of multiple transactions.

4(f)(1) Gross Capitalized Cost

1. Agreed upon value of the vehicle. The agreed upon value of a motor vehicle includes the amount of capitalized items such as charges for vehicle accessories and options, and delivery or destination charges. The lessor may also include taxes and fees for title, licenses, and registration that are capitalized. Charges for service or maintenance contracts, insurance products, guaranteed automobile protection, or an outstanding balance on a prior lease or credit transaction are not included in the agreed upon value.

2. Itemization of the gross capitalized cost. The lessor may choose to provide the itemization of the gross capitalized cost only on request or may provide the itemization as a matter of course. In the latter case, the lessor need not provide a statement of the lessee’s option to receive an itemization. The gross capitalized cost must be itemized by type and amount. The lessor may include in the itemization an identification of the items and amounts of some or all of the items contained in the agreed upon value of the vehicle. The itemization must be provided at the same time as the other disclosures required by §1013.4, but it may not be included among the segregated disclosures.

4(f)(7) Total of Base Periodic Payments

1. Accuracy of disclosure. If the periodic payment calculation under §1013.4(f) has been calculated correctly, the amount disclosed under §1013.4(f)(7) — the total of base periodic payments — is correct for disclosure purposes even if that amount differs from the base periodic payment disclosed under §1013.4(f)(9) multiplied by the number of lease payments disclosed under §1013.4(f)(8), when the difference is due to rounding.

4(f)(8) Lease Payments

1. Lease Term. The lease term may be disclosed among the segregated disclosures.

4(g) Early Termination

4(g)(1) Conditions and Disclosure of Charges

1. Reasonableness of charges. See the commentary to §1013.4(g).

2. Description of the method. Section 1013.4(g)(1) requires a full description of the method of determining an early termination charge. The lessor should provide consumers with clear and understandable descriptions of its early termination charges. Descriptions that are full, accurate, and not intended to be misleading will comply with §1013.4(g)(1), even if the descriptions are complex. In providing a full description of an early termination method, a lessor may use the name of a generally accepted method of computing the unamortized cost portion (also known as the “adjusted lease balance”) of its early termination charges. For example, a lessor may state that the “constant yield” method will be utilized in obtaining the adjusted lease balance, but must specify how that figure, and any other term or figure, is used in computing the total early termination charge imposed upon the consumer.

Additionally, if a lessor refers to a named method in this manner, the lessor must provide a written explanation of that method if requested by the consumer. The lessor has the option of providing the explanation as a matter of course in the lease documents or on a separate document.

3. Timing of written explanation. A named method. While a lessor may provide an address or telephone number for the consumer to request a written explanation of the named method used to calculate the adjusted lease balance, if at consummation a consumer requests such an explanation, the lessor must provide a written explanation at that time. If a consumer requests an explanation after consummation, the lessor must provide a written explanation within a reasonable time after the request is made.

4. Default. When default is a condition for early termination of a lease, default charges must be disclosed under §1013.4(g)(1). See the commentary to §1013.4(g).

5. Lessee’s liability at early termination. When the lessee is liable for the difference between the unamortized cost and the realized value at early termination, the method of determining the amount of the difference must be disclosed under §1013.4(g)(1).

4(h) Maintenance Responsibilities

1. Standards for wear and use. No disclosure is required if a lessor does not set standards or impose charges for wear and use (such as excess mileage).

4(i) Purchase Option

1. Mandatory disclosure of no purchase option. Generally the lessee need only make the specific required disclosures that apply to a transaction. In the case of a purchase option disclosure, however, a lessor must disclose affirmatively that the lessee has no option to purchase the leased property if the purchase option is inapplicable.
2. Existence of purchase option. Whether a purchase option exists under the lease is determined by state or other applicable law. The lessee’s right to submit a bid to purchase property at termination of the lease is not an option to purchase under §1013.4(j) if the lessor is not required to accept the lessee’s bid and the lease does not receive preferential treatment.

3. Purchase-option fee. A purchase-option fee is disclosed under §1013.4(i), not §1013.4(d). The fee may be separately itemized or disclosed as part of the purchase-option price.

4. Official fees and taxes. Official fees such as those for taxes, licenses, and registration charged in connection with the exercise of a purchase option may be disclosed under §1013.4(i) as part of the purchase-option price (with or without a reference to their inclusion in that price) or may be separately disclosed and itemized by category. Alternatively, a lessor may provide a statement indicating that the purchase-option price does not include fees for tags, taxes, and registration.

5. Purchase-option price. Lessor must disclose the purchase-option price as a sum certain or as a sum certain to be determined at a future date by reference to a readily available independent source. The reference should provide sufficient information so that the lessee will be able to determine the actual price when the option becomes available.

Statements of a purchase price as the “negotiated price” or the “fair market value” do not comply with the requirements of §1013.4(i).

4(j) Statement Referencing Nonsegregated Disclosures

1. Content. A lessor may delete inapplicable items from the disclosure. For example, if a lease contract does not include a security interest, the reference to a security interest may be omitted.

4(l) Right of Appraisal

1. Disclosure inapplicable. The lessee does not have the right to an independent appraisal merely because the lessee is liable at the end of the lease term or at early termination for unreasonable wear or use. Thus, the disclosure under §1013.4(l) does not apply. For example:

i. The automobile lessor might expect a lessee to return a new or unaltered car with four good tires at the end of the lease term. Even though it may hold the lessee liable for the difference between a dented car with bald tires and the value of a car in reasonably good repair, the disclosure under §1013.4(l) is not required.

2. Lessor’s appraisal. If the lessor obtains an appraisal of the leased property to determine its realized value, that appraisal does not suffice for purposes of section 183(c) of the Act; the lessor must disclose the lessee’s right to an independent appraisal under §1013.4(l).

3. Retail or wholesale. In providing the disclosures in §1013.4(l), a lessor must indicate whether the wholesale or retail appraisal value will be used.

4. Time restriction on appraisal. The regulation does not specify a time period in which the lessee must exercise the appraisal right. The lessor may require a lessee to obtain the appraisal within a reasonable time after termination of the lease.

4(m) Liability at End of Lease Term Based on Residual Value

1. Open-end leases. Section 1013.4(m) applies only to open-end leases.

2. Lessor’s payment of attorney’s fees. Section 183(a) of the Act requires that the lessor pay the lessee’s attorney’s fees in all actions under §1013.4(m), whether successful or not.

4(m)(1) Rent and Other Charges

1. General. This disclosure is intended to represent the cost of financing an open-end lease based on charges and fees that the lessor requires the lessee to pay. Examples of disclosed charges, in addition to the rent charge, include acquisition, disposition, or assignment fees. Charges imposed by a third party whose services are not required by the lessor (such as official fees and voluntary insurance) are not included in the §1013.4(m)(1) disclosure.

4(m)(2) Excess Liability

1. Coverage. The disclosure limiting the lessee’s liability for the value of the leased property does not apply in the case of early termination.

2. Leases with a minimum term. If a lease has an alternative minimum term, the disclosures governing the liability limitation are not applicable for the minimum term.

3. Charges not subject to rebuttable presumption. The limitation on liability applies only to liability at the end of the lease term. Examples of such charges include:

i. Disposition charges.

ii. Excess mileage charges.

iii. Late payment and default charges.

iv. In simple-interest accounting leases, amount by which the unamortized cost exceeds the residual value because the lessee has not made timely payments.

4(n) Fees and Taxes

1. Treatment of certain taxes. Taxes paid in connection with the lease are generally disclosed under §1013.4(n), but there are exceptions. To illustrate:

i. Taxes paid by lease signing or delivery are disclosed under §1013.4(b) and §1013.4(n).

ii. Taxes that are part of the scheduled payments are reflected in the disclosure under §1013.4(c), (f), and (n).

iii. A tax payable by the lessor that is passed on to the consumer and is reflected in the lease documentation must be disclosed under §1013.4(n). A tax payable by the lessor and absorbed as a cost of doing business need not be disclosed.

iv. Taxes charged in connection with the exercise of a purchase option are disclosed under §1013.4(n), not §1013.4(n).

2. Estimates. In disclosing the total amount of fees and taxes under §1013.4(n), lessors may need to base the disclosure on estimated tax rates or amounts and are afforded great flexibility in doing so. Where a rate is applied to the future value of leased property, lessors have flexibility in estimating that value, including, but not limited to, using the mathematical average of the agreed upon value and the residual value or published valuation guides; or a lessor could prepare estimates using the agreed upon value and disclose a reasonable estimate of the total fees and taxes. Lessors may include a statement that the actual total of fees and taxes may be higher or lower depending on the tax rates in effect or the value of the leased property at the time a fee or tax is assessed.

4(o) Insurance

1. Coverage. If insurance is obtained through the lessor, information on the type and amount of insurance coverage (whether voluntary or required) as well as the cost, must be disclosed.

2. Lessor’s insurance. Insurance purchased by the lessor primarily for its own benefit, and absorbed as a business expense and not separately charged to the lessee, need not be disclosed under §1013.4(o) even if it provides an incidental benefit to the lessee.

3. Mechanical breakdown protection and other products. Whether products purchased in conjunction with a lease, such as mechanical breakdown protection (MBP) or guaranteed automobile protection (GAP), should be treated as insurance is determined by state or other applicable law. In states that do not treat MBP or GAP as insurance, §1013.4(o) disclosures are not required. In such cases the lessor may, however, disclose this information in accordance with the additional information provision in §1013.3(b). For MBP insurance contracts not capped by a dollar amount, lessors may describe coverage by referring to a limitation by mileage or time period, for example, by indicating that the mechanical breakdown contract insures parts of the automobile for up to 100,000 miles.

4(p) Warranties or Guarantees

1. Brief identification. The statement identifying warranties may be brief and need not describe or list all warranties applicable to specific parts such as for air conditioning, radio, or tires in an automobile. For example, manufacturer’s warranties may be identified simply by a reference to the standard manufacturer’s warranty. If a lessor provides a comprehensive list of warranties that may not all apply, to comply with §1013.4(p) the lessor must indicate which warranties apply or, alternatively, which warranties do not apply.

2. Warranty disclaimers. Although a disclaimer of warranties is not required by the regulation, the lessor may give a disclaimer as additional information in accordance with §1013.3(b).

3. State law. Whether an express warranty or guaranty exists is determined by state or other law.

4(q) Penalties and Other Charges for Delinquency

1. Collection costs. The automatic imposition of collection costs or attorney fees upon default must be disclosed under
§ 1013.4(g). Collection costs or attorney fees that are not imposed automatically, but are contingent upon expenditures in conjunction with a collection proceeding or upon the employment of an attorney to effect collection, need not be disclosed.

2. Charges for early termination. When default is a condition of early termination of a lease, default charges must also be disclosed under § 1013.4(g)(1). The §§ 1013.4(g) and (g)(1) disclosures may, but need not, be combined. Examples of combined disclosures are provided in the model lease disclosure forms in Appendix A.

3. Simple-interest leases. In a simple-interest accounting lease, the additional rent charge that accrues on the lease balance when a periodic payment is made after the due date does not constitute a penalty or other charge for late payment. Similarly, continued accrual of the rent charge after termination of the lease because the lessee fails to return the leased property does not constitute a default charge. But in either case, if the additional charge accrues at a rate higher than the normal rent charge, the lessor must disclose the amount of or the method of determining the additional charge under § 1013.4(g).

4. Extension charges. Extension charges that exceed the rent charge in a simple-interest accounting lease or that are added separately are disclosed under § 1013.4(g).

5. Reasonableness of charges. Pursuant to section 183(b) of the Act, penalties or other charges for delinquency, default, or early termination may be specified in the lease but only in an amount that is reasonable in light of the anticipated or actual harm caused by the delinquency, default, or early termination, the difficulties of proof of loss, and the inconvenience or nonfeasibility of otherwise obtaining an adequate remedy.

4(s) Security Interest

1. Disclosable security interests. See § 1013.2(o) and accompanying commentary to determine what security interests must be disclosed.

4(s) Limitations on Rate Information

1. Segregated disclosures. A lease rate may not be included among the segregated disclosures referenced in § 1013.3(a)(2).

Section 1013.5—Renegotiations, Extensions, and Assumptions

1. Coverage. Section 1013.5 applies only to existing leases that are covered by the regulation. It does not apply to the renegotiation or extension of leases with an initial term of four months or less, because such leases are not covered by the definition of consumer lease in § 1013.2(e). Whether and when a lease is satisfied and replaced by a new lease is determined by state or other applicable law.

5(a) Renegotiation

1. Basis of disclosures. Lessors have flexibility in making disclosures so long as they reflect the legal obligation under the renegotiated lease. For example, assume that a 24-month lease is replaced by a 36-month lease. The initial lease began on January 1, 1998, and was renegotiated and replaced on July 1, 1998, so that the new lease term ends on January 1, 2001.

Section 1013.6—[Reserved]

Section 1013.7—Advertising

7(a) General Rule

1. Persons covered. All “persons” must comply with the advertising provisions in this section, not just those that meet the definition of a lessor in § 1013.2(l). Thus, automobile dealers (to the extent they are not excluded from the Bureau’s rulemaking authority by section 1029 of the Dodd-Frank Act), merchants, and others who are not themselves lessors must comply with the advertising provisions of the regulation if they advertise Consumer leases. Pursuant to section 184(b) of the Act, however, owners and personnel of the media in which an advertisement appears or through which it is disseminated are not subject to civil liability for violations under section 185(b) of the Act.

2. “Usually and customarily.” Section 1013.7(a) does not prohibit the advertising of a single item or the promotion of a new leasing program, but prohibits the advertising of terms that are not and will not be available. Thus, an advertisement may state terms that will be offered for only a limited period or terms that will become available at a future date.

3. Total contractual obligation of advertised lease. Section 1013.7 applies to advertisements for consumer leases, as defined in § 1013.2(e). Under § 1013.2(e), a consumer lease is exempt from the requirements of this part if the total contractual obligation exceeds the threshold amount in effect at the time of consummation. See comment 2(e)–9. Accordingly, § 1013.7 does not apply to an advertisement for a specific consumer lease if the total contractual obligation for that lease exceeds the threshold amount in effect when the advertisement is made. If a lessor promotes multiple consumer lease transactions in a single advertisement, the entire advertisement must comply with § 1013.7 unless all of the advertised leases are exempt under § 1013.2(e). For example:

i. Assume that, in an advertisement, a lessor states that it will only apply to a consumer lease for a specific automobile. The total contractual obligation of the advertised lease exceeds the threshold amount in effect when the advertisement is made. Although the advertisement does not refer to any other leases, some or all of the advertised terms for the exempt lease also apply to other leases offered by the lessor with total contractual obligations that do not exceed the applicable threshold amount. The advertisement is not required to comply with § 1013.7 because it refers only to an exempt lease.

ii. Assume that, in an advertisement, a lessor states certain terms (such as the amount due at lease signing) that will apply to consumer leases for automobiles of a particular brand. However, the advertisement does not refer to a specific automobile. The total contractual obligations of the leases for some of the automobiles will exceed the threshold amount in effect when the advertisement is made, but the total contractual obligations of the leases for other automobiles will not exceed the threshold. The entire advertisement must comply with § 1013.7.
because it refers to terms for consumer leases that are not exempt.
iii. Assume that, in a single advertisement, a lessor states that certain terms apply to consumer leases for two different automobiles. The total contractual obligation of the first automobile exceeds the threshold amount in effect when the advertisement is made, but the total contractual obligation of the lease for the second automobile does not exceed the threshold. The entire advertisement must comply with §1013.7 because it refers to a consumer lease that is not exempt.

7(b) Clear and Conspicuous Standard
1. Standard. The disclosures in an advertisement in any media must be reasonably understandable. For example, very fine print in a television advertisement or detailed and very rapidly stated information in a radio advertisement does not meet the clear and conspicuous standard if consumers cannot see and read or hear, and cannot comprehend, the information required to be disclosed.

7(b)(1) Amount Due at Lease Signing or Delivery
1. Itemization not required. Only a total of amounts due at lease signing or delivery is required to be disclosed, not an itemization of its component parts. Such an itemization is provided in any transaction-specific disclosures provided under §1013.4.
2. Prominence rule. Except for a periodic payment, oral or written references to components of the total due at lease signing or delivery (for example, a reference to a capitalized cost reduction, where permitted) may not be more prominent than the disclosure of the total amount due at lease signing or delivery.

7(b)(2) Advertisement of a Lease Rate
1. Location of statement. The notice required to accompany a percentage rate stated in an advertisement must be placed in close proximity to the rate without any other intervening language or symbols. For example, a lessor may not place an asterisk next to the rate and place the notice elsewhere in the advertisement. In addition, with the exception of the notice required by §1013.4(f), the rate cannot be more prominent than any other §1013.4 disclosure stated in the advertisement.

7(c) Catalogs or Other Multi-Page Advertisements; Electronic Advertisements
1. General rule. The multiple-page advertisements referred to in §1013.7(c) are advertisements consisting of a series of numbered pages—for example, a supplement to a newspaper. A mailing comprising several separate flyers or pieces of promotional material in a single envelope is not a single multiple-page advertisement.
2. Cross references. A catalog or other multiple-page advertisement (such as an electronic advertisement appearing on an Internet Web site) is a single advertisement (requiring only one set of lease disclosures) if it contains a table, chart, or schedule with the disclosures required under §1013.7(d)(2)(i) through (v). If one of the triggering terms listed in §1013.7(d)(1) appears in a catalog, or in a multiple-page or electronic advertisement, it must clearly direct the consumer to the page or location where the table, chart, or schedule begins. For example, in an electronic advertisement, a term triggering additional disclosures may be accompanied by a link that directly connects the consumer to the additional information.

7(d) Additional Terms
1. Third-party fees that vary by state or locality. The disclosure of a periodic payment or total amount due at lease signing or delivery may:
   i. Exclude third-party fees, such as taxes, licenses, and registration fees and disclose that fact;
   ii. Provide a periodic payment or total that includes third-party fees based on a particular state or locality as long as that fact and the fact that fees may vary by state or locality are disclosed.

7(e) Alternative Disclosures—Merchandise Tags
1. Multiple-item leases. Multiple-item leases that utilize merchandise tags requiring additional disclosures may use the alternate disclosure rule.

7(f) Alternative Disclosures—Television or Radio Advertisements
7(f)(1) Toll-Free Number or Print Advertisement
1. Publication in general circulation. A reference to a written advertisement appearing in a newspaper circulated nationally, for example, USA Today or the Wall Street Journal, may satisfy the general circulation requirement in §1013.7(f)(1)(ii).
2. Toll-free number, local or collect calls. In complying with the disclosure requirements of §1013.7(f)(1)(ii), a lessor must provide a toll-free number for nonlocal calls made from an area code other than the one used in the lessor's dialing area. Alternatively, a lessor may provide any telephone number that allows a consumer to reverse the phone charges when calling for information.
3. Multi-purpose number. When an advertised toll-free number responds with a recording, lease disclosures must be provided early in the sequence to ensure that the consumer receives the required disclosures. For example, in providing several dialing options, such as providing directions to the lessor's place of business—the option allowing the consumer to request lease disclosures should be provided early in the telephone message to ensure that the option to request disclosures is not obscured by other information.

4. Statement accompanying toll free number. Language must accompany a telephone and television number indicating that disclosures are available by calling the toll-free number, such as "call 1–(800) 000-0000 for details about costs and terms."

Section 1013.8—Record Retention
1. Manner of retaining evidence. A lessor must retain evidence of having performed required actions and of having made required disclosures. Such records may be retained in paper form, on microfilm, microfiche, or computer, or by any other method designed to reproduce records accurately. The lessor need retain only enough information to reconstruct the required disclosures or other records.

Section 1013.9—Relation to State Laws
1. Exemptions granted. The Bureau recognizes exemptions granted by the Board of Governors of the Federal Reserve System prior to July 1, 2011, until and unless the Bureau makes and publishes a new determination. Effective October 1, 1982, the Board of Governors of the Federal Reserve System granted the following exemptions from portions of the Consumer Leasing Act:
   i. Maine. Lease transactions subject to the Maine Consumer Credit Code and its implementing regulations are exempt from Chapters 2, 4, and 5 of the Federal act. (The exemption does not apply to transactions in which a federally chartered institution is a lessor.)
   ii. Oklahoma. Lease transactions subject to the Oklahoma Consumer Credit Code are exempt from Chapters 2 and 5 of the Federal act. (The exemption does not apply to sections 132 through 135 of the Federal act, nor does it apply to transactions in which a federally chartered institution is a lessor.)

Appendix A—Model Forms
1. Permissible changes. Although use of the model forms is not required, lessors using them properly will be deemed to be in compliance with the regulation. Generally, lessors may make certain changes in the format or content of the forms and may delete any disclosures that are inapplicable to a transaction without losing the Act’s protection from liability. For example, the model form based on monthly periodic payments may be modified for single-payment lease transactions, or for quarterly or other regular or irregular periodic payments. The model form may also be modified to reflect that a transaction is an extension. The content, format, and headings for the segregated disclosures must be substantially similar to those contained in the model forms; therefore, any changes should be minimal. The changes to the model forms should not be so extensive as to affect the substance and the clarity of the disclosures.
2. Examples of acceptable changes
   i. Using the first-person pronoun, instead of the second person, in referring to the lessee.
   ii. Using “lessee,” “lessor,” or names instead of pronouns.
   iii. Rearranging the sequence of the nonsgregated disclosures.
   iv. Incorporating certain state “plain English” requirements.
ACTION: Final rule.

SUMMARY: We are adopting a new airworthiness directive (AD) for all Learjet Inc. Model 45 airplanes. This AD was prompted by a report of the potential for fatigue cracking of the end cap of the main landing gear (MLG) prior to the published life limitation. This AD requires revising the maintenance program to incorporate life limits for the MLG actuator end cap. We are issuing this AD to prevent fatigue cracking of the end cap of the MLG, which could result in the failure of the MLG actuator upon landing, and failure of the MLG to extend or retract during flight.

DATES: This AD is effective January 23, 2012.

The Director of the Federal Register approved the incorporation by reference of certain publications listed in the AD as of January 23, 2012.

ADDRESSES: For service information identified in this AD, contact Learjet, Inc., One Learjet Way, Wichita, Kansas 67220–2942; telephone (316) 946–2000; fax (316) 946–2220; email ac.ict@aero.bombardier.com; Internet http://www.bombardier.com. You may review copies of the referenced service information at the FAA, Transport Airplane Directorate, 1601 Lind Avenue SW., Renton, Washington. For information on the availability of this material at the FAA, call (425) 227–1221.

Examining the AD Docket
You may examine the AD docket on the Internet at http://www.regulations.gov; or in person at the Docket Management Facility between 9 a.m. and 5 p.m., Monday through Friday, except Federal holidays. The AD docket contains this AD, the regulatory evaluation, any comments received, and other information. The address for the Docket Office (phone: (800) 647–5527) is Document Management Facility, U.S. Department of Transportation, Docket Operations, M–30, West Building Ground Floor, Room W12–140, 1200 New Jersey Avenue SE., Washington, DC 20590.

FOR FURTHER INFORMATION CONTACT: Paul Chapman, Aerospace Engineer, Airframe and Services Branch, ACE–118W, FAA, Wichita Aircraft Certification Office, 1801 Airport Road, Room 100, Mid-Continent Airport, Wichita, KS 67209; phone: (316) 946–4152; fax: (316) 946–4129; email: paul.chapman@faa.gov.

SUPPLEMENTARY INFORMATION:
Discussion
We issued a notice of proposed rulemaking (NPRM) to amend 14 CFR part 39 to include an AD that would apply to the specified products. That NPRM published in the Federal Register on July 8, 2011 (76 FR 40291). That NPRM proposed to require revising the maintenance program to incorporate life limits for the MLG actuator end cap.

Comments
We gave the public the opportunity to participate in developing this AD. We received no comments on the NPRM (76 FR 40291, July 8, 2011) or on the determination of the cost to the public.

Conclusion
We reviewed the relevant data and determined that air safety and the public interest require adopting the AD as proposed.

Costs of Compliance
We estimate that this AD affects 351 airplanes of U.S. registry. We estimate the following costs to comply with this AD:

<table>
<thead>
<tr>
<th>Action</th>
<th>Labor cost</th>
<th>Parts cost</th>
<th>Cost per product</th>
<th>Cost on U.S. operators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revise maintenance plan</td>
<td>$85 per hr</td>
<td>$0</td>
<td>$85 per revision</td>
<td>$29,835</td>
</tr>
</tbody>
</table>

Authority for this Rulemaking
Title 49 of the United States Code specifies the FAA’s authority to issue rules on aviation safety. Subtitle I, section 106, describes the authority of the FAA Administrator. Subtitle VII: Aviation Programs, describes in more detail the scope of the Agency’s authority.

We are issuing this rulemaking under the authority described in subtitle VII, part A, subpart III, section 44701: “General requirements.” Under that section, Congress charges the FAA with