


REPLAY




SEE HOW IT ADDS UP
 SIGN UP FOR OUR FREE
 WEBINAR AND YOU COULD
 WIN A NAVIGATIONAL GPS

E-NEWSLETTER
 Subscribe to FREE E-Newsletters

**F&I and
Showroom**

THE INDUSTRY'S LEADING SOURCE FOR
 F&I, SALES AND TECHNOLOGY

MONDAY, JANUARY 18, 2010
[Subscribe to F&I Magazine Today!](#)


HOME
NEWS
CHANNELS
MAGAZINE
BLOG
EVENTS
JOB BOARD
CLASSIFIEDS
DIRECTORY
FORUMS
STORE

ADVERTISE
[SPECIAL FINANCE®](#)
[F&I PRODUCTS](#)
[CERTIFICATION & TRAINING](#)
[COMPLIANCE](#)
[RED FLAGS](#)
[FINANCE](#)
[SOFTWARE & TECHNOLOGY](#)

SITE MAP | SITE SEARCH: SEARCH

SPECIAL FINANCE®

January 2010 - Feature

Lease-Here, Profit Here

By Randall McCathren

ARTICLE TOOLS | [E-Mail](#) [Print](#) [Discuss](#) [Subscribe](#) [SHARE](#) 

What is lease-here, pay-here? Essentially, it's an alternative to the buy-here, pay-here and rent-to-own models. However, there are several major differences and a number of advantages — and some disadvantages — for dealers.

LHPH has often been dismissed as too complex for dealers who are accustomed to new-car sales or BHPH. Before you decide whether or not LHPH will work for you and your dealership, let's break down the basics of such a program and discuss the potential benefits and inherent risks.

Lease-here, pay-here advantages

The biggest attraction to LHPH is the elimination of the upfront sales tax. While the accounting, regulatory and federal taxation differences between LHPH and BHPH programs are identical in all states, there are sales tax and licensing differences dependent upon state rules. Understanding the leasing sales tax rules in your jurisdiction is the first step.

LHPH also can increase profitability. If you're collecting the same payment amount for the same term amortizing only to residual value, the result is a much higher rate and rental income. When added to the tax savings previously discussed and profits generated from trade-ins, you have the potential for a more profitable business that is easier to sustain through weak demand periods.

That being said, here are the four primary advantages that LHPH holds over BHPH:

1. Elimination of initial sales tax: In all but 17 states, a LHPH transaction is not subject to the initial sales tax that would be applied to a BHPH transaction. The buyer's initial cash payment can be retained as a security deposit rather than being paid to the state. For dealers, that means increased cash flow, greater liquidity and reduced borrowing costs.
2. Deferred federal and state income tax liabilities: In a BHPH conditional sale, there is a significant "gain on sale" when the vehicle is sold for an amount that is (typically) 50 to 100 percent greater than the dealer's tax basis in the vehicle. To reduce the federal and state tax liabilities assessed on this gain, the retail installment sales contract is typically sold to a related finance company (RFC) at a discount. However, there is still upfront net profit that's subject to federal and state taxation. With LHPH, there is no gain on the sale, because there is no sale! That eliminates the need to move the lease to an RFC in order to book a separate "loss on the sale of the lease." Since the leased vehicle can be depreciated on an accelerated basis, the transaction starts with a tax loss from the accelerated depreciation, in effect, creating a tax shelter for the dealership.
3. Reduced federal and state regulatory requirements: Experienced BHPH dealers know that compliance is never a sure thing. Regulation Z and the various state regulations impose a highly technical set of requirements. Attorneys are quick to jump on minor technical errors and the courts and regulatory agencies continue to evolve new interpretations of these requirements. On the other hand, LHPH transactions are guided by the much less-onerous Regulation M. Only a handful of states (most notably, California and New York) have state consumer leasing acts that impose added requirements. With no "lease rate" disclosure required (or permitted), not only is customer resistance to the lease rate avoided, there are no usury limits or calculation idiosyncrasies to worry about.

DEALER JOB FINDER

Save time and money. Search for auto-dealer jobs. Advance your career. Access our career coaching services.

Job Seekers

- ✦ [Post your resume & manage your job search.](#)

Employers

- ✦ [Post jobs & search top quality resumes.](#)

Featured Jobs

[Supply Chain Finance Manager](#)

San Francisco, CA

Tyler Search Consultants

[SPECIAL FINANCE MANAGER](#)

Unknown, WV

Confidential

[Payroll Manager](#)

Chicago, IL

NAVTEQ North America

[National Account Manager](#)

Cleveland, OH

National Automotive Experts

[Various Management Positions](#)

Manhattan, NY

Open Road Auto Group

[View All Jobs](#)

ARTICLE ARCHIVE SEARCH

Enter keywords to search for:

SEARCH

Popular Tags:

AmeriCredit automotive SEO average amount financed bankruptcies **BHPH** BHPH collections **buy-here, pay-here** CARFAX Chrysler Compliance credit applications credit insurance credit unions CSI deal structure **DEALERTRACK** E-CONTRACTING Editorial Page Edmunds.com Experian Experian Automotive F&I income F&I products FCRA Federal Reserve **Federal Trade Commission** FLOORPLAN FINANCING Ford Motor Credit GAP General Motors Gramm-Leach-Bliley Internet leads **inventory management** Kelley Blue Book Legal Corner lender relations marketing Menu Selling Michael Benoit NADA recession Red Flags Rule related finance company Resource Automotive RouteOne Small Business Administration special finance subprime finance TALEF technology

NEWS CHANNELS

[Industry News](#)

[Special Finance®](#)

[F&I Products](#)

[Certification & Training](#)

[Compliance](#)

[Red Flags](#)

[Finance](#)

[Software & Technology](#)