Leasing and ELT Title Processing

Introduction to the Lease Titling Process

Most vehicle leases are agreements between a vehicle dealer and a consumer/driver under which a consumer/lessee agrees to pay to use the vehicle during the term of the lease but the dealer/lessor retains ownership of the vehicle. At the end of the lease term, the lessee returns the vehicle to the lessor.

After the lease is executed, many vehicle dealers sell both the lease and the leased vehicle to a finance company or a bank. The finance company or bank becomes the lessor and collects the payments and administers the return of the vehicle and/or sale of it at lease end. The leased vehicle and/or lease might also be transferred to a securitization trust to facilitate securitization transactions by the finance company or the bank. Ownership on the leased vehicle title is usually in the name of the finance company or bank or securitization trust. And a security interest/lien might be listed on the vehicle's title in the name these or other entities to facilitate certain securitization transactions. (In contrast, in a purchase financing transaction, the vehicle's title usually lists the consumer/buyer as the owner and a security interest/lien in favor of a bank or finance company.)

Currently, finance companies and banks with lease portfolios that participate in an ELT program must request titles to lease vehicles be printed to sell lease vehicles at the end of the lease term, because most ELT programs require that ownership be transferred via an assignment on a paper title. And it is not clear whether federal odometer law permits the use of electronic records for a seller to provide the required odometer statement to the purchaser of the lease vehicle. Because many leases permit the lessee to end the lease early at any time, many lessors feel compelled to request a title be printed well before the scheduled end of the lease to ensure they can sell leased vehicles within a reasonable time of lease end, which defeats a principal benefit of ELT systems – avoiding the need to create and store paper titles.

Considerations for Future ELT Functionality

To ensure ELT is viable for lessors, please consider designing the ELT system to:

- Permit transfer ownership electronically in conjunction with the electronic release of a security interest/lien.
- Provide auction houses the ability to print reassigned titles on site at the time of sale.
- Provide lessors the ability to process corrections and request transfers of the titles to a new state, electronically, without requiring the printing of a new title.
- Provide lessors the ability to request true certified copy of the electronic title records for legal purposes.
- Provide for electronic communication of mileage at the time of transfer via an electronic odometer statement to the extent permitted by federal law

Designing these features into ELT systems would allow states with ELT programs the ability to achieve their goal of retaining the title in an electronic format until the title is reassigned thus allowing the state to print a clear title or continue to hold the title in an electronic format for future processing.

Lease vs. Purchase Financing – Background for ELT Systems

Ownership:

Lease: Bank Finance Company (lessor) owns the vehicle; Consumer (lessee) pays to use it, but must return it at the end unless lessee buys it from the lessor.

Purchase Financing: Consumer (buyer) owns the vehicle subject to bank or finance company (finance provider) security interest/lien.

Early termination (end):

Lease: Consumer (lessee) may return the vehicle at any time and pay early termination charges. When the vehicle is returned, bank or finance company (lessor) usually sells vehicle. Lessee also usually has the option to buy the vehicle for the early termination purchase option price.

Purchase Financing: Consumer (buyer) must pay-off unpaid balance under financing contract. When pay-off received, consumer (buyer) owns the vehicle outright and bank or finance company (finance provider) must release its security interest/lien.

Scheduled termination (end):

Lease: Consumer (lessee) returns the vehicle and pay end of lease charges like excess wear and mileage charges. When the vehicle is returned, bank or finance company (lessor) usually sells vehicle. Lessee usually has the option to buy the vehicle for the scheduled termination purchase price.

Purchase Financing: If the consumer (buyer) has paid all the payments, he or she owns the vehicle outright and bank or finance company (finance provider) must release its security interest/lien.