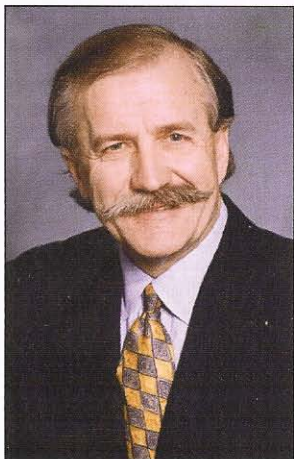


understanding leases



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THE HIGH PRICE OF BUYING CARS, PICKUPS AND OTHER MOTOR VEHICLES HAS made leasing an attractive option for many people. Likewise, in the horse industry, leasing has become more common. The benefits of leasing are similar for both cars and horses. In short, it is possible to obtain a higher priced vehicle/horse for less money. A lease allows the lessee (the person obtaining the right to use the horse), full enjoyment of the horse for a fixed period of time. At the end of the lease the lessor (the person giving the lessee use of the horse) gets the horse back. Sometimes the lessee is also given the option to purchase the horse at the end of a lease for a predetermined amount.

In the automobile leasing industry statistics are widely available to determine the market value of a vehicle at the end of a lease. This is referred to as the "residual value". In the horse industry such statistics are virtually non-existent. Consequently the lease terms are based on educated guesswork and the level of risk each party is willing to take. Most people understand and accept the fact that a car depreciates, often considerably, in the initial years of a lease. On the other hand, it is quite possible that a young show horse could appreciate in value if it is trained and performs well in shows or futurities. It is also important to note that not all breed associations allow leases for show horses and interested parties should investigate the rules prior to entering into an agreement.

Auto leasing companies have developed complicated lease agreement forms with lots of fine print and terms that are non-negotiable. These are often referred to as "contracts of adhesion", meaning you take it or leave it as is, because changes in the contract are not possible. In contrast, the horse industry has no standard lease agreement and virtually all terms are negotiable. However, many if not most horse lease agreements are not in writing. Even the agreements that are in writing often lack important details and fail to address critical issues.

It is not possible to include a provision for every conceivable issue that may arise during the term of a lease. Nevertheless, it is a good idea to include enough details to provide a framework for resolving any misunderstandings or disputes that may arise. The following issues should be addressed and included in any equine lease agreement:

PARTIES. The lessor and lessee should be clearly identified. The parties may be individuals, partnerships, corporations or other types of business entities.

THE HORSE. The specific horse or horses should be clearly identified.

TERM. The length of the lease needs to be spelled out. The lease may be for a fixed period of time, or the lease may terminate upon the happening of a certain event. A lease of a broodmare may end upon the weaning of the foal.

COST. The amount and terms of payment must be included. Payment may be up front, monthly, or upon the happening of an event. Again, the broodmare lease may call for payment upon the birth of the foal. It may be necessary to spell out the method of payment as well. (eg., cash or credit card, US or foreign currency, interest, late payment, etc.)

USE. The terms and conditions for the use of the horse should be established. The lease of a show horse would presumably be different from the lease of a broodmare. Sometimes the lessor may wish to reserve the right to use the horse under certain circumstances. For example the lessor may want to show the horse at a specific show or futurity.

CARE. Include the rights and responsibilities of the parties regarding the following: boarding, training, veterinary and farrier care, medical emergencies, insurance and other fact specific issues.

LIABILITY. The lessor will typically want to be protected from liability claims while the horse is in the care and custody of the lessee. An indemnification agreement will usually be included in the lease agreement.

TERMINATION. In the event of a breach of the terms of the agreement, or other specific occurrence, the parties should stipulate the terms and conditions of an early termination.

LEGAL. It would be wise to agree on the jurisdiction, controlling law and the issue of attorney fees in the event of litigation.

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