

Leasing vs. Buying a New Car

Even though these cars are identical, the methods to pay for them are very different. The decision to lease or to buy a new car will have an impact on your finances as well as your lifestyle.

Understanding the differences will help you make the best decision for you.

The basics of leasing

Leasing is sort of like renting a car for a fixed period of time. When you lease, you're paying for the value of the car you use up during your term, plus interest. What's left is known as the depreciated value of the vehicle.

- You lease a car for a fixed term—typically two to four years
- An initial deposit is often required
- You make monthly payments to continue using the vehicle

The basics of financing

Financing is buying a car through an auto loan. You can finance a car through the dealership or through a financial institution like your credit union.

- Loan terms can range from three to seven years
- An initial deposit is often required
- Your monthly payments go towards repaying the balance of the loan plus the interest

Pros and cons

Ownership

Leasing

- You don't own the vehicle—you pay to use the vehicle during the term of the lease and must return it at the end of the lease unless you choose to purchase the vehicle
- A typical lease lasts half the time of a typical car loan—once the lease is up, you can move on to your next vehicle
- Depending on the terms of your lease, you can get a new car every two to four years

Financing

- You own the vehicle free and clear after your financial obligations are met—it will be yours to keep, sell or trade in on your next vehicle

Depreciation

Leasing

- Like any tangible asset, a car's value will decline over time due to general wear and tear plus the perception that as things age they become less valuable
- A typical vehicle will be worth about half of its sale price after four or five years—this decline in value is what you are paying for when you lease a vehicle

Financing

- A new car will depreciate an average of \$3,400 per year during the financing term
- In the first year alone, the car will depreciate 15% to 20% and then it will lose 10% of its value annually

Payments

Leasing

- Because you're not buying the whole car, monthly payments are generally 30% to 60% lower when you lease
- Leasing can allow you to drive a car that could otherwise be out of your price range
- The average maximum monthly payment on a purchased car is \$480, whereas most leases won't cost more than \$325 per month

Financing

- Monthly loan payments are higher because you are paying for the entire purchase price of the vehicle while also building your equity in the vehicle
- To lower your monthly payment, consider stretching out your loan term to 60 or 84 months or putting more money into the down payment

Customization

Leasing

- A leased car can only be modified with approved accessories at the beginning of your lease

- New sound systems, exhaust systems or after-market engine tuning is taboo

Financing

- If you're into cosmetic modifications or maximizing your car's performance, you'll be able to do whatever you want to your new car

Mileage

Leasing

- The typical mileage limit on a lease is 10,000 miles per year; however, most people drive at least 15,000 miles per year
- The terms of your lease will usually charge between 15 and 30 cents for every mile you go over the mileage limit per year
- Assuming you drive 15,000 miles per year, you could rack up a \$1,500 fee per year when you turn in your leased car

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Financing

- Mileage limits are not a problem—you can drive across the country if you want, as it's your car
- However, as you put more miles on your car, the resale value decreases

Maintenance & wear and tear

Leasing

- Repairs and maintenance are usually covered in the lease—this

- can save the average car owner up to \$1,200 a year in fees
- Since a leased car is a borrowed car, excessive wear and tear will be held against you and may cost you at the end of your lease

Financing

- You are on your own for maintenance costs, and they will rise as your vehicle ages
- There are no charges for vehicle wear and tear; however, excessive wear will lower the vehicle's trade-in or resale value

Sources: Bankrate, Edmunds.com, LeaseCompare.com, LeaseGuide.com, MSN Money