



Learn Facts About Leasing

If you can't afford the monthly payment of the new car you want, leasing might be the perfect option.

The question of whether to buy or lease a car can hinge more on how you'll use the vehicle

than on what the monthly cost will be.

That's not to say the money doesn't matter. With the average price for a new car around \$27,000, fewer people can afford to pay cash for a new set of wheels. That makes financing—either through an auto loan or a lease—more likely.

In a lease, you pay to use a car for a certain period of time. Essentially, you cover the difference between the “capitalized cost” of what the vehicle sells for now and the “residual value” of what the car is expected to be worth at the end of the lease. Plus, you pay a rent charge.

Leasing typically lets you drive more car for less. On a monthly basis, leasing can be cheaper than buying a new car.

Lease or Buy?

The best candidates for leasing are motorists who, every three years or so, want to drive a new car that's more expensive than what they can afford to buy. Leasing generally suits those who drive less than the annual limit of 12,000 miles to 15,000 miles that's in most lease agreements. It also fits drivers who take care of their vehicles and who use their cars for business, in which case they might qualify for tax deductions.

If you want to own your car and drive it as long and as far as you please, not be restricted in what you do with it, and be able to sell it or trade it later, then leasing isn't up your alley.

Leasing Tips

If you're leaning toward leasing, you also need to be prepared for a somewhat more involved process than what you may be accustomed to when you buy a car. What to watch out for:

- **Car price**—Negotiate the price just as you would if you were buying. In

fact, don't let on that you're leasing until you've got the car price you want. Learn what prices to expect through Internet resources such as *Edmunds.com* and *autosite.com*. Use that "capitalized cost" as a starting point when comparing lease deals.

- **Down payment**—More dealers are seeking down payments on leases. That brings down the monthly lease payments, but it also dilutes a prime advantage of leasing—minimal money down. Keep in mind that down payments are not refundable should you need to leave the lease early.

- **Trade-in**—If you're trading in a vehicle, make sure the lease shows where that value has been applied to your lease. Check out how much your trade-in is worth in advance at sites such as Kelley Blue Book (*kbb.com*) and Autopedia (*Autopedia.com*).

- **Money factor**—Also called a *lease factor* or even a *lease fee*, this is the interest rate you are being charged. It is expressed as a multiplier you can use to calculate your monthly payments. To convert a money factor to an interest rate, multiply by 2,400. To convert an interest rate to a money factor, divide by 2,400. (Always use 2,400 regardless of the length of the loan.)

- **Wear and tear**—Be clear on what's considered "normal" wear and tear on the vehicle and what's "excess," for which you'll pay extra at the end of the lease. Those terms aren't always defined the same. Ask about it and get it in writing.

- **Warranty**—Don't let the lease outlast the vehicle's basic warranty or you may be paying major repair bills on a car or truck that you don't even own.

- **Extra miles**—Mileage in excess of the lease agreement typically costs you between about 10 cents and a quarter per mile. If you anticipate driving more

than 15,000 miles a year, it usually is cheaper to pay up front to extend the limits. If you anticipate driving less than the limits, ask to lower them for a discount or to be refunded for unused miles.

- **Records**—If you don't get copies of all the documents you sign, ask for them. You may need them if complications occur down the road.

- **Insurance**—Notice whether you're required to increase your insurance coverage. Also, check whether the lease

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includes "gap" coverage that protects you if the vehicle is stolen or wrecked. (See "Hidden Costs" in Dealer Financing Options," p. 3.)

- **End costs**—Take note of all the expenses involved in returning the car, particularly if you decide to leave the agreement early. For instance, there's usually a "disposition fee" for picking up the vehicle and processing it so it can be sold to someone else.