

Buy or Lease?

Are you finding yourself in any of these situations?



- It's going to cost more to fix your old clunker than the book value is worth.
- Your teenagers can't quite seem to share the single car you thought would work out just *great* between them.
- You need a new vehicle for work – some professions just require the *right* vehicle (maybe a truck for construction work or a sedan for sales).
- Your family is growing in number and/or size. The three boys just simply can't fit in the car anymore now that they are all teenagers, or, that car seat just doesn't fit well in that two-seater!
- You totaled your vehicle and now need to make a new vehicle purchase rather quickly (we hope this isn't your situation, however, we recognize that "life happens").

As you figure out what vehicle make and model will suit your needs (the fun part), you'll also want to give some thought to how you'll pay for it (the less fun part). Leasing used to get a bad rap, and it is certainly not right for every situation. Like most financial decisions though, they

shouldn't be made in a vacuum, but instead with consideration of your overall financial plan and your "gut feel." Sometimes, the "right" decision can have more to do with how you feel about it than what the numbers say. (e.g. "That Volvo isn't the most economical choice, but I'd sure like to feel good about the car I send my daughter off to college with"). Regardless, it's best to know what the numbers say so that you will be making an informed choice - on the second **biggest** purchase most people make (**repeatedly**) in their lives.

So...buy versus lease? Simply put, the biggest reason people consider leasing is that it allows them to put a **more expensive vehicle in their driveway**.

Each situation and preference is different, but reviewing a few key categories is helpful in the decision-making process:

- **Ownership:** When you purchase the car, you own it and any retained value is yours to keep. When you lease, you must return the vehicle at the end of the term or choose to buy it at a predetermined value; you have no equity.
- **Monthly Payments:** If you finance a car you purchase, you will have a monthly payment. The monthly payment of a lease is typically lower than a loan payment, which, of course, is why leases typically allow you to drive a more expensive vehicle "now".
- **Mileage:** No restrictions to mileage when you own your car. The lease agreement will dictate how many miles you may drive before additional charges (typically 12,000 – 15,000/year).
- **Up-front costs:** With a purchase, this includes the negotiated price (or down payment), taxes, title and insurance. A lease may include a down payment, security deposit, first month's payment, taxes and title fees.
- **Value:** All vehicles depreciate, but some faster than others. As an owner, if you want to trade in or sell the vehicle, it's recommended to choose a vehicle that holds its value. With a lease, since it's returned at the end of the term, you don't need to worry about owning a depreciating asset.

If you ultimately choose to lease, we offer some tips on the key terms in negotiating the lease:

- You should haggle over the **capitalized cost** of the vehicle as you would the price of the vehicle as that will impact the monthly payment. We understand that for most of us, "haggling" is not necessarily a bunch of fun, but informed discussion is appropriate.

- The **capital cost reduction** is the down payment. The more you put down, the lower your payment; however, one of the benefits of leasing is that you're tying up as little cash flow as possible. So a larger down payment may not be the best strategy.
- **Residual value** (or resale value) is the expected value of the vehicle at the end of the lease. An inflated residual value can lower your payments, but it can also make it more difficult to sell the lease, trade in early or buy the vehicle at the end of the term.
- The **money factor** is the interest you'll pay. You multiply that number by 2400 to get an estimate of the annual percentage rate. Why?! It's just one more factor in making what you will actually pay for the lease obscured.

Keep in mind if you use your vehicle for more than 50% for business, you may qualify for certain tax deductions regardless if you own or lease. We recommend you consult with your tax preparer for consideration.

As always, we welcome your feedback, and **enjoy the road!**