

Lease or buy?

Sometimes, it makes more sense to lease, but beware of drawbacks

By Jayne O'Donnell

With the auto industry in free fall, the deals on new cars seem too good to be true sometimes. Often, they are.

Lease deals, in fact, may be better than they have ever been. But does that mean it's time for consumers to cast away concerns about leasing vs. buying?

Many auto experts say no — and maybe.

"A lease is always more expensive than an equivalent loan," says Anthony Giorgianni, associate editor for *Consumer Reports Money Adviser* newsletter. "I'm not opposed to leasing. I just think that people need to understand what they're doing."

"For most people most of the time, they are better off purchasing a car," says Jack Nerad, editorial director of Kelley Blue Book and kbb.com.

"Serial leasers wind up having higher auto costs and less flexibility," says Phil Reed, senior consumer advice editor at Edmunds.com. "If you own your car, you can decide to stretch ownership until the wheels fall off."

Still, leasing is often attractive because of the low monthly payments when compared with purchases, especially of luxury vehicles. Dealers and their finance companies can afford to offer these lower payments because consumers are paying back only a portion of the car's total cost over the period of the lease, not the full amount. The payments are

based on the projected loss in value of the car during the lease period, plus finance charges, fees and taxes, after first subtracting any upfront payments.

Three out of the five "best deals" on kbb.com this week are leases. Despite getting burned when SUVs and other vehicles depreciated faster than they expected, finance companies and dealers

Finance charges

Finance charges on a lease are always higher than on an equivalent loan for the same amount of money, same interest and same term, because you are being charged interest on a larger average balance, Giorgianni reminds. You're always going to be paying back less than you would if you were borrowing the money. The less you pay back, the more interest you are charged.

What you're left with

No matter how much it depreciates, after you've paid off your car loan, you have a car that you can keep or trade in. After you've paid off your lease, you have to buy or lease another one. (Or you can buy the one you leased, but that still costs more money.)

It's mind-boggling

The sea of numbers involved in leasing is enough to make a consumer grieve over and forget to ... nego-

tiate. But Nerad says it's as important as ever. He recommends trying to get the price negotiated downward — just as smart shoppers would do in a purchase. He also suggests getting the down payment down to almost zero, though Giorgianni reminds that the more you pay upfront, the less interest you'll be charged overall.

Getting out

Even dying doesn't get you — or at least your estate — out of a lease contract, Giorgianni says. There are hefty early-termination fees and penalties if you try

You won't spend as much money leasing a \$36,000 car, but you will be making a better investment if you buy.

Lease payments		How the finances on a \$36,000 car stack up:	Loan payments	
Monthly average	Over 36 months		Monthly average	Over 36 months
\$514	\$18,500 ¹	Financed amount	\$1,060	\$38,160 ²
\$155	\$5,592	Finance charges: 6.84%	\$115	\$4,157
\$40	\$1,445	Sales tax of 6%	(included in loan payment)	
\$0	\$395	Lease disposal fee	\$0	\$0
\$709	\$25,932	Subtotal	\$1,175	\$42,317
-	\$0	Vehicle value the consumer retains after 36 months	-	\$18,000
-	\$465	Net investment earnings at 2.45% avg. money market rate Nov. 1, 2008³ (28% tax)	-	\$0
\$709	\$25,396	Total cost	\$1,175	\$24,317

1 — Includes \$500 acquisition fee; 2 — Includes 6% sales tax; 3 — Bankrate.com

Source: autos.consumerreports.org

are back pushing leases as easy, cost-effective ways for cash-strapped consumers to get into a new vehicle.

And Reed notes that leases with low monthly payments and low "drive-off costs" can be a good deal because consumers don't have to worry about their resale value as they would with a purchase.

Several factors argue against leasing for most people, or at least serve as cautionary notes:

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to turn a leased vehicle in early. There is hope, however, if you wind up in a leased car you can no longer afford — or simply grow tired of. Two websites, LeaseTrader.com and Swapalease.com, provide markets where you can sell or trade your lease, perhaps for a less expensive one. For about \$100, Swapalease lets you list your car on its site, and you can peruse what else is out there for free. Some leasing companies do not allow transfers or charge large fees for them, so check your contract first.

The fine print

While the mileage requirements may vary, it's easy to drive far more — or less — than you thought you would when you signed on the dotted line. Again, the penalties are daunting for the miles driv-

en over the limit, which is often 12,000 miles a year. Edmunds.com reports it can be up to 30 cents a mile over the limit and notes that most people drive 15,000 miles a year. Drive too little, and you will have paid far more in depreciation than you used, Giorgianni says. It's also important to keep the vehicle in good condition, repair any damage and maintain service records.

Downsides aside, leasing may still be for you if you like to replace vehicles every two to three years. That is, if you think trading one in when you buy another is somehow too much of a hassle. There are no clear tax benefits to leasing over buying when it comes to business usage, but many real estate agents, lawyers and other professionals still prefer leasing as a way to drive a vehicle that

better suits their image. Or at least the one they are trying to project, even if they can't truly afford it.

The best advice, says Giorgianni, is to buy a car and drive it for six or seven years or until it becomes too expensive to repair.

Still, whether you are a well-heeled lawyer or a cash-strapped mom, Giorgianni says, the "best trick in the world" if you want to drive a new car every few years is to buy a car — with cash or a loan — sell the car after it's paid for, turn around and use the proceeds of the sale as a down payment on a new car loan. "Then you have a leaselike payment without the heavy finance charge," he says.

Objectives

- ▶ Read the article “Lease or buy?”
- ▶ Do cost analysis of leasing versus buying a car
- ▶ Compare/contrast benefits of leasing, buying
- ▶ Draw conclusions relating to other forms of leases and purchases
- ▶ Apply information to future purchases

Preparation

Each student will need:

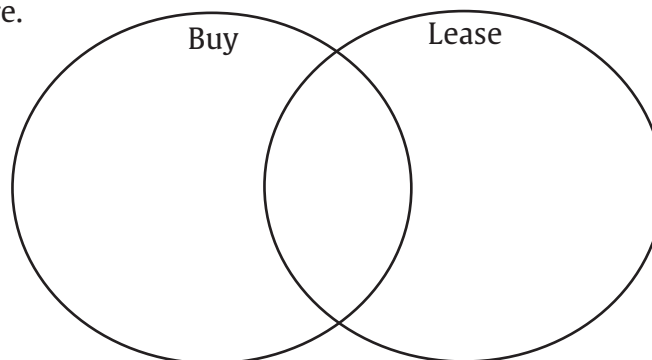
- ▶ A copy of the article “Lease or buy?”
- ▶ A copy of the lesson

Read the article and answer discussion questions (30 minutes)

1. Which is cheaper, according to the experts: leasing or owning?
2. When should someone consider leasing?
3. How much are the monthly payments for a lease on a \$36,000 car? For the car loan?
4. After three years, how much have you paid in cash for your lease? For your loan?
5. Would the difference in how much you’ve paid be a factor in whether you leased or bought?
6. What if you could do a five-year loan – how would that help?
7. If you lease a car, how much of the equity or value of that car do you get to keep after three years? What if you bought the car?
8. If you did get a three-year car loan, how much would you save at the end of the loan compared with leasing?
9. Do you feel leasing is a better deal?
10. Is leasing more practical sometimes? In what ways?

To lease or to buy: That is the question! (15 minutes)

On a separate sheet of paper, create a Venn diagram (similar to the example below) to graphically compare the benefits listed in the article for leasing versus buying. If a point is a benefit for both, write that in the section that both circles share.



Debrief/Application Questions (10 minutes)

1. Which side has more benefits: leasing or buying?
2. What are some of the benefits of leasing?
3. What are some of the benefits of buying?
4. When should someone lease a car?
5. Do you think these rules might also apply to a home purchase versus apartment rental? How?
6. After looking at these numbers, have your thoughts changed at all regarding future purchases like cars, homes or office space? How?