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## **Car Contracts: Leasing a vehicle**

Buying a vehicle can be overwhelming, especially during the financing process and price negotiations. When debt is high and money is scarce, the low payments of a lease look very attractive. However, it's important to look beyond the low price-tag before you sign up.

### **Borrowing the keys**

The advantages of a lease can be enticing to someone with a lower monthly income.

- **Low monthly payments.** In some cases, lease payments are 30% to 60% lower than a financed vehicle. Some lease terms include gap coverage on the vehicle in case of an accident or theft.
- **Less up-front cost.** Most leases require either no or a low down payment.
- **Sales tax.** There are no upfront sales tax payments.

### **Hidden costs**

The disadvantages of a lease may cause you to look more closely at other vehicle options.

- **Higher insurance rates.** Most leases require collision and comprehensive insurance, as well as liability coverage of \$100,000 per person, \$3 million per accident for bodily injuries, and \$50,000 for property damages. These requirements are higher than most states' minimum insurance requirements.
- **Mileage caps.** There are set caps on the mileage you can put on the vehicle while it is in your possession. Fees range from 18 to 21 cents per mile over the stated limit.
- **Wear and tear fees.** The vehicle is inspected prior to the lease agreement and after the vehicle is returned. Any differences between the two inspections may result in fees.
- **Early termination fees.** If you choose to get out of the lease early, you must pay additional fees, which can be costly.

### **Leasing options**

Lease payments are calculated at the beginning of the lease based on the estimated depreciation of the vehicle from its original value to the residual value (the value of the vehicle at lease end). The type of lease determines what you'll

pay in addition the lease payment. There are four major kinds of leases. One may fit your situation better than others.

1. **Closed-end lease.** At the end of this lease, you return the vehicle to the dealer and can walk away with no obligation to buy (making it the most popular consumer lease option). However, you're still responsible for any fees related to wear and tear and excess mileage.
2. **Open-end lease.** In this case, you're obligated to purchase the vehicle at the end of the lease term. If the vehicle has depreciated (lost value) more than anticipated, you owe the difference. If the vehicle has retained more value than anticipated, the lessor (company you leased from) refunds the difference.
3. **Single-payment lease.** With this lease, you pay a single lump sum at the beginning to cover the depreciation of the vehicle, instead of monthly payments. This can save money by avoiding interest charges on the depreciation amount over the life of the lease. But the vehicle still has residual value, so you have to pay the interest on that amount at the end of the lease.
4. **Subsidized-by-the-manufacturer lease.** For this lease, the manufacturer offers incentives by offering low interest rates or setting a higher-than-forecast residual value on the vehicle. This results in smaller payments on the depreciation portion of the lease, saving money.

Make sure you understand what type of lease you are signing before finalizing the paperwork. Also read and understand all the terms and conditions, because a lease agreement is a binding legal document once signed. To calculate how much a lease will actually cost, use an auto lease calculator from sites like [bankrate.com](http://bankrate.com) or [edmunds.com](http://edmunds.com)

**Bottom Line:** About 20% of new car transactions are leases. Clearly it works for some people, but consider the option carefully before jumping toward a lower monthly payment.

*Sources:* [carbuyingtips.com](http://carbuyingtips.com); [federalreserve.gov](http://federalreserve.gov); [kiplinger.com](http://kiplinger.com); [leaseguide.com](http://leaseguide.com); [edmunds.com](http://edmunds.com); [investopedia.com](http://investopedia.com); [mazdacredit.com](http://mazdacredit.com); [lendingtree.com](http://lendingtree.com); [moneycentral.msn.com](http://moneycentral.msn.com)

### **Stats**

Most new vehicles depreciate 20%–40% in the first couple years after purchase.  
*Source:* [investopedia.com](http://investopedia.com)

10,000–12,000 miles: the typical annual allotment of miles you can drive a leased vehicle per year.

*Source:* [kiplinger.com](http://kiplinger.com)

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