

To Lease or Buy?

That's the Question

Leasing continues to grow in popularity among many new car buyers. People who formerly purchased their vehicles now wonder whether they should lease instead. Take Joan and Roger Dow, for instance. They have always purchased their vehicles, but after hearing friends and relatives tout the benefits of leasing, they have decided they should at least look into it.

At first, leasing may seem very complicated to understand. But, as Joan and Roger soon discover, the basics are pretty simple: If they purchase a vehicle, they will *own* it; whereas if they lease a vehicle, they will have the *use* of it (typically for two to three years). Leasing generally works best for those who prefer to drive late model vehicles with no money down and a low monthly payment, and who are willing to maintain the vehicle in good condition and to keep the mileage within the contractual limits (usually 12,000 to 15,000 miles per year).

Pros and Cons of Leasing

One of the main advantages of leasing is that it can allow the Dows to get more for their money. This is because a lessor pays for only a *portion* of a vehicle's value, rather than its total cost. Suppose, for example, the Dows are considering purchasing a mid-size sedan. For the same monthly payment they may be able to lease a luxury model. Or, if they prefer the mid-size model, they could most likely lease it for less per month than if they purchased it.

However, leasing is not for everyone. There are some serious tradeoffs to consider. Leases typically include many up-front and end-of-lease charges that may require significant cash outlays. Up-front costs may include a security deposit, destination fee, and a registration fee. End-of-lease charges often cover "excessive wear and tear," excess mileage (usually at \$.25 per mile), and a disposition fee. And, if a lease is terminated early, there is generally a high penalty fee.

When Buying is a Better Option

Purchasing may be a better bet for those who plan to keep their vehicles for a long time. If the Dows buy their car, once it is paid off they will be able to drive it for years without a car payment, pass it on to a family member, or sell it. They can also modify or customize the vehicle, maintain it as they wish, and put unlimited mileage on it without penalty.

Now that the Dows understand leasing basics, they are in a better position to make a decision. They will have to weigh the pros and cons carefully, taking into account both their long- and short-term objectives, as well as their driving habits. Though leasing may at first seem like a daunting process, by taking the time to understand their options, the Dows have a better chance at getting the best new car deal for their circumstances.

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