Buy or Lease Decisions

If you are determined to drive a brand new car, a lease *may* make sense. Whether leasing is right for you depends on your financial priorities, driving habits, and your ability to understand the fine print of leasing contracts.

What is a Lease?

An auto lease is an alternative way of financing a car. Rather than financing the total cost of the purchase, you finance just the amount of depreciation expected to occur during the term of the lease. In other words, a lease is simply a long-term car rental. When all the costs are totaled, however, leasing a car is more expensive overall than owning.

So why would anyone ever lease a car when owning is ultimately less expensive? Leasing allows you to drive a nicer car than you could otherwise afford. Since you finance only the depreciation and not the entire cost of the car, payments can be considerably less – sometimes as much as 40% less. And when you're done with the car, you simply turn it in.

But there must be a catch, right? Yes, there are many catches that consumers may not fully consider. In addition to a higher overall cost, there are mileage restrictions and vehicle condition restrictions built into lease agreements. Lease agreements also have vehicle maintenance restrictions as well, meaning you may have to pay for tires or a tune up shortly before surrendering the car.

Another catch is that you will always have a car payment when leasing. Furthermore, getting out of a lease can be expensive and inconvenient if you run into financial trouble. You may also need to purchase special insurance to cover a total loss of the car, adding another expense not covered in the lease payment.

Leases are notoriously complex, and there are a lot of traps that could cost you more than necessary. High down payments, early termination penalties, setting the car's value higher than retail, underestimating the car's residual value, excessive fees, quoting monthly payments without disclosing sales taxes or down payments, and a host of other ploys that are designed to do one thing - take your money.

Which is the best financial choice?

The Consumer Leasing Act provides certain safeguards for those considering a car lease. These protections include requiring dealers to provide a written statement of everything you have to pay or may have to pay in certain circumstances, the total length of the lease, warranty and maintenance details, car purchase options, and any situation that would enable the dealer to change the terms of the lease. Make sure the dealer provides you with this information, and you should mention asking for the Consumer Leasing Act statement just in case.

Considering all costs, leasing is always more expensive than buying. But a lower monthly payment may be a higher priority for some people, especially for those just starting out or trying to repay high interest credit card or student loan debt. If you absolutely must drive a brand new car, are comfortable understanding a complex financial transaction, and have excellent credit, a lease may be worth consideration.

On the other hand, a late model (one or two years old) used car offers the best mix of reliability and savings – plus you would still have some remaining factory warranty as an added protection. Most cars take the largest loss in value in the first couple of years, so there can be some compelling deals for those willing to accept an "almost new" car.

If you need a car only occasionally, renting a car may make the most sense. Further, in many metropolitan areas, hourly rental services such as Zipcar may offer an attractive option.