

Buying or Leasing a Car #1

Which is better, buying or leasing my next car?

It will depend on factors such as what kind of deal you can make with the dealership, the typical mileage you put on your car, how much you wear down a car, and the primary use for the car.

To determine whether leasing or buying is best, compare the costs and other issues involved in a lease or purchase. The following factors should be considered:

- Beginning costs
- Continual costs
- Total costs
- Is there a possibility of deduction of any of the costs due to the car being used for business
- How important is it to have ownership of the car

When buying a car, how can I get the "best buy"? You first need to decide on the type, size and options of the car you would like (such as manual, automatic windows, airbags). You then need to decide what the car dealer has to pay for the car of your choice, the "invoice cost". The difference between the sticker price and the invoice price can be negotiated. You can obtain this information two different ways. The best way is to look at an auto pricing service supplied by a consumer group or an auto magazine. For instance, Consumer Reports will give you details of the invoice price and the sticker price that can be adjusted for options or rebates as well as tell you how to use the data for negotiating. This is the best way because it gives you the most recent information. Another way is to use pricing guides that can be found on the Internet. Two popular sites are IntelliChoice (www.motortrend.com/intellichoice) or Edmund's New Car Prices (www.edmunds.com). You may also be able to obtain these books at the library and they will give you an idea about the information that you need instead of exact data.

If you have a trade-in, you will want to find the value of that car too. You can use the N.A.D.A. Official Used Car Guide; check your local library or www.nada.org to look up your used car. Now it's time to begin negotiating with dealers. Because you know the invoice price, you can use that information to bargain for the lowest mark-up from the dealer's cost. An amount like \$300 to \$500 above the dealer's cost is a sensible mark-up, unless the car you want to buy is either difficult to get or very popular.

Any attempts by the dealership to sell you rustproofing, undercoating, or other extras should be refused. You may want to invest in an extended warranty, depending on the model's repair history.

How can I negotiate for a new car? Keep in mind that you are not just looking for a car. You also have to select a dealer with whom you will continue a long-term relationship with, as you usually have to service your car at the dealership. If you aren't comfortable with the dealership, go somewhere else. A good time to try for a good bargain on a car is the last Saturday of September, October, or December. Before you start looking for a car, learn about the financing options. You can be prepared when the dealer starts to discuss financing if you are aware of what the banks are charging. Some points you will want to highlight during the negotiations are:

- You are aware of the exact model and options you want
- You are shopping around and will get quotes from other dealerships
- You will not be talking about financing or trade-ins until the dealer has given an offer and make sure not to mention a trade-in until the price has been negotiated.
- You are fully aware of the invoice cost of the car

Lastly, go to other dealerships even if you think you have a great price.

Do I negotiate on a car lease the same as I could on a car purchase? Like a loan, the monthly lease payment is reliant on the term of the lease, the implied interest rate and the initial "purchase price" of the car. The "lease-end" or "residual" value varies from a loan but is still important. This is the value that is expected at the end of the lease term. You are paying the difference between the initial purchase price and the residual value in a lease. The lowest purchase price should be negotiated, which will lower the cost of leasing. If you don't intend to buy the car at the end of the lease term and it is closed-end, you might want to negotiate a higher residual value. Make sure that your expected mileage during the lease aligns with the allowed mileage in the agreement. If it doesn't, you may pay significant penalties when you turn the vehicle back in to the dealer.

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Buying or Leasing a Car #2 (cont.)

How does an auto lease function?

Lease arrangements come in two different types: open-end or "finance" and closed-end or "walk-away." This is how they work:

Open-End: The Risk of Depreciated Value Falls on You

At the end of the lease, the customer accepts the risk that the car will have a particular value or "estimate residual value" at the end of the lease. Due to this, the monthly payment is lower. At the end of the lease and your return of the car, it will be appraised. If the appraised value of the car is equal to at least the estimated residual value stated in the agreement, it will not be necessary to pay anything. With certain contracts, it is possible to receive a refund if the appraised value is lower than the residual value, although, you might have to pay part or all of the difference.

Closed-End: The Risk of Depreciated Value Falls onto the Dealer

At the end of the closed-end lease, the car is returned to the dealership and you simply walk away. It must be returned with only normal wear and tear, and with less than the mileage limit that is stated in the lease. The monthly payment is higher than an open-end lease because the dealer bears the risk that the car's value will decrease by the end of the lease.

What is included in the initial costs of leasing a car?

Learn what the total initial costs will be when determining if you want to lease or buy. You will use this total amount to compare to the cost of buying. Initial costs are the amount you will need to come up with for the down payment when you lease a car. The security deposit, the first and last lease payments, the "capitalized cost reductions," the sales taxes, title fees, license fees, and insurance are included. Usually the initial costs amount to less than the down payment that is necessary to purchase a car. During the bargaining with the dealer, all initial costs are open for negotiation. The Lessor must disclose all up-front, continuing, and ending costs in a standard, understandable format according to the Federal Consumer Leasing Act.

▼ What should I ask about the car lease?

Here are a few questions that should be answered before you sign a car lease:

- What types of leases are obtainable and what are their differences? (Two were explained previously, but dealers may have variations.)
- What will the initial costs of leasing be?
- What will the continuing costs of leasing be?
- Will my initial cost or continuing costs decrease due to a trade-in?
- Can I exceed the specific mileage in my lease?
- If I take an early termination or a purchase option, how will my mileage allowance be enforced?
- If I fall behind in my payments or want to stop leasing, can I sublease?
- If I want to terminate my lease before the agreement is up, what happens?
- Do I have options at the end of my lease?
- What can I expect to pay at the end of the lease?

When I lease a car, why is a security deposit required?

If you owe money at the end of the lease or if you miss a monthly payment, the Lessor is permitted to keep the security deposit. It may also be used to cover the car's damage or excess mileage from the limit stated in the lease by the dealer. Your security deposit is given back to you if you do not owe anything at the end of the lease's term.

How much will I be charged at the end of an auto lease?

At the end of the lease period, the federal Consumer Leasing Act (CLA) puts a limit on how much the dealer can collect. The dealer cannot collect more than three times the average monthly payment. For the following reasons, a dealer may collect a higher amount:

- The miles are higher than stated in the lease or the vehicle has unreasonable wear and tear.
- There was an agreement to pay an amount greater than what is stated in the original contract.
- The Lessor wins a lawsuit for a higher amount.

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Buying or Leasing a Car #3 (cont.)

How much will I be charged at the end of an auto lease (continued) ?

You may want to negotiate to have the right to approve the final sales price as part of the lease agreement, so the dealer does not sell the leased car for less than the residual value just to get the car off the lot. A few other things to keep in mind are you do not get a refund if you stay under the mileage limit.; you probably won't have to pay for excess mileage if you purchase the car at the end of a closed-end lease and you exceed the mileage allowance.

What must the dealer disclose about ongoing lease items?

Dealers must disclose the total number of payments, total amount of those payments, a schedule of payments, and the amount of each payment in accordance with the Consumer Leasing Act. The Lessor must inform you if there is a penalty for late payment.

What type of lease is a "maintenance lease"?

The dealer bears the maintenance expenses in a maintenance lease. The opposite is true in a non-maintenance lease. If the dealer provides repair and maintenance, you will need to bring the car to the dealership in line with the suggested schedule by the manufacturer to maintain the warranty coverage. (You will typically have to obey the manufacturer's scheduled maintenance in order to guarantee warranty coverage, even if you have to pay for the repairs.) You pay the dealer a set amount for maintenance each month in what is called a budget maintenance provision. The dealer subtracts maintenance expenses that are incurred from your maintenance account. When the lease ends, you will make up the difference or receive a refund if more was deposited than used.

Are there final costs and if so, what are they?

The final costs include:

- Charges for excess mileage
- Typically, closed-end leases have mileage limitations. It is necessary to pay a fee if you go over the allowable mileage at the completion of your lease.
- There is no penalty with an open-end lease if you go over the mileage limit, although the appraisal value will likely be lower.
- Default fees
- Any payments or security deposits that the dealer doesn't collect from you, or the costs and legal fees the dealer incurs to recuperate costs are covered here.
- Charges for excessive wear and tear
- When you return the car at the completion of the lease, you will need to pay for any charges due to excessive wear and tear. You must be informed in writing by the dealer of the specific definition of excessive wear and tear. Typically, it signifies anything past the regular usage, both physical and mechanical.
- Charges of disposition
- Costs of cleaning the car, doing final maintenance and tune-ups are included. The dealer may defer these costs to you if the agreement does not specify otherwise.

What is an option for a lease-purchase?

At the end of your lease term, you may have the option to purchase the car. This is more commonly found in open-end rather than closed-end leases. The dealer must inform you of the estimated residual value of the car and formula to be used to figure out the purchase price at this time.

What are my options for early termination of the lease?

You will need to pay an extra charge if you end the lease before the completion date based on the difference between the estimated residual value at the end of the lease and the actual residual value at the given time. This may be a large difference. Most agreements state that you must have the car for a minimum of 12 months. Before you sign the contract, the dealer must tell you whether you may terminate early, and the cost of early termination.

What is implied by a capitalized cost reduction?

It is very similar to a down payment. You may be asked by the dealer to put a certain amount of money down before the lease begins. The capitalized cost reduction varies with the geographic area and the customer's credit rating. The smaller the monthly payment, the greater the down payment will be. Those that want to lease instead of buy normally don't want to pay a large down payment - not having a down payment is one of the major benefit of a lease.

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