

Do You Know the Difference Between Leasing and Buying?

When you're in the market for a new car or truck one of the first decisions you face is whether to buy or lease. While buying or leasing each have their own advantages, there are important differences you should consider before going to the showroom.

There isn't a right answer to the question of which is better: buying or leasing. The decision to buy or to lease depends on your individual circumstances now and in the future. It's important to consider your own driving needs and requirements. For example, how many miles will you drive annually? Do you tend to be hard on your vehicles? Do you tend to keep your vehicles until they can't be driven anymore, or are you a "I need a new vehicle every few years" type?

The bottom line is that it's important to do your homework and understand the key differences between buying and leasing, so you can apply your knowledge to your personal situation. To help get you started, AWARE reminds you of the major ways buying and leasing differ.

Ownership – One of the biggest differences between leasing and buying is who owns the vehicle. A lease gives you the right to use the vehicle for an agreed upon period of time, often with certain conditions in place (see "Mileage" below, for example). Since you don't own the vehicle, however, you have to return the car or truck at the end of the lease period unless you choose to buy it. Most leases will have a purchase option before or after lease end, but there may be certain conditions for exercising that option. Remember that at the end of the lease term, you may have a new payment to consider: to finance the vehicle if you choose to buy it or to lease or purchase another car or truck.

When you buy a vehicle with cash, you receive immediate ownership of the vehicle. When financing, you build up equity over time and receive full ownership of the vehicle when it is paid in full. Once you have full ownership, you may choose to sell it, trade it or keep it.

Up Front Costs – Both leasing and buying have up front costs. For a lease, you may be asked to include the first month's payment, a security deposit, a capitalized cost reduction (like a down payment), taxes, registration and other fees, and other charges. When you buy, typical costs include the cash price or a down payment, taxes, registration fees and other charges.

Monthly payments – Monthly lease payments are usually lower than monthly financing payments because you are paying only for the vehicle's depreciation during the lease term, plus rent charges and other fees. If you finance, your monthly payments are usually higher than a monthly lease payment because you are paying for the entire purchase price of the vehicle, including interest, other finance charges and taxes.

Early termination – If you end your lease early, you are responsible for any early termination charges that exist in your contract. If you finance the vehicle and choose to pay it off early, you will be responsible for the payoff amount.

Mileage – It's important to assess your driving needs when considering whether to lease or buy. Most leases limit the number of miles you may drive (often 12,000-15,000 per year). You can negotiate a higher mileage limit and pay a higher monthly payment. You will likely have to pay charges for exceeding the limit if you return the vehicle. When you buy a vehicle, you can drive it for as many miles as you want. But remember, higher mileage will reduce the vehicle's trade-in or resale value.

Wear and Tear - Most leases limit wear to the vehicle. You will likely have to pay extra charges for exceeding those limits if you return the vehicle. There are no limits or charges for excessive wear when you buy a vehicle. But take note that excessive wear will lower the vehicle's trade-in or resale value.

These tips were brought to you by AWARE, a non-profit organization seeking to build a greater understanding about how auto financing works. AWARE is supported by leaders of the vehicle financing industry, and is perhaps the only resource that focuses exclusively on auto financing education in materials, a Web site, and other educational offerings that are entirely free of marketing, advertising, or sales efforts. Visit www.AutoFinancing101.org for financing calculators, tips, and other free educational materials, which are available in both English and Spanish.