



MONEYWISE

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THIS MONTH'S TOPIC: CHOOSING TO LEASE OR BUY A VEHICLE

Taking steps toward buying or leasing a vehicle can be a stressful financial decision. You should base this decision to buy or lease on your financial situation, lifestyle needs, and planned use for the car, truck, or SUV. When weighing your options, understanding the differences between buying and leasing can help you determine what best fits your needs.

BUYING VS. LEASING

Vehicle prices are on the rise. A new car with the latest safety features costs an average of \$38,000—with trucks and SUVs nearly doubling that price. Prices for used cars have also skyrocketed recently, as nationwide demand exceeds supply. This is largely because of pandemic-related supply shortages that have affected new car availability. Because of the rising costs associated with buying a vehicle, some consumers are considering leasing a car instead.

When you buy or lease, what you're paying for differs. Namely, you pay to own a vehicle versus drive it for an extended period. The monthly payment will differ too. Leasing tends to have lower monthly finance payments than buying. However, unlike buying, you will not have the opportunity to resell the vehicle in the future to regain a portion of your investment. Additionally, if you end a lease early, you may face extra termination charges.



Often leases have a cap of 10,000 to 15,000 miles per year. If you exceed this limit, you may have to pay an excess mileage penalty. Further, the dealer might fine you for excessive wear and tear on the vehicle. Dealers expect you to return leased cars in like-new condition. (Something to consider if you have young children, for example, who may be more prone to spills.)

There are other key differences between leasing and buying a vehicle. Understanding these differences can help you make an informed decision.

WEIGHING YOUR OPTIONS

Before buying or leasing a car, it is important to evaluate what you can afford. It is helpful to create a budget to determine a comfortable monthly payment. Saving for a down payment



BUYING	LEASING
You are the owner of the vehicle. Your name will be on the title, followed by your financing lender until you pay it off.	You pay to drive the car, not to own it.
When you make the final payment on your automobile loan (or you pay cash upfront), you retain ownership of the vehicle. You can sell it or trade it anytime.	Payments end once your lease ends. You will not own the vehicle but may have the option to purchase it or return it to the dealer.
There are no mileage or wear and tear guidelines, but high mileage may affect its trade-in or resale value later.	You will have mileage limits, along with wear and tear guidelines. You could face fines for violating the terms of your lease.
New vehicles may come with a manufacturer's warranty. After this expires, or for pre-owned vehicles, repair costs are the responsibility of the owner. So are all typical maintenance costs such as oil changes, tire replacements, etc.	The maintenance associated with leasing a new vehicle is often covered by a manufacturer's warranty that may include free oil changes, etc.
Typical auto loan is 4 to 6 years.	Typical auto lease is 2 to 4 years.

or trading a pre-owned vehicle can also help reduce purchase costs. Automobiles tend to depreciate quickly, which is another factor to consider when determining whether to buy a new or well-maintained used car or to lease a new vehicle. Consider paying down the debt on your current vehicle first, or paying it off in full, before purchasing a new one.

When preparing to lease or buy, it is also useful to check your credit report and credit score to ensure there are no discrepancies. If you have a low credit score, improve it before buying or leasing. Maintaining a low debt-to-income ratio, making payments on time, and paying off outstanding debts will help improve your credit score over time. Saving for a down payment or paying in full for the vehicle can improve your purchasing power. If you use a co-signer (e.g., another individual like a family member who agrees to pay back the loan if you do not), be sure that they also understand the terms of the contract and can afford the payments if needed.

To determine whether leasing or buying is the best decision for you, weigh the costs and benefits of the two choices. How long do you plan to keep the vehicle? Can you afford to maintain it?



Do you drive frequently or have a long commute? Compare different lease and financing options, as well as prices of new and used cars in the monthly payment range you can afford. Also, if you are planning to move during a lease period, some dealers do not allow out-of-state leasing. Overall, whether you are leasing or buying, be sure to fully understand and consider the terms of your financing or lease agreements before signing.

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Written by: Nichole Huff and Morgann Kidwell | Edited by: Alyssa Simms | Designed by: Kelli Thompson | Images by: 123RF.com

Nichole Huff, Ph.D., CFLE | Assistant Extension Professor Family Finance and Resource Management | nichole.huff@uky.edu



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