Personal Finance

Buying or leasing a new or used car

There are three options available when you are interested in obtaining a new car. You can lease a car, or finance the car over time, or purchase the car by paying full price. You cannot lease a used car, you can only purchase or finance it.

**Did you know?**

A *lease* is a legal contract between the owner of the property (the car) and a person using that property for a monthly fee. All the conditions that apply to the agreement are written out in a lease document.

A lease is a good option for someone who has little money saved, and cannot make a down payment on purchasing a car. The term of the lease usually covers the warranty on many parts of the car, so you are not responsible to pay for repairs to the car that are included in the warranty. The monthly payments to lease a car are usually less than those to purchase a car. At the end of the lease, you don't own the car.

*Financing* a car means borrowing the money to pay for the car from a bank or the car company. Monthly payments are made to pay back the money, plus interest, that is owed.

Having a new car is a great luxury, but can come at a hefty price tag. Buying a used car is a viable option for many people, but buyer beware! Make sure you have the car inspected by a reputable mechanic to ensure there are no problems that the buyer is trying to cover up with a new paint job.

**Example**

Which option would be better (financing or leasing a new or used car) in the following scenarios? Once you have read each scenario, click on the answer icon below.

1. A 20 year old college student who is living away from home and responsible for paying for tuition and room and board.

   **Leasing**

2. An auto mechanic who enjoys doing all of his own repairs

   **Used car financing**
3. A young couple who just got married, moved into a new house, and are expecting their first baby.

4. You wish to buy a car that costs $20,000. Suppose you have $2000 to use as a down payment on the car. Subtract that from the cost of the car. This is the amount that you will need to finance.

\[ \$20,000 - \$2,000 = \$18,000 \]

Assume the bank is giving you a interest rate of 2.5%, compounded monthly and you will pay for the car over a 5 year term. Use the TMV solver to determine what your monthly payments will be.

At the end of the 5 year term, how much will you have paid in total (don’t forget the $2000 down payment).

How much is interest?

Go to leasesguide.com and press enter on START to begin. Assume a $2000 down payment on a car that costs $20,000 with an interest rate of 2.5% for 60 months with a sales tax of 14%.

Note:
- Keep base cap cost the same as the retailers suggested price.
- Assume no additional costs and no cap reductions.
- Not cap costs is retailers suggested price.
- Leave residual value blank.

The amount owed per month to lease the car is $224.39.

Buying a car is a big decision. You not only have to consider the cost of purchasing or leasing a vehicle but also the costs associated with owning one.

\[ 34599 \times 0.13 = 4497.87 \]

\[ \frac{34599}{4497.87} = 39096.87 \]

OR

\[ 34599 \times 1.13 = 39096.87 \]

\[ N = 2 \text{ years} \times \text{compounded per period} \]

\[ PPY = \text{compounding period} \]