



Should I Buy or Lease My Next Car?

Shopping for a car or other type of vehicle is a complex process. In addition to the infinite selection of models and features, there are big differences in cost among the various ways to obtain a vehicle. In the long term, the differences in cost can have a significant impact on your finances.

The decisions to consider when getting your next car include:

- choosing between a new or used vehicle
- deciding whether to trade cars frequently or hold onto them until they wear out
- selecting the purchase method: cash, credit or lease.

The worksheet on the following page can be used to compare the costs of each method.

Comparing Three Methods to Obtain a Car: Cash, Credit or Lease

The key to choosing the best method to obtain a car is to compare your needs, resources, and driving patterns to the costs of paying cash, financing with credit, or leasing. Each method has advantages as well as disadvantages.

If total cost is the most important factor, then buying a used car and driving it until it becomes too expensive to repair is generally the least expensive method. Holding on to a car and trading infrequently yields savings in later years

because there are no recurring up-front costs as there are with leasing. In addition, insurance costs and property taxes are lower for older cars. Of course, maintenance and repairs will be higher for an older car than for a new car.

For those who like to drive a new car every two or three years, and who have little cash for a large down payment, leasing may be an option to consider. Lower monthly payments and less cash required at the beginning of a lease compared to a loan may make leasing attractive initially. However, the total cost of leasing is usually higher than financing when you compare the costs over a six-year period.

Leasing will require an understanding of your driving and car use patterns. Besides the costs outlined in the chart, there may be additional costs associated with leasing. These may include excess mileage charges if you exceed the mileage limit specified in the lease, excess wear charges if you do not meet the standards for "normal" wear, and early termination charges if you end the lease early. Because these costs usually cannot be anticipated, they are not included in the worksheet.

Complete the worksheet to compare the methods over a six-year period. Remember, under the cash and credit methods, include the cash payment for purchase or down payment for financing only once per purchase.

Six-Year Total Cost Comparison

When comparing paying cash for a car to leasing or financing, consider both your long term and immediate needs. Measure the costs of each method you're considering for the first year and over two or more lease or finance periods. Decide whether you want equity (ownership interest) in the car and consider the amount of money you have available to pay for the car. Finally, learn the terms used with each method so you can negotiate the best deal.

	Cash	Credit	Lease <ul style="list-style-type: none"> ■ For 2 year leases complete lease boxes 1, 2 and 3 ■ For 3 year leases use lease boxes 1 and 2
Up-front Costs Cash Payment for Purchase, Down Payment, or Capitalized Cost Reduction and First/Last Month's Payment			Lease 1 Lease 2 Lease 3
Refundable Security Deposit			
Acquisition Fee, Freight or Destination Charges			
State or Local Taxes (for Cash or Credit)			
Fees, License, Other Charges			
Total Up-Front Costs			
Cost of Lost Earnings on Up-front Costs Lost Interest (Up-front Costs x Annual Interest Rate on Savings x 6)			
Monthly Payments			
Credit Monthly Loan Payment			
Lease Monthly Lease Payment + State and Local Taxes			
Total Monthly Payments over 6 Years			
Credit Monthly Payment x number of months in loan			
Lease Monthly Payment x 72			
Total Variable Costs (from next page)			
One-Time Costs over 6 Year Comparison Disposition Fee, End-of-Lease Charges, and/or Other One-time Charges			
Total of Up-front Costs, Lost Earnings, Monthly Payments over 6 years, and Variable Costs			
Equity (in Car Purchased with Cash or in Car Bought on Credit)			
Final Cost (Total of All Costs minus Equity)			

Variable Costs

Annual Maintenance and Repairs	Cash	Credit	Lease
Year 1			
Year 2			
Year 3			
Year 4			
Year 5			
Year 6			
Total Maintenance and Repairs over 6 Years			

Annual Cost of Collision and Comprehensive Insurance	Cash	Credit	Lease
Year 1			
Year 2			
Year 3			
Year 4			
Year 5			
Year 6			
Total Collision and Comprehensive Insurance over 6 Years			

Total Variable Costs			
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The Center for Personal Financial Education is an educational resource and research center whose mission is to advance the adoption of sound personal financial practices by developing and delivering personal financial education programs and conducting related research. The Center, established in 1996, is a joint venture between the University of Rhode Island and the Consumer Credit Counseling Service of Southern New England.

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