CAR LEASE BUYOUT TIPS

Pros and Cons of Buying Out a Car Lease

If you leased your car and really enjoy driving it, it's tempting to consider buying it when the lease ends. Keeping your car has advantages and disadvantages you should consider before you sign on the dotted line.

Advantages of Buying Your Leased Car

There are a few reasons to buy your car:

- Unlike another used car, you know this vehicle's history. You are the only one who has owned it, so you are aware of past accidents and maintenance.
- In theory, you have already paid for the depreciation of this vehicle as part of your lease. Purchasing it may be more cost effective than leasing a new one.
- After you've paid off your car, you'll own the vehicle.
- If you love your car, this option allows you to continue driving it after your lease is up.

Disadvantages of Buying Your Leased Car

A few reasons this might not be the best choice for you:

- You have limited room to negotiate on the price of the vehicle and may not get as good a deal as you would on another used car.
- You may have to pay a lease purchase option fee if your contract specifies it. This fee can be a few hundred dollars, depending on the terms of your lease.
- The cost to buy out the lease may be more than your car is actually worth.

Deciding If You Should Buy Out Your Lease

Like any major financial decision, it's important to think carefully about buying your leased vehicle. Follow this process to help you make the choice that's right for you.

1. Find the Residual Value in Your Lease Agreement

When you lease a car, you are paying the car company for the predicted depreciation of that vehicle. Your monthly lease payment includes this depreciation and a fee that goes to the leasing company and covers administrative costs. At the end of your lease, you will have paid the car down to its "residual value." This residual value is the car company's prediction about what the car will be worth at the end of your lease term, and it's usually the starting point for price negotiations when you buy out your lease.

According to Bankrate, car companies are generally accurate when predicting residual value. However, knowing this residual value is an essential part of deciding whether to buy out your lease. Look for the residual value in your original lease contract.

2. Learn the Market Value of Your Car

Now that you know the residual value, you need to compare that figure to your car's market value. There are several sites that can help you find used car values. Simply input your car's make, model, and year and provide additional information about mileage and condition. Be sure to specify that you want the market value, rather than a trade-in estimate. It's a good idea to get value estimates from multiple sources so you have an accurate idea of how much your car is worth.

3. Compare the Market and Residual Values

If the car company was correct in its prediction, your car's residual value will be very close to its market value. However, there's sometimes a significant difference in these two numbers. This comparison can help you decide whether to buy your car.

If the residual value is greater than the market value, your car is not worth as much money as it would cost to buy out your lease. Unless you love your car, you should walk away.

If the residual value is less than the market value, buying out your lease may represent a great deal. You should consider this option.

If the residual value and market value are fairly similar, you'll need to take other factors into account when making your decision.

4. Take Other Factors into Consideration

Now that you have a pretty good idea of the financial situation regarding your lease buyout, you'll need to consider a few more things:

- Factor in the purchase option fee if there is one. Check your lease agreement to see if you have this fee and how much it will add to the cost of your car.
- Think about the condition of your vehicle. Have you maintained it regularly? Has it been in any accidents? If it isn't in great condition, you may be better off shopping around.
- Consider reliability. Have you had any trouble with the car? Does it have a good reputation? When buying any used car, reliability is a very important factor.
- Think about mileage. Have you gone over the mileage limits in your lease? If you have, this may reduce the market value of your car without changing the residual value. In addition, you'll need to pay the fees specified in your lease for going over the mileage limits.

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- Figure out the average annual cost to own your car. This figure will change as the car ages, and if you're comparing a lease buy-out with a new lease, it will be important information for you to consider.
- Give some thought to the emotional aspects of the decision. Do you really love your current car? If so, you may be willing to pay slightly more than market value for the privilege of continuing to drive it.

5. Do the Math

Finally, sit down with a car payment calculator and figure out exactly how much you'll need to pay each month if you buy out your lease. Talk to your local credit union to see if they can help you find the best interest rate on a car loan or lease buyout loan. Think about the purchase option fee, the residual value, your down payment, and your interest rate. Compare this figure to leasing a new car or buying a different used vehicle.

Examples to Consider

Each situation is unique, and it's important to go through the process of making this important decision for yourself. However, it can help to consider examples of situations where a lease buyout is clearly a good idea or a bad idea.

Highly Desirable Car

Some cars are especially in demand due to factors the car company didn't predict. For instance, if gas prices go up and your car is extremely fuel efficient, it may be worth more money as a used vehicle. This means the market value for your car will be extra high compared to the residual value, and buying out this lease is a good idea.

Vehicle With Low Miles

Perhaps you have a car you didn't drive often. You were allowed 36,000 miles as part of your three-year lease, but you only drove 10,000 miles. The residual value for this car was based on it being driven 36,000 miles, but a car with low mileage like this may be worth considerably more than its residual value. Provided all other factors are in agreement, buying out this lease would be a great decision.

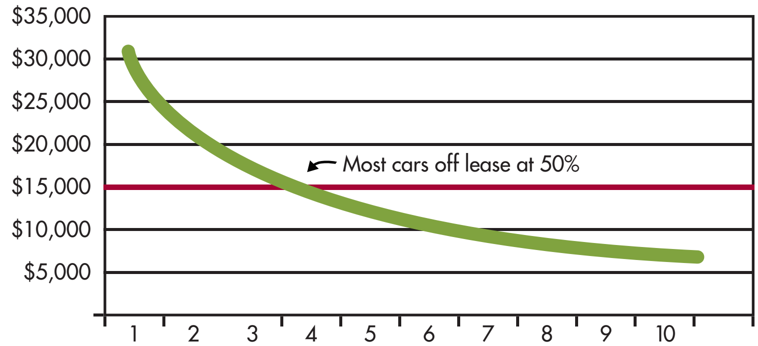
Car Prone to Break-Downs

Generally, your car will be under warranty during the lease period, which means that if it breaks down, you don't have to pay for major repairs. However, once the lease period ends, your factory warranty may too. If the car has been breaking down while it's still fairly new, it's likely to cost you a great deal of money in future repairs. Even if the residual value is lower than the market value, buying this car is probably a bad choice.

Make the Best Choice for Your Situation

Deciding whether you should buy out your car lease involves doing your research and carefully examining your lease contract. If you give appropriate thought to this decision, do the math, and take emotional factors into account, you'll make a choice that is financially and practically best for your unique situation.

10 Year Deprecation of a $30,000 car:



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