LEASE OR OWN

GUIDEBOOK

First Financial Federal Credit Union

Information to help you decide about owning or leasing a vehicle.

Intro

The process of buying a car can be stressful. There are a lot of factors to consider—fuel efficiency, reliability, and warranties.

There is also the question: should you buy or lease? They both provide benefits depending on your unique situation, but both can be costly if it is the wrong option for you.

Maybe you have a lease already and are looking at ownership, or are wanting to keep your car past the contract's end.

Whether you are car shopping now or currently in a lease, this guide is designed to help you make an informed decision while taking into consideration what is best for you financially.

8 Things You Should Know Before Leasing a New Car

Should I lease? What is leasing anyway? Here's what you need to know.

1. Leasing is Paying for What You Use

Let's imagine that a particular car costs $30,000 new and that it has an estimated value of $21,000 after three years of use. The amount of depreciation incurred is $9,000. Divide this amount by the number of months in the lease (in this case, 36 months) and you get your monthly lease payment: $250.

Now, there are also finance charges and taxes to include, but in essence, leasing is paying for the depreciation that occurs over time from your use of the vehicle. At the end of the lease, simply return the car or buy it outright by paying the remaining value of the car (in our example, $21,000).

2. Some Cars Lease Better Than Others

Cars of the same price and type can cost vastly different amounts of money to lease.

These variations mostly boil down to the details of each manufacturer's lease program. Every month, automakers release new lease programs that establish the following:

- Residual value: The car's estimated value at the end of the lease.
- Money factor: The interest rate expressed in a different way.
- Cash incentives: If available, these lower the final selling price of the car.

3. Leases Can Be Negotiated

Advertised "lease specials" create the impression that lease prices are set by the manufacturer—as if they were promotional menu items from McDonalds®.

In truth, individual dealers determine the selling price of a car, who then apply the manufacturer's lease program to arrive at the actual cost. A manufacturer's lease special simply assumes a particular selling price that they expect dealers to honor. The selling price can most certainly be negotiated.

4. Watch Out for Marked Up Rates and Fees

Aside from setting the sales price, dealers can also mark up the money factor. This may result in hundreds or thousands of extra dollars paid over the course of a lease.

With a lease, you'll also pay an acquisition fee and often a disposition fee. These are legit fees, but some dealers mark them up as well. In exchange for paying these fees, you benefit from certain inherent advantages of leasing—explained below.

5. Someone Else Takes on the Risk of Depreciation

When an automaker sets the residual value of a particular model, they often overestimate the car's actual lease-end value. For example, a 2013 Mercedes-Benz® E350 BlueTEC had a residual value of $44,036 after two years of use. In actuality, the car was worth about $34,000 on the open market when it came time to return the car.

By leasing, $10,000 in depreciation was avoided that would have otherwise incurred if purchased instead. This amounts to over $400 per month saved! Some automakers are spot-on with their estimates. Others intentionally inflate their residual values to make their leases cheaper. And sometimes they just get it wrong. Regardless, when you lease, someone else takes on the risk and uncertainty of depreciation. Aside from setting the sales price, dealers can also mark up the money factor. This may result in hundreds or thousands of extra dollars paid over the course of a lease.

6. You Only Pay Sales Tax on the Cost of the Lease

Sometimes, the opposite scenario happens: your car is worth more at lease-end than its official residual value. This might occur if your car becomes highly desirable in the used car market.

With many automakers, you can actually arrange a third-party, such as CarMax®, to buyout the car. If CarMax® offers you, say, $23,000 for the car, but the residual value is $21,000, then they will write you a check for the difference ($2,000).

7. You Only Pay Sales Tax on the Cost of the Lease

When you purchase a car, you pay an amount of sales tax based on the selling price of the car. This can amount to thousands of dollars that you never get back, even if you end up selling the car a few years later. In most states, you pay sales tax only on the cost of the lease. These tax savings more than make up for the acquisition fee required on a lease.

8. Never Put a Down Payment on a Lease

If your car is ever totaled or stolen, you can always walk away from a lease without penalty (thanks to GAP insurance). However, you won't always get your down payment back—so it's best not to pay one to begin with.

A down payment obscures the cost of the lease and makes it more difficult to compare deals. Any car can be leased for $199 per month if there's a sufficient down payment.

Article Source: leasehackr.com/blog/2015/9/19/8-things-you-should-know-before-leasing-a-new-car

The Pros & Cons of Leasing a Vehicle

Have you ever thought about leasing your next car? If the thought has crossed your mind, here are a few pros and cons of leasing a car.

Pro: Lower monthly payments

Generally, lease payments are lower than car payments and if you're used to having a payment, this probably sounds great to you.

Con: No equity

When you sign a lease, you'll have to make payments over a defined period of time. When that time is up, the car goes back to the dealer. At this point, you'll have a decision to make. You can either enter into a new lease or you'll have to buy the car.

Pro: Repairs are usually covered

Since you'll only have a leased car for a handful of years, it will more than likely be covered by a factory warranty. This will save you from having to shell out big bucks for repairs while you have the car.

Con: Mileage limit

How many miles do you drive each year? If you drive over 10– 12k miles a year, you'll probably face some sort of penalty fee at the end of your lease term. Be mindful of this, because those extra miles can really add up.

Pro: A new car every few years

If you're a serial leaser, you probably love driving a new car. This is a definite advantage of leasing over buying. Buying and selling cars can be a hassle, so if you love driving new cars, leasing can be a great option for you.

Con: Fees for damages

When you turn in your car at the end of your lease term, the dealership is going to want to sell it. If there are any dents or scratches to be repaired, you may want to get them taken care of before you turn in the car. A little ding in the door isn't a big deal if it's your car, but with a lease, you'll probably have to pay a fee to get it repaired.

Leasing isn't for everyone. There are definitely advantages and disadvantages to leasing vehicles. Do your homework and decide what is the best option for you.

Article Source: John Pettit for CUInsight.com

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 buyout the lease may be more than your car is actually worth.

Deciding if You Should Buyout 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 buyout 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 buyout 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 buyout 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.
- 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 buyout 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? 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:

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 buyout 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.

Deciding if You Should Buyout Your Lease

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.

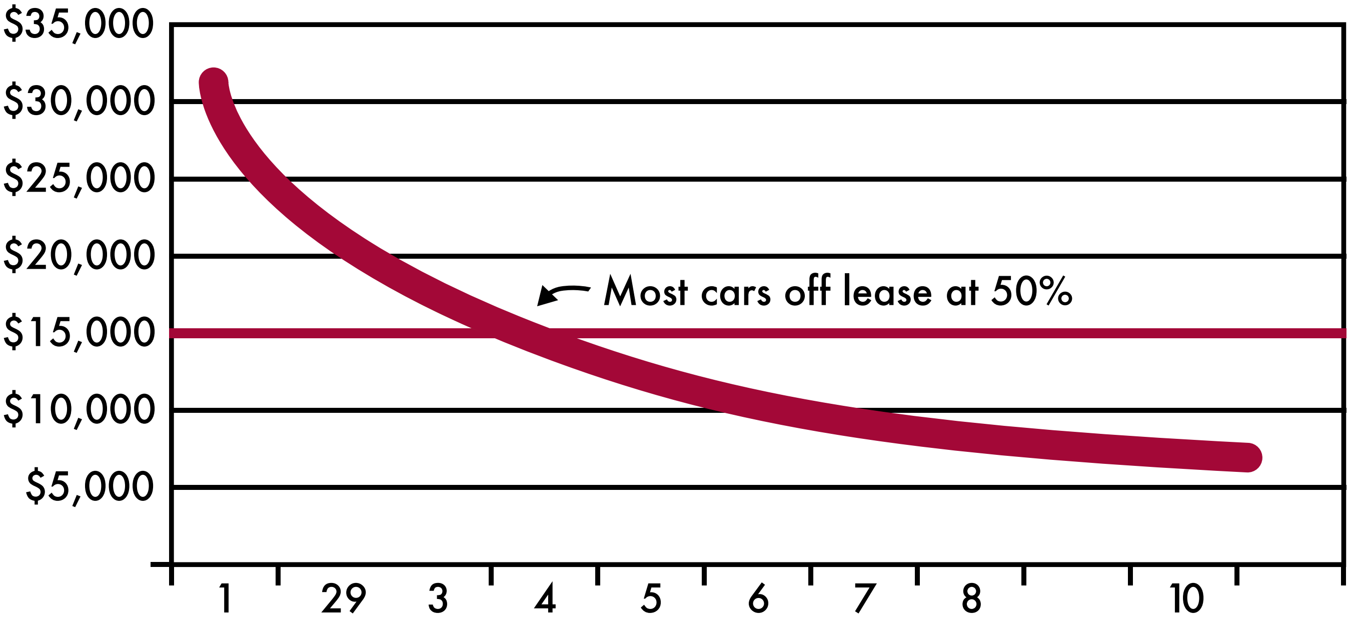
Car Prone to Breakdowns

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 buyout 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 Depreciation of a $30,000 Car:



Article Source: cars.lovetoknow.com/new-cars/should-you-buy-out-your-car-lease

5 Reasons Buying Out Your Lease Makes Good Sense

With the end of an auto lease around the corner, you'll have some decisions to make. But before you start stressing about your current mileage or scratches on the bumper, you may want to think about buying out your lease. Would it make more sense to keep your car instead of turning it back in like you originally planned? In many cases, yes.

There are numerous benefits to buying out your lease—but first, a word of caution. Traditionally, dealerships have taken a hands-off approach to the buyout process, allowing consumers to deal directly with the corporate finance department or the leasing company. However, optional insurance and warranty products have given dealers an opportunity to increase their profits by facilitating the buyout process and including add-ons. These extras can come with a steep markup, making the final price more expensive than it should be.

Before agreeing to any buyout terms, it's important to remember a credit union can routinely offer lease buyouts with lower rates and convenient payment terms. It's worth your time—and potentially a lot of money—to get details on the financing options available.

Still wondering whether a lease buyout is right for you? Here are five points to consider:

- **Ownership has its advantages.**

Let's be honest—the peace of mind that comes from not worrying about mileage overages and wear-and-tear penalties is a big deal. When you own the car outright, you no longer have to feel that growing sense of dread commonly associated with the end of a lease term.

- **Car shopping is a hassle.**

You've already gone through the frustrating highs and lows of car shopping. Why do it again? You probably selected your car after a thorough process of weighing pros and cons. If it was the right car for you then, there's a good chance it's still the right car for you now.

- **Better the used car you know (than the used car you don't).**

This may seem obvious, but you're already familiar with your car. If you had to start shopping for a different used car, there would be questions about how the previous owner cared for it. If you buyout your lease, you ARE the car's previous owner. There are no unanswered questions about the car's maintenance history or other people's driving habits.

- **No more guessing games.**

At their core, auto leases are all about variables. A car's market value ebbs and flows based on supply and demand. Lease rates may be higher the next time you come to the end of a term. By opting for a lease buyout loan, you can lock in a great interest rate and a convenient payment plan for the life of your loan.

- **You have more leverage than you realize.**

Have you ever thought about what happens when you turn your car back in at the end of your lease? The leasing company is left with a used car, and they're not in the used car sales business. In many instances, they would rather negotiate a good buyout price with you than go through the trouble of selling the car at auction or to a dealer.

Article Source: blog.firstffcu.com/2018/01/05/5-reasons-buying-out-your-lease-makes-good-sense/

Ready to look into a lease buyout loan?

You can learn more on our website and apply online, or call us!

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732.312.1500

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