Know when to lease or buy a car

by Jason_Alderman

When it comes to getting a new car, many people wrestle with whether to lease or buy. Both methods have advantages and disadvantages, so it's important to understand your needs and payment habits before signing on the dotted line.

With a loan, you borrow money to purchase the car then own it once the loan is paid off. With a lease, however, you agree to pay a leasing agency (a lender often identified through the car dealer or manufacturer) to use the car during the lease period - but you're never the owner unless you decide to buy it after the lease ends.

Leasing advantages. Some people prefer to lease because monthly payments and upfront costs can be significantly less than with a loan; thus, they can either budget less for transportation or drive a more expensive car. Many who lease prefer driving a new car every few years, don't mind permanent monthly payments and like that the car is usually under full warranty throughout the lease.

And, if you use the car for business, you can usually deduct depreciation and interest from your taxes - not so when you purchase outright.

Leasing does have potential downsides, however:

Â· It's often difficult and expensive to get out of a lease, so if you think your income or employment status may change dramatically, tread carefully (for example, should you lose your job, retire, get sick, etc.)

Â· Standard mileage allowances are typically 12,000 to 15,000 miles annually. If you average more than that per year during your lease, you'll likely pay 10 to 25 cents for each excess mile. (Some leases allow upfront payment for excess miles at a reduced rate.)

Â· You're responsible to pay for any unreasonable wear and tear and to remove any customized features you've added.

Â· If you lease a more expensive car, your insurance costs likely will be higher. And remember, bigger cars usually get worse gas mileage.

If you do decide to lease, always try to negotiate a lower initial sales price for the car, because your monthly lease payment is largely based on the difference between this price and what the leasing agency thinks it can sell the car for when the lease expires. Thus, the smaller the difference between those two costs, the better for you.

Compare leasing packages from multiple dealers and leasing agencies, and don't hesitate to arrange your own financing. A dealer may be willing to find you similar or better financing to get your business.

If you think you might want to buy the car when the lease ends, check how much comparable used cars cost at sites such as Kelly Blue Book (www.kbb.com), www.edmunds.com, and www.cars.com, to make sure you get a good deal. And don't be afraid to offer less - the lender may have a glut of cars to sell and be receptive to your offer.

Practical Money Skills for Life, a free personal financial management site sponsored by Visa USA, contains a comprehensive guide to considerations for buying or leasing a car (www.practicalmoneyskills.com/car). As always, consult a financial professional regarding your particular situation.

So bottom line: Weigh the choice between leasing and owning carefully to make sure pick the right option for your situation.

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