



PENNSYLVANIA ASSOCIATION OF COMMUNITY BANKERS

THE VOICE FOR COMMUNITY BANKING IN PENNSYLVANIA SINCE 1876

Consumer Tips June 2009 Lease or Purchase?



If you are looking at a new car, you may want to consider the pros and cons of leasing vs. purchasing and your responsibilities as a consumer.

The federal Consumer Leasing Act (<http://www.federalreserve.gov/pubs/leasing/>) will provide access to information about the costs and terms of a vehicle lease.

The most common type of vehicle lease is the closed-end lease whereby you lease a car and after a designated contractual term, you return it to the dealership, pay any end-of-lease costs and you have the option to walk away, purchase the vehicle at its depreciated resale value or lease a newer vehicle.

When leasing a vehicle, most dealerships include a limit as to the number of miles you may drive, usually 12,000 to 15,000 miles annually. If you exceed that limit, you will be charged for excess mileage unless you purchase the vehicle at the end of the lease term.

With leasing, you will always have a monthly payment. When purchasing a vehicle, you eventually pay off the car loan and may not have any car payments for a few years until you decide to purchase another car.

When leasing a vehicle, be sure to consider the fees and payments. At the beginning of the lease, you will probably be required to pay your first monthly payment, a refundable security deposit on your last monthly payment, fees for licenses, registration, title, an acquisition fee, and state or local taxes, if applicable. If you opt not to purchase the vehicle at the end of your lease, you may have to pay a charge for excess miles and excessive wear. And, if you end your lease early, you may have to pay a substantial early termination charge.

On the upside, when leasing a vehicle you can negotiate some of the lease terms such as up-front payments, length of lease, monthly lease payment, end of lease fees and allowable mileage. With a lease, you pay for only a portion of the vehicle's cost.

When purchasing a vehicle, you pay for the entire cost of the vehicle, regardless of how many miles you drive. Typically, when purchasing a vehicle, you make a down payment, pay sales taxes or roll them into your loan, pay registraton and title fees and pay an interest rate determined by your credit history. A few years after the purchase, you can decide whether to trade or sell your vehicle at its depreciated resale value.

While the short-term-costs of leasing are lower than a traditional car loan, the long-term costs may be more.

If you enjoy driving a new car every two or three years that is always under warranty, want lower monthly payments, and like having a car with the latest technology and safety features, the leasing option may be best for you.

If you don't mind a little higher monthly payment, want resale or trade-in equity, want to be debt-free for a few years after your loan is paid off, willing to pay for repair costs and drive more than 12,000-15,000 miles per year, then purchasing a car is probably the best option for you.

For more information on vehicle leasing, contact Federal Reserve Consumer Help at www.FederalReserveConsumerHelp.gov or the Federal Trade Commission at www.ftc.gov.

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