

THE SAME BUT DIFFERENT

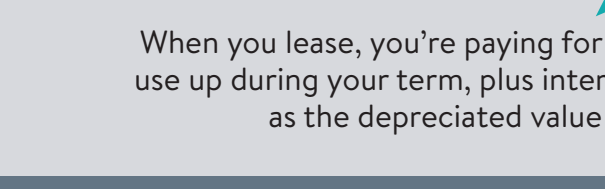
Even though these cars are identical, the methods to pay for them are very different



The decision to lease or to buy a new car will have an impact on your finances as well as your lifestyle. Understanding the differences will help you make the best decision for you.

THE BASICS OF LEASING

Leasing is sort of like renting a car for a fixed period of time

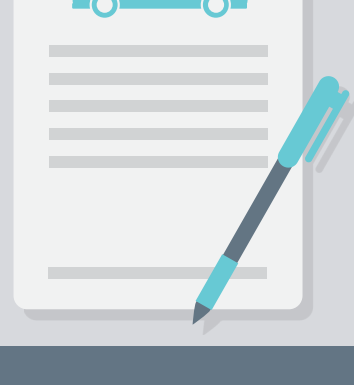


When you lease, you're paying for the value of the car you use up during your term, plus interest. What's left is known as the depreciated value of the vehicle.

- + You lease a car for a fixed term—typically two to four years
- + An initial deposit is often required
- + You make monthly payments to continue using the vehicle

THE BASICS OF FINANCING

Financing is buying a car through an auto loan



- + Loan terms can range from three to seven years
- + An initial deposit is often required
- + Your monthly payments go towards repaying the balance of the loan plus the interest

You can finance a car through the dealership or through a financial institution like your credit union.

PROS AND CONS

LEASING

VS.

FINANCING

OWNERSHIP

- You don't own the vehicle—you pay to use the vehicle during the term of the lease and must return it at the end of the lease unless you choose to purchase the vehicle
- A typical lease lasts half the time of a typical car loan—once the lease is up, you can move on to your next vehicle
- Depending on the terms of your lease, you can get a new car every two to four years

- You own the vehicle free and clear after your financial obligations are met—it will be yours to keep, sell or trade in on your next vehicle



DEPRECIATION

- Like any tangible asset, a car's value will decline over time due to general wear and tear plus the perception that as things age they become less valuable
- A typical vehicle will be worth about half of its sale price after four or five years—this decline in value is what you are paying for when you lease a vehicle



- A new car will depreciate an average of \$3,400 per year during the financing term
- In the first year alone, the car will depreciate 15% to 20% and then it will lose 10% of its value annually

PAYMENTS

\$305
per month

- Because you're not buying the whole car, monthly payments are generally 30% to 60% lower when you lease
- Leasing can allow you to drive a car that could otherwise be out of your price range
- The average maximum monthly payment on a purchased car is \$480, whereas most leases won't cost more than \$325 per month

\$505
per month

- Monthly loan payments are higher because you are paying for the entire purchase price of the vehicle while also building your equity in the vehicle
- To lower your monthly payment, consider stretching out your loan term to 60 or 84 months or putting more money into the down payment

CUSTOMIZATION

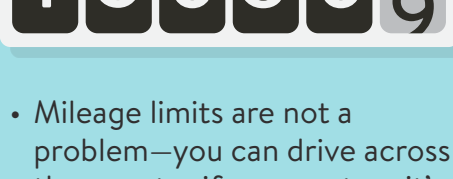
- A leased car can only be modified with approved accessories at the beginning of your lease
- New sound systems, exhaust systems or after-market engine tuning is taboo



- If you're into cosmetic modifications or maximizing your car's performance, you'll be able to do whatever you want to do your new car

MILEAGE

- The typical mileage limit on a lease is 10,000 kilometres per year; however, most people drive at least 15,000 kilometres per year
- The terms of your lease will usually charge between 15 and 30 cents for every kilometre you go over the mileage limit per year
- Assuming you drive 15,000 kilometres per year, you could rack up a \$1,500 fee per year when you turn in your leased car



- Mileage limits are not a problem—you can drive across the country if you want, as it's your car
- However, as you put more kilometres on your car, the resale value decreases

MAINTENANCE & WEAR AND TEAR

- Repairs and maintenance are usually covered in the lease—this can save the average car owner up to \$1,200 a year in fees
- Since a leased car is a borrowed car, excessive wear and tear will be held against you and may cost you at the end of your lease



- You are on your own for maintenance costs, and they will rise as your vehicle ages
- There are no charges for vehicle wear and tear; however, excessive wear will lower the vehicle's trade-in or resale value

SAMPLE COMPARISON

Terms typically range from 24 to 84 months

Interest rates can vary widely—when you see a manufacturer offering a lease or finance rate as low as 0%, make sure you look closely at the fine print to fully understand what you are agreeing to

| | LEASE | FINANCE |
|------------------------------|---------------------|---------------------|
| Term | 48 months | 48 months |
| Interest rate | 4.0% | 4.0% |
| Selling price | \$ 21,000.00 | \$ 21,000.00 |
| Taxes | N/A | \$ 1,050.00 |
| Title and registration | \$ 315.00 | \$ 315.00 |
| Total amount | \$ 21,315.00 | \$ 22,365.00 |
| Base payment | \$ 290.48 | N/A |
| Taxes on payment | \$ 14.52 | N/A |
| Total monthly payment | \$ 305.00 | \$ 505.00 |
| Lease-end residual value | \$ 10,000.00 | N/A |
| Total cost to own | \$ 24,640.00 | \$ 24,240.00 |

Taxes on financing are paid up front, whereas taxes on leasing are paid as you go

The lease-end residual value is what the vehicle will be worth at the end of the term—you can choose to purchase the vehicle for this amount or simply return the vehicle

Lease payments are typically lower than finance payments because you are only paying for the portion of the vehicle's value used during the lease term, plus interest

Don't be fooled by how close the final prices are—if you choose to buy the leased vehicle at the end of the term, you'll need to come up with \$10,000 on the spot, or take out an additional loan, resulting in an extra \$600 to \$700 in interest; you may also be required to pay an acquisition fee and leave a security deposit for a leased vehicle

This is an example only. Fees, interest rates and sales tax rates will vary depending on your financing options and the province that you live in.

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Sources: Bankrate, Edmunds.com, LeaseCompare.com, LeaseGuide.com, MSN Money